

The Gaming Machine Environment in Norway

A Report on Outcomes and Observations of the AGC Delegation to Oslo, Norway on Monday 1st December 2008

Prepared by Ian Horne for the Australian Hotels Association

AGC delegation met with:

- **Norwegian Ministry of Cultural and Church Affairs**

Rolf Francis Sims, Senior Adviser

- **Norwegian Gaming and Foundation Authority**

Jan Støfring, Deputy Director General

Steiner Hatlestad, Senior Adviser

- **Norsk-Tipping**

Geir Skår, Product Manager Multix Program

And a dinner discussion with **Atle Hamar**, Director, Norwegian Gaming and Foundation Authority

The Gaming Machine Environment in Norway

Overview of Norway: Population 4,525,000

Average Norwegian wage is approximately 350,000 – 400,000 NOK (AU\$70k – AU\$80k)

Currency exchange rate as at 14th December 2008 was AU\$1 = 4.599 NOK

Norway has a strong welfare support structure and is regarded as one of the richest countries in the world, being ranked at number 2 on the 2007/08 United Nations Human Development Index for national living conditions. (Australia is 3).

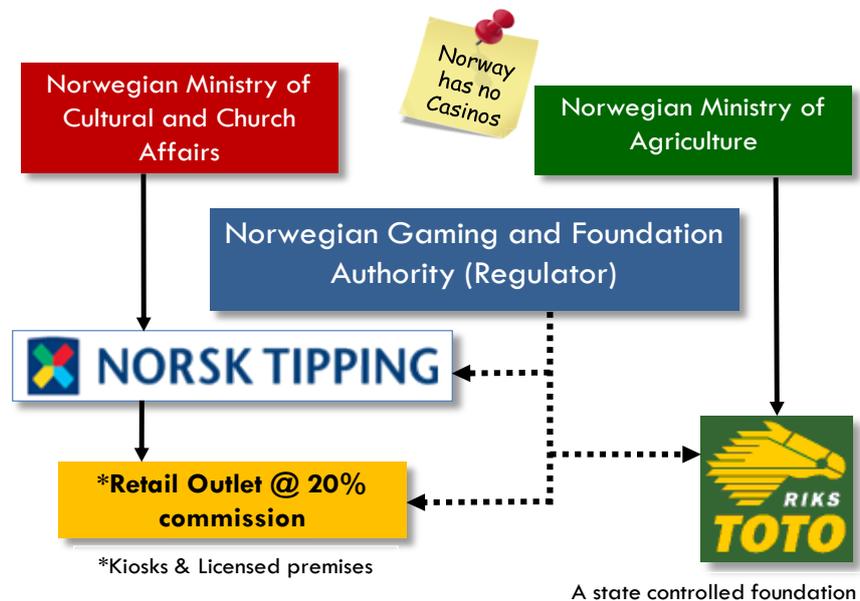
The population in general exhibits very good health and the infant mortality rate is extremely low. Literacy is virtually 100% and nearly all members of the population have completed upper secondary schooling. There is no extreme poverty to be found in Norway, and the relative poverty level is low compared to other OECD countries (www.norway.org.uk).

Industry Structure as at

2008:

Ministry of Culture & Church Affairs

- Owner of Norsk Tipping
- Decides which games should be offered and sets their rules
- Determines how large a share of the amounts wagered should go to prizes
- Allocation of Norsk Tipping's profit



History/Background: Following significant media attention and interest in issues such as problem gambling (estimated to be between 70,000 and 120,000 at the time) and other social and economic consequences of the then Norwegian Gaming industry **and** an apparent intransigence by the gaming industry to compromise, control or contain some of their activities, a proposition by the Ministry of Culture and Church Affairs led to the Norwegian Parliament voting in June 2003 to change the “Act relating to games for cash prizes” – the Gaming Act, so as to gain better control of the gaming machine market and effectively eliminate the gaming industry as it was operating at that time.

This meant removing the 18,000 existing ‘slots’, operated by private interests i.e. non government (including the Norwegian Red Cross) - there were 130 operators, some with up to 4000 slots, the smallest with 10. The machines were located in bus and train station platforms, arrival &

departure halls, grocery stores, shopping centres, malls and arcades, airport concourses and street frontage locations with site commissions paid. That is, **the provision and allocation of gaming machines was not linked to regulated liquor licensed premises as is the Australian experience.** It was largely unregulated.

Under this new legislation, Norsk-Tipping, a wholly owned entity of the Norwegian Government, was given exclusive rights to operate gaming machines in Norway.

The plan was to remove the 'old' machines by 2004 however the existing Industry operators took legal action through the European Fair Trade Agreement Court (EFTA) and the Norwegian Supreme Court claiming it breached various aspects of that agreement i.e. anti competitive. This action took three years to resolve and consequently removal of 'old' machines was delayed for that period. In that time turnover on these 'old' privately operated machines went from 8.5billion NOK (AU\$1.7B) in 2001 to around 30billion NOK (AU\$6B) in 2005.

Norway officials claimed that Norway had until that time the most liberal legal regime in Europe related to gaming machines, allowing aggressive machine types that promote fast games and high wagers. No codes of practice or barring mechanisms or effective regulation seemed to exist.

They anticipate this state-run monopoly, with Norsk Tipping as the sole operator, "will reduce the risk of thousands of Norwegians becoming addicted to excessive play."

In 2007 the Courts determined that Norsk Tipping's exclusive right to operate gaming machines did not contravene the European Economic Area agreement, as had been claimed by the gaming machine industry (http://www.eftacourt.int/images/uploads/E-1-06_Judgment.pdf).

With these judgements in hand, the government implemented the Parliament's decision of 2003 and a ban on the former gaming machines was imposed with effect from 1 July 2007.

Comment 1: We were told that the Governments original intention was never to eliminate the private sector participation or the private ownership interests in the then industry but that the intransigence of the operators and their total unwillingness to compromise led to the 'show down' via the legislation and subsequent actions in the EFTA & Norwegian Courts

Comment 2: It should be noted that the Norwegian Government does not tax machines or other gambling products i.e. no Treasury consequences but 100% of "profit" is allocated via grants etc to cultural, sporting and community organisations and interests. This allocation is determined solely by the Ministry of Culture & Church Affairs.

Comment 3: While there are Casinos in Denmark (6), Sweden (4) and Finland (1) and these Scandinavian countries also all maintain private 'slot'/EGM ownership models, Norway has no Casinos.

Comment 4: 1 Billion NOK (AU\$200m) was allocated to ‘compensate charities’ that relied on revenue from their direct operation/ownership of removed slots/machines until the new gaming system commences and an allocation formula is determined by the Ministry. However no compensation was provided to private investors.

Comment 5: One perspective put to the writer was that the legislation that removed private owned gaming machines (slots) effectively eliminated Norsk-Tipping’s only competition*. Norsk-Tipping now controls all forms of legal gambling in Norway except horse racing (trotting only). The state controlled foundation, Norsk Rikstoto has exclusive rights to operate horse-race betting under the supervision of the Ministry of Agriculture.

**Norsk-Tipping’s Annual Report of 2004 noted that the Norsk-Tipping’s share of all Norwegian gambling expenditure had reduced from 45% in 1995 to 23% in 2004 as a result of the expansion of the private gaming/slot sector (horse betting being 6.1% and international internet betting at 4.1%).*

Comment 6: It is also of some interest to note that in terms of **Government control and the community acceptance** of the same, all packaged wine and spirits are sold exclusively through government owned enterprises thus eliminating competitive forces that Australia accepts as the ‘norm’. There is simply no wholesale network or no competing retail offers etc. in Norway.

The New Norwegian Gaming Model: Norsk-Tipping is wholly-owned by the Norwegian state. It now enjoys a complete monopoly on all legal gambling products within the Nation (with the exception of horse-trotting).

The new arrangements will see the introduction of a server based gaming model (provided by ACE Interactive – a subsidiary of Aristocrat Leisure Ltd). All game outcomes will be determined at the central site; totally new look terminals will be ‘dumb’ (also provided by ACE). Multiple games will be available via each terminal. **See diagram on page 6.**

Comment 7: Norsk-Tipping originally selected **EssNet Interactive AB** (October 2003) to deliver a VLT central system and 10,000 terminals with an anticipated ‘live’ date of December 2005. EssNet Interactive AB was a joint venture between EssNet AB (55%), Boss Media AB (35%) and Tattersall’s (10%). In April 2006 Aristocrat Leisure Limited complete a Share Purchase Agreement for the acquisition of all of the issued capital of **EssNet Interactive AB** for approximately AU\$70 million.

Comment 8: Norsk-Tipping sees it as essential that the new gaming model be very different in appearance and operation from the past so as not to ‘tarnish’ Norsk-Tipping’s reputation and image with the negativity of the former industry private model and the ‘slots’ type

How Will The Norsk-Tipping Model Work?

- Players must use a player card i.e. terminals are cashless and a four digit pin number is required to prevent sharing/borrowing cards. All players must therefore be registered and all play conducted in 'registered mode'. In fact all Gambling products in Norway will only be available to registered players.
 - Cards available to **Norwegians only** and based on social security number.
 - Payments in and out can only be made with the player card. The player takes money from their Norsk-tipping player account, and prizes are returned to it. This means that the terminals will contain no money, eliminating theft and reduced administration for the local operator/retailer.
- The card ensures age of player can be confirmed and allows the use of behavioural tools which can limit excessive gaming i.e. players can set personal limits on how much they can wager and how long they can play.
 - Set personal spend and/or time limits
 - These include personal breaks e.g. per day, week, month
 - Capacity to self exclude up to 100 days
- Pre-determined values (**default**) for all players will apply and include
 - Max 400 NOK (AU\$80) spend per day/2200 NOK (AU\$440) spend per month
 - Max bets 50 NOK (AU\$6.25)
 - Minimum game duration 3 seconds
 - Max win 1500 NOK (AU\$300)
 - Enforces 10 minute break after every continuous 1 hour of play

Comment 9: The question was asked as to the evidentiary basis for these **default** values? The response was none, default values were determined internally within the Ministry of Cultural and Church Affairs.

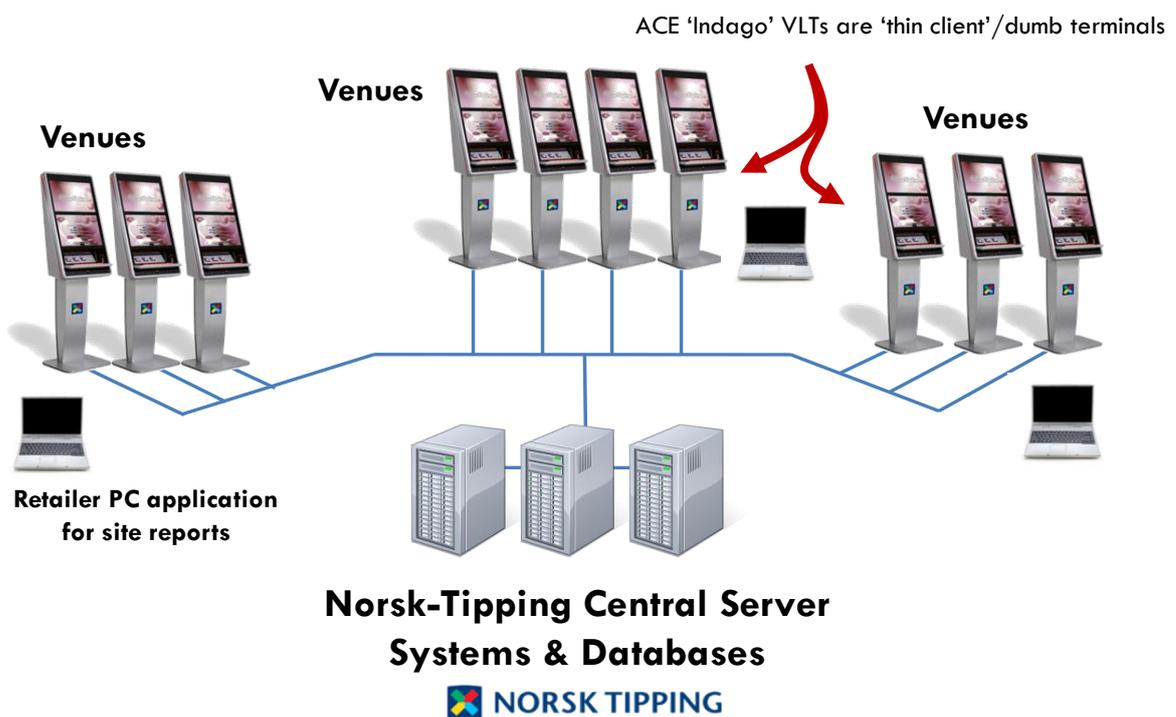
- Information stored in the card provides players with an overview of their own play behaviour over time i.e. record of amount and time spent.
- PLAYSCAN – a predictive tool to analyse and identify 'problem' behaviour is to be utilised. Only proposed action is to cease direct marketing to that card holder/player.
- Games are being developed with a longer duration, less emphasis on gambling and greater focus on entertainment. Their development rests on international research findings to limit the risk of compulsive gaming. No spinning wheels permitted.

- Fewer locations and terminals. The first new gaming terminals will be installed in the autumn of 2008, with the roll-out taking six to 18 months depending on how many local operators they decide to have.
- The terminals will be controlled from a central network. This provides full overview and control, and possible changes can be made immediately on all gaming terminals
- The game offer is flexible because the central system determines the selection of games. The terminals allow other Norsk-Tipping products to be bought i.e. Keno, Lotto, and Sports Bets etc. Return to Player is set at around 90%.
- Terminals will not operate between 12 midnight and 7 am
- Location of machines will be restricted to Norsk-Tipping Kiosks and some licensed restaurants/bars
- Legislation restricts machine numbers to 10,000. Officials are planning on 5,500 by 2010.
- There is “grass roots share” program that allows for players to nominate where some of their expenditure goes i.e. which charity, sporting organisation etc. This capacity is quite limited though and actual amount determined by Norsk-Tipping.

Comment 10: Further comments by the Regulators;

- *“By regulating the maximum loss, it becomes less important or crucial to manage the game”*
- *“It has been determined that state controlled gaming should dominate”*

Illustration of ACE Interactive’s Solution for Norsk-Tipping *



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ACE Interactive is a 100% subsidiary of Aristocrat Leisure Ltd and is the supplier of the Central system and ‘Indago’ VLTs

Conclusion

Unique: The Norwegian gaming model is unique within the Scandinavian region, Europe and Internationally. The writer's observations are that the model has evolved as a consequence of specific political pressures and imperatives generated within the jurisdiction as a result of a largely unregulated gaming model [*'the most liberal legal gaming regime in Europe'* – page 1] that had little apparent incentive to constrain or contain its commercial activities. The Government response to those pressures and imperatives is a reflection of unique Norwegian political, regulatory and cultural characteristics and attitudes.

The configuration and characteristics of the new Norwegian gaming model (as described here) is as a consequence of an expressed corporate ambition of Norsk-Tipping to totally differentiate this new gaming offering from the former largely unregulated arrangements so as not to 'tarnish' Norsk-Tipping's reputation and image (see comment 8).

The Cost: The dismantling of the 'old' gaming model and removal of associated 'slots' has however come at a significant cost including three years of litigation via the EFTA and Norwegian Supreme Courts, allocation of substantial compensation (see comment 4), substantial conceptual and development costs and capital expenditure associated with establishing an entirely new technological platform including all new terminals (VLTs).

And while no gaming machines/slots have been available in Norway since July 1st 2007, gaming will be 'reintroduced' with some 5500 multi-game terminals to be on-line by 2010 with a legislated ceiling of 10,000.

Government Monopoly on all Gambling: The Norwegian Government 'has determined that state controlled gaming should dominate' but that gaming should not be eliminated but form part of a total gambling offering [and likely a most dominant part].

This new Norwegian model is not readily transferable to the private ownership gaming models of Australia which have comparatively high levels of regulation and compliance requirements based around controlled liquor licensed premises. Supervision of the Australian state based jurisdictions is significant, no such arrangements appear to have previously existed in Norway although this new arrangement will now restrict access to machines to dedicated kiosks and licensed premises only.

There is no precedent for this Norwegian experiment and meaningful and measurable outcomes may be some years and potentially many millions of dollars away.

The Norwegian experiment (with its promise of improved harm minimisation outcomes through technological controls on player pre-commitment) remains at this time untested.