

## **Raising the stakes: the casino market in the Netherlands**

### **Summary**

A study carried out for the  
Ministeries van Justitie en Economische Zaken

Antony Pemberton  
André Oostdijk  
Jaap Wils  
Cornelis van der Werf

B2499

Leiden, 25 October 2002

## Preface

This is a summary of the report *Raising the stakes: the casino market in the Netherlands*. The summary presents the main findings of a study into the size and structure of the casino market and the possible need to increase the number of legal casinos. The study also reviewed the likely knock-on effects of expanding the market as well as the conditions under which enlargement might be feasible.

*André Oostdijk*

# Summary

## Reason for the study

Gambling policy in the Netherlands, as embedded in the Betting and Gaming Act, is intended to provide a framework for the proper regulation of games of chance in general, and casino games in particular. The policy has three distinct goals:

- to prevent addiction to gambling, for example through a policy designed to prevent addiction to games of chance;
- consumer protection, for example by ensuring that the games are fair and the rules are clear;
- crime prevention, for example by preventing the infiltration of organised crime.

Holland Casino is the only organisation that is permitted, under strict conditions, to offer casino games for the general public. The company currently operates twelve casinos, which is the maximum number permitted under the law.

As part of the *Market Regulation, Deregulation and Quality of Legislation Project* a working group has been reviewing the policy on gambling and the casino market. The working group found that the structure of the policy towards casinos does not rhyme with the objectives of the policy and feels that the gambling market should be treated as an 'ordinary' market. In its response to this finding, the government underlined the need to change the policy but would not automatically adopt the working group's recommendation to open up the market. Before making a decision the government wanted to know more about the demand for casino games and the possible effects of an increase in the number of casinos on the number of illegal casinos and on addiction to gambling. The findings were intended to facilitate integrated decision making on whether or not to increase the number of casinos

To generate this information Research voor Beleid investigated whether there was a demand among consumers for more legal casinos, what effects an increase in the number of casinos is likely to have on legal and illegal gambling, gambling addiction, revenues and crime and what conditions should be imposed on expansion of the casino market.

## Structure of study

We identified the current market and, on the basis of a number of assumptions, the potential market by means of a survey of 2000 households, interviews with experts, a literature study and using figures from Holland Casino and information from the tax authorities. Using these data, together with results of research into the structure of the casino market in a large number of countries, we prepared five scenarios whose main distinguishing feature lies in the number and type (public / private) of suppliers. The scenarios were discussed with a number of experts in the field of casinos and gaming machines, crime and addiction. We discussed the likely effects of the various scenarios and what requirements they imposed as regards the policy towards the structure of the casino market.

This summary presents the main findings of the various phases of the study.

### **Size of the (future) casino market**

Holland Casino is the only company permitted to offer casino games for the general public. Holland Casino operates twelve casinos where consumers can play the traditional casino games under the supervision of a croupier. Besides the casino games, gambling machines are also permitted<sup>1</sup>. The proceeds from the operation of the casinos go to the government.

Figures from Holland Casino show that 1.2 million people made a total of 5.9 million visits to its casinos in 2001. The average visitor therefore went to a casino five times. The visitors play mainly roulette and on the gambling machines (roughly half of the visitors), and to a slightly lesser extent card games (roughly 30% of all visitors).

### *Illegal casinos*

There are also illegal casinos in the Netherlands. For the purpose of this study illegal casinos are defined as establishments which offer casino games for the general public without a licence. Until recently, preventing and closing these venues was not a priority. In 1999 there were an estimated 70 to 75 of these casinos. Since then enforcement has been intensified (the Joker project) and the majority of them have been closed down.

There are various estimates of the size of the illegal casino market today, ranging from 100,000 to 350,000 visitors annually. Whatever the figure, it is in any case significantly smaller than the number of visitors to Holland Casino. We found that the illegal market has shrunk considerably since the Joker project. This leads to the question of whether increasing the number of legal casinos will create a substitution effect in that visitors to illegal casinos would instead visit a legal establishment. Our conclusion from the various sources of information that we consulted during this study is that this substitution effect is only likely to occur among a portion of the visitors to illegal casinos. This would involve a group of not more than 40,000 persons. Given that fact, the closure of illegal casinos is unlikely to lead to a sharp increase in the number of visitors to Holland Casino. It is even questionable whether it is possible to measure this substitution effect, even if it were total, although this is certainly not to say that there will be no substitution.

### *Market demand if supply remains stable*

In determining the future market demand we have taken into account planned repeat visits and new visitors, that is to say people who have not visited Holland Casino recently (autonomous growth). We estimate that on the basis of *repeat visits* and the *autonomous growth* approximately 1.5 million people will visit a casino in the next twelve months. Assuming that this group visits with the same average frequency as the current visitors the number of visits will rise to between 6 and 8.5 million. This estimate is based on the current market supply.

### *Market demand with national coverage*

Using both the survey and a computer model (based on the records of visitors to Holland Casino) we investigated the possible demand for casinos if all Dutch adults lived within a radius of 30 kilometres of a Holland Casino. There would then have to be seven additional Holland Casinos. According to the computer model, in that case the number of visitors would increase by around 76,000. The survey produced a similar scenario. So we found that increasing the supply would

---

<sup>1</sup> Apart from Holland Casino there are numerous operators of gambling machines in the Netherlands, from owners of bars and restaurants with a single 'slot machine' to amusement halls with a wide range of gambling machines. But the amount fed into the machine and the amount paid out in Holland Casino are different to the other machines.

have only a limited effect on the number of *visitors*. The number of *visits*, by contrast, evidently does depend on the distance to the casino. The shorter the distance, the higher the number of visits. These additional visits are accounted for by practically the same group of visitors, so the average frequency of visit increases.

### **Possible casino regimes and market regulation**

The policy towards casinos and gambling in general varies greatly between countries and sometimes even within a country. For a meaningful comparison of the different markets we drew up a framework of analysis in which the basic principles of the policy are an important factor. After all, different principles (may) lead to significantly different markets. The study investigated the markets in Belgium, Germany, Great Britain and Luxembourg as well the casino regimes in France, Spain, Austria and Denmark. A number of non-European casino markets (Nevada, Queensland and New Zealand) were also investigated.

We identified six distinct policy models.

1. The eradication model: strict regulation of all forms of gambling and very strict enforcement of anti-gambling laws;
2. The tolerance model: there is anti-gambling legislation but it is at best only partially enforced.
3. The protection of gamblers model: legalisation of casinos with strict regulation.
4. The neutral model: gambling as an economic activity like any other.
5. The government interest model: protection of the economic interests of the government (tax revenues)
6. Hybrid models: combinations of the earlier models.

In the Netherlands and most other European countries the basic principle of policy is to prevent harmful side-effects. The rules are aimed at preventing gambling addiction and crime. Economic interests are subordinate to these aims. This is not to say that economic interests are not a factor. On the contrary, the European countries can be divided into those that adopt the *government interests model* and those that adopt the *protection of gamblers model*. The policy in Spain, France, Germany, Luxembourg and Austria seems to be aimed primarily at protecting the economic interests of the government. The focus is on preventing the infiltration of organised crime and tax evasion and there is less emphasis on protecting players from addiction to gambling. These countries differ from the Netherlands in that respect. The Netherlands' policy on that point is closer to that of Belgium, Denmark and Great Britain. But it should be noted that the distinction between the European models is one of degree and they differ far less from each other than from the American model.

### **Scenario study**

In the scenario study we drew up five scenarios in which we adopted the following basic principles from the government's position paper.

- The core of gambling policy will remain unchanged. This means that the policy will continue to focus on protecting gamblers and preventing crime.
- The intensive crack down on illegal gambling – in the form of the Joker project or otherwise – will continue to be a central theme.

The international comparison shows that there are two main differences between the casino markets in the various countries we studied: the type of supply (public / private) and the number of suppliers. With public supply the proceeds flow into the state's coffers; in a system with private suppliers the proceeds mainly benefit the private actors, although they do then pay taxes. With

public supply there is in principle a single supplier, with private supply there is generally more than one. On that basis we drew up five scenarios: one with no change and another with extreme changes, and three intermediate scenarios. The main difference between the scenarios is that the number of casinos and market actors rises from one to the next.

- *Current situation*  
In this scenario nothing changes in the current policy towards casinos. Supply, supplier and the number of casinos remains the same.
- *Expansion in current market situation*  
In this scenario the current maximum of 12 casinos is scrapped. A new maximum is fixed on the basis of current market demand or some other criterion. The casinos would be run by a public operator.
- *Monopoly by region*  
The Netherlands is divided into several regions. In each region a licence is issued for one casino to be run by a private, possibly foreign, operator. The games provided do not change.
- *Limited competition*  
The Netherlands is divided into several regions. In each region licences are issued for a number of casinos to be run by private, and possibly foreign, operators. The games offered do not change.
- *Full competition*  
There are no restrictions on the number or type of supplier. Operators of casinos are free to open their doors if they meet certain conditions. They are also free to offer casino games other than those presently offered.

The experts we interviewed expect the possible changes in suppliers and supply not only to have an effect on the market (turnover of casinos and number of visitors), gambling addiction, illegality and crime but also to influence other aspects of the casino policy such as enforcement, the tax regime and gambling prevention.

The table below presents a summary of the results of the scenario study.

| Effects / Scenarios     | 1                 | 2                                     | 3                   | 4                      | 5           |
|-------------------------|-------------------|---------------------------------------|---------------------|------------------------|-------------|
|                         | Current situation | Expansion in current market situation | Monopoly per region | Restricted competition | Competition |
| Turnover                | 0                 | +                                     | +                   | ++                     | ++          |
| Gambling addiction      | 0                 | +/-                                   | +                   | +                      | ++          |
| Product differentiation | 0                 | 0                                     | 0                   | +                      | +           |
| Crime                   | 0                 | 0                                     | 0                   | 0                      | 0           |
| Illegality              | 0                 | -                                     | -                   | --                     | --          |
| Regulation              | same              | same                                  | different           | different              | different   |
| Tax regime              | same              | same                                  | different           | different              | different   |

- decline, +/- slight increase, + increase, 0 no effect

The table shows that a different market structure will probably lead to higher turnover, especially if a competitive market is created, which in the view of most experts has in fact already happened to an extent. Those involved generally feel there is a partial overlap between the markets of Holland Casino and the amusement centres.

Increasing the number of casinos will probably lead to higher turnover since the number of visitors will rise and hence also the amount spent in casinos. In fact, the expectation is not so much that the number of visitors will grow but rather the number of visits. It is also likely that extra casinos – and hence a larger number of frequent visitors – will lead to greater addiction to gambling. A stringent preventive policy with respect to addiction may weaken this effect but not prevent it altogether. Given the basic principle of the policy to prevent gambling addiction the new licensing rules should therefore include a provision that casinos must pursue a strict prevention policy.

More casinos will not automatically lead to more crime although this will depend on strict requirements being imposed on the transparency of the business. By relaxing constraints on the product range – under clear preconditions – the experts believe new product-market combinations will be developed. This fact, in combination with the growth of supply, leads to the prediction that more intense competition will in fact squeeze out illegal operators more strongly. Finally, it is clear that a different market structure will have consequences for methods of enforcement and the tax regime.

To sum up, the researchers conclude that broadly speaking there are two possible policy alternatives for the structure of the casino market. The first is to continue with the current situation since this will be most effective for preventing gambling addiction in particular. However, even with this alternative the principles and implementation of policy need to be reviewed. The second policy alternative is based on enlargement of the market. This alternative is dictated not only by the growth in demand but also the nature of the market and a shift in policy objectives. The report indicates what policy choices need to be made if this alternative is chosen.

Research voor Beleid  
Schipholweg 13 - 15  
Postbus 985  
2300 AZ Leiden  
telefoon: (071) 5253737  
telefax: (071) 5253702  
e-mail: [rvb@rvbh.nl](mailto:rvb@rvbh.nl)  
[www.researchvoorbeleid.nl](http://www.researchvoorbeleid.nl)