

## Regulation

# Analysis: Portugal's fight against the black market

**Despite a recent survey suggesting channelisation in Portugal is moving in the right direction, one regulated operator wants the threat posed by unlicensed sites treated as a cyber crime. EGR Compliance puts the country's online gambling market under the spotlight to investigate the extent of this scourge**

Julian Rogers | 25 November 2019



Practically every regulated online gambling market faces unwanted competition from unlicensed operators looking to coax players away from legal, locally taxed sites. It's simply part and parcel of the industry, although certain jurisdictions face varying degrees of black-market threats. The magnitude of the ongoing headache posed to **Portugal's** regulated gambling sector, which launched in May 2016, was recently laid bare in a survey that revealed how more than half (56%) of online gamblers continue to bet with both licensed and unlicensed operators.

**The survey**, involving 609 people (509 men and 100 women) registered with gambling websites and commissioned by industry trade body Associação Portuguesa de Apostas e Jogos Online (APAJO), found that just 44% bet exclusively with operators approved by the regulator, Serviços de Regulação e Inspeção de Jogos do Turismo de Portugal (SRIJ). Some 6% of those quizzed gamble solely with unlicensed sites. Despite this, APAJO president Gabino Oliveira insists the proportion exclusively using legal brands, 44%, has "increased substantially over the past two years" based on previous research.

He is also buoyed by the fact that 70% of those who registered an account with a gambling site in the first half of 2019 did so with a licensed operator. “Whereas in 2018, it was still only 53%,” Oliveira says. “So, we see a clear trend towards the licensed offer, which is also logical; unlicensed operators may still have Portuguese customers from the times ahead of regulation, but they are not allowed to advertise. As in other jurisdictions, customers tend to move to the licensed offer over time when they do not find their operators reflected in daily ads.”

He adds: “That change from an unregulated offer to a regulated offer does need some time is natural. Nonetheless, we are satisfied with this positive development.” What will perhaps cause concern among APAJO members, however, is that the survey showed 53% of the 168 respondents aged 18 to 24 admitted to gambling with unlicensed sites. This compared with 29.4% in the 25 to 34 age range, so it would seem regulated brands are struggling to resonate with younger gamblers for whatever reason. “We have to be proactive regarding the youngest gamblers between 18 and 24 years,” Oliveira warns.

### **Sign up here**

Portugal currently licenses 11 online entities. Their sites include: betcltic.pt, bet.pt, estorilsolcasinos.pt, pokerstars.pt, casinoportugal.pt, casinosolverde.pt, nossaaposta.pt, placard.pt, luckia.pt, 888.pt and betano.pt. 888 and Stoiximan’s Betano brand launched earlier this year. Yet apart from PokerStars and 888, the truly global online casino and sports betting brands are largely conspicuous by their absence. Although the Iberian nation can do little about its modest population – just over 10 million inhabitants (the 16<sup>th</sup> largest in Europe) – there’s no avoiding the fact the regulatory framework isn’t the ideal condition for licensed sites to flourish.

Online casino and poker operators pay 15% on GGR up to €5m, with an additional 15% paid on GGR above this €5m threshold. So, it’s effectively 30% GGR for the biggest brands. Meanwhile, sportsbooks pay a turnover tax of between 8% and 16% depending on the level of turnover generated. “Humungous” is how Francisco Pedrosa, CEO of Cofina Media-owned online sportsbook and casino Nossa Aposta, sums up the betting tax rate. Indeed, this punitive tax on sports equates to a rate of anywhere between 40% and 65% on GGR.

“Tax rates in Portugal, particularly for sports betting, is and has always been one of the major obstacles in the Portuguese market,” says Tiago Bessa, managing associate of law firm Vieira de Almeida. “It is clear this regime has deterred big

international brands from entering Portugal.” SRIJ presented a proposal to the government last year to amend the current tax regime. The precise nature of this proposal was never made public, but there were local media reports that lawmakers were asked to consider a flat tax rate of 25% on GGR for all forms of gambling. So far, the status quo remains.

## **Battling the black market**

As things stand, unlicensed sites not subjected to such eye-watering taxes on a low margin product like fixed-odds sports betting are able to offer “substantially more attractive odds” to Portugal’s gamblers, says António Laranjo, co-CEO Casino Portugal, which received the country’s seventh egaming licence in 2017. He adds: “We are required to comply with a myriad of other factors, from games certifications to on-site audits. Such efforts are in place to promote responsible gambling and market fairness among the operators, to which illegal operators are not subject to.”

Furthermore, the regulations don’t allow licensed online operators to offer live casino, virtual sports, betting on esports or instant win games. These are all products illegal operators are able to dangle under the noses of Portuguese players, much to the annoyance of the regulated entities. “We need to have more verticals,” Pedrosa insists. “More products and services mean we get closer to the illegal [market].” He stresses that a greater array of products along with a softening of the harsh tax regime would boost the offering for the players and attract more licensed operators. This would, in theory, generate greater tax revenue for state coffers.

However, APAJO’s Oliveira cautions against swinging too far the other way and encouraging international brands to flood the market and bombard the public with gambling. “We must not forget that many jurisdictions with low taxes currently struggle with a dramatic weariness of the public when it comes to gambling, forcing politicians to act. Too many operators create a competitive environment where compliance rules are neglected, where one has to operate at the edge of what is still allowed, to the detriment of the consumers. Numerous fines, as we see in the UK or in Sweden lately, is a reality foreign to us here in Portugal.”

## **Hitting new highs**

Despite the presence of black-market operators and the tough regulatory framework, Portugal's regulated industry continues on an upward trajectory. The market set a new quarterly record of \$47.3m in Q1 2019, with casino and poker surpassing sports betting for the first time, followed up by yet another record of €48.3m in Q2. This was a 29.5% jump over revenue in Q2 2018, aided by three additional licensees having entered the fray. In fact, the €95.6m in revenue accrued in the first six months of this year to 30 June means the market is on track to comfortably outstrip the €152.1m (€78.9m for sports betting and €72.3m for online casino and poker) achieved for the whole of 2018. Q3 2019 revenue results are due imminently.

By comparison, Sweden, which boasts roughly the same population as Portugal, saw its regulated online gambling market generate revenue of SEK6.08bn (€568m) during Q2. Yet while Sweden imposes a tax of 18% on GGR, it too has faced its own channelisation challenges since the market was re-regulated at the start of 2019. The country's gambling authority recently lowered its channelisation estimate from 91% to 85-87% based on new figures from H2 Gambling Capital. Therefore, a moderate tax rate is just one factor when it comes to discouraging the use of illegal sites, although Sweden's channelisation rate is still double that of Portugal's (44%) based on APAJO's survey.

### **Blocking the way**

In a bid to curtail the unregulated market, SRIJ has warned hundreds of operators to cease offering online gambling to Portuguese citizens and also told ISPs to block these sites. But the problem persists. "Blocking of websites is not effective and has not been effective in other markets," Bessa explains. "The blocking of websites takes time and may be easily bypassed by illegal operators. Our legal regime also determines that the offering of unlicensed operations may constitute a criminal offence. However, there is no data on legal prosecutions."

Pedrosa wants the government to take a much tougher stance. "The Portuguese authorities needs to understand this is cyber crime," he states. In addition, he calls for greater efforts around blocking payments with unregulated sites as, he says, 80% of deposits involve Portuguese banking network Multibanco and other electronic methods. "The Central Bank and banking institutions need to implement real measures to guarantee that this type of transfer cannot be allowed by the payment gateway companies for illegal operators outside of Portugal."

APAJO, meanwhile, suggests a multi-pronged strategy is required in a country where there are an estimated 400,000 to 600,000 online gamblers (between 4.6% and 6.9% of the adult population). Oliveira explains: “If one wants to reduce the black market, education is key, campaigns are key, regulated advertising is key, and a product that is appealing even if it does not promise pay-out rates of up to 96% in sports betting.” There are also calls for affiliates to be licensed to prevent the promotion of unlicensed sites, while Casino Portugal’s Laranjo highlights ad campaigns run this year on the outside of taxis. Above all, product choice and competitive offers will help stem the flow of gamblers betting with those illegal sites not paying a single cent in gaming taxes.

**APAJO | Black market | Portugal | Regulation | SRIJ**