

German street market signs point in the wrong direction

As Germany's street gaming market faces devastating legislative changes, G3 interviews Gausemann Group founder and Chairman, Paul Gausemann about the sector's future

A proposed German Gaming Treaty could close many of the approx. 10,000 arcades and see the removal of up to 100,000 AWP's. The 16 German Lander state heads wish to ban multi-concession halls with a planned five year operating time for existing halls if the regulation is approved. The industry estimates the loss of 100,000 of the current 150,000 gaming machines sited in arcades from the market. Furthermore, draconian measures have been proposed concerning the approx. 50,000 AWP's in the food and drink sector, ranging from a complete ban to limiting the number of AWP's per location from three to two. Current AWP regulations are disputed by state heads who have no direct control of the sector. The AWP industry is federal-based, whereas casino and lotto are state-based.

In addition to the loss of concessions, the treaty would determine that individual states would have the power to restrict opening and closing times, ban locations from advertising their existence to the public at the location, and stipulate that a minimum distance must be observed between locations. The gaming industry in Germany have strongly opposed these regulations, pointing out that it would jeopardise the €1.5bn the state governments currently receive in the form of taxes. A flood of litigation would also be expected from operators.



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**Paul Gausemann,
CEO Gausemann
Group.**

The text of the law will come into effect from 1 January 2012. First, however, it must be signed by at least 13 of the state prime ministers and adopted by the individual parliaments. If the new law enters into force the street gaming industry, to a man, has threatened to pursue damages in the billions of euros. Gausemann Group's founder and CEO, Paul Gausemann, who is also President of the street gaming association VDAI, has decried the proposed Treaty and said that the industry would protect itself from 'unlawful expropriation with compensation that would run to the billions of dollars.

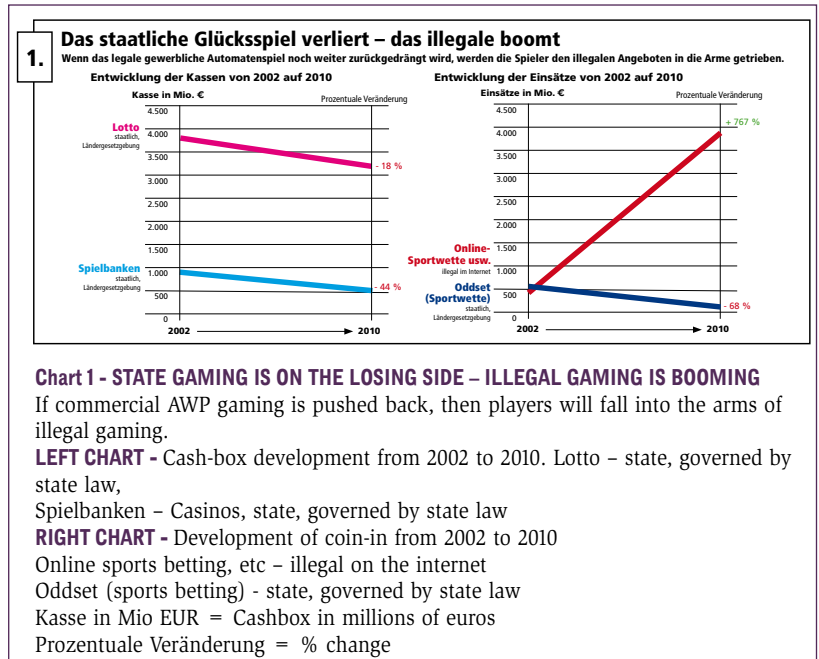
The restrictions, however, would not affect state-run casino locations which would benefit from a lack of competition on the high street should the proposals become law. Germany's traditional casinos have lost much ground and revenue in recent years, claiming a loss of customers to the new casino-style gambling halls that have provided unfair machine competition in their view. Mr. Gausemann suspects that the states are favouring the casinos at the expense of private gaming halls. The Gausemann Group is convinced that Germany's politicians are headed in the wrong direction. They point out that the online, poker and betting sectors are operating outside the German market and are not only collecting billions in revenue per year, without paying tax, but are in contrast to their locations both anonymous and uncontrolled.

If necessary, the street industry is ready to



NO NEED FOR CHANGE TO THE INTERSTATE GAMING TREATY

The German street gaming industry fervently believes that the AWP Gaming Regulation, from 2006, has completely proven itself. Commercial AWP gaming is regulated federally by the Federal Ministry of Economics. The AWP Gaming Regulation has proven itself as shown in the evaluation report from the federal government. At most slight alterations are required which can be adopted on a voluntary basis by the AWP industry. The intended further pruning back of the AWP industry by 15 of the 16 German states upon the alteration of the Interstate Gaming Treaty is economically contra-productive (see chart 1) – not necessary in terms of player protection and thus not legally justifiable (see charts 2 and 3). It just helps to annihilate competition.



take its claims to the Federal Constitutional Court and European Court of Justice. Experts say these restrictions are incompatible with European standards as thousands of businesses are likely to close. Unanimity to the proposed regulatory changes is critical to its future, because it effects entrepreneurial freedom. This measure, denounced the street associations and businesses, will call into question the existence of 6,000 legitimate businesses - mostly family firms - and about 70,000 jobs.

PAUL GAUSELMANN INTERVIEW

Q: There is a great deal of TV and press coverage concerning the street gaming business in Germany - is this a topic that you feel has been given a fair treatment by the media - are they interested in hearing opinions from all sides?

A: Concerning commercial gaming, the media also leans extremely towards the state and reports mostly tainted by political opinion so that we find it difficult to bring across the real facts correctly here.

Q: Has gaming addiction really increased in Germany - what measures has the industry introduced to minimise problem gaming at the street level - and is it working?

A: Gaming addiction has not grown in Germany. Five reports that were commissioned by the government in recent years show that the percentage of problem gamblers lies between 0.2 per cent and 0.5 per cent - depending on the individual report. We have also done quite a bit here. For example, all AWP in Germany have to be equipped with a real 5 minute pause since 1st January 2011 and maximum wins are limited to 500 euros per hour. Accumulation of winnings is limited to 1,000 euros (the value is always shown in points).

Q: How proactively is the street gaming sector raising the issue of problem gambling in comparison to the casino and lottery industry?

A: We are very well placed on the subject of responsible gaming. Professor Bühringer claimed three years ago that the AWP industry is responsible for 30 per cent of 100,000 problem gamblers. The Greifswald study that was published a few weeks ago attributes 48 per cent of the 190,000 problem gamblers to the AWP industry in the past 12 months. Beforehand, 13 per cent was attributed to lotto, now it's only 1.3 per cent. The way the numbers fluctuate simply shows how the questions were asked and what the intention from this is. Thus, when



the state commissions such a report, then the goal is at the end of the day to place private enterprise, the rival, in a negative light. Even the results of the Greifswald report that placed our industry very negatively at 48 per cent showed lotto and lottery the least affected at just one per cent of addictive gamblers per 600 million takings.

We are placed second with 81 million for one per cent of addictive players. But casinos, sports betting, poker, etc and naturally also illegal gambling make up one per cent of the addictive players at 31 million takings. In other words, after lotto we are two to three times better than casinos and sports betting, etc. But no-one wants to accept that. Naturally, the number of pathological players has to be compared with turnover achieved. Otherwise, a distorted image results.

Q: The meeting of the state presidents brought about drastic suggestions on restricting the AWP market. Why are the heads of the states so against street gaming?

“In Hermannstrasse in Berlin there are only two arcades, but 37 bars, pubs, restaurants. The number of AWP’s in bars, etc., is three times higher than in the arcades. One thing is being mixed up with another here. They don’t want either, place both together in the ‘arcade’ hat as gaming is the same wherever it is for them.”
Paul Gauselmann, CEO AWP Group.

2. Zahl der pathologischen Spieler konstant unter 0,6 Prozent
 In der Öffentlichkeit wird immer wieder der Eindruck erweckt, die Zahl pathologischer Spieler steige in Deutschland sprunghaft an. Das ist ein Trugschluss. Seit 2007 werden Jahr für Jahr repräsentative Bevölkerungserhebungen durchgeführt. Je nach methodischem Zugang schwanken die Ergebnisse für das pathologische Spielverhalten in der Bevölkerung zwischen 0,19 % und 0,56 %. Die Ergebnisse zeigen eine wellenförmige Linie, die verdeutlicht, dass es kein Anwachsen des pathologischen Spielverhaltens gibt. Im Vergleich mit anderen europäischen Ländern, mit bis zu 2,2 % pathologischen Spielern, bildet Deutschland das Schlusslicht.

Pathologisches Spielverhalten in Deutschland	Ergebnisse von Repräsentativbefragungen (12-Monats-Prävalenz)				
	Bühninger et al. 2007 ^{*1}	Buth & Stöver 2008 ^{*2}	BZgA 2008 ^{*3}	BZgA 2010 ^{*4}	PAGE 2011 ^{*5}
Erhebungsjahr	2006	2006	2007	2009	2010
Stichprobe	7.817	7.980	10.000	10.001	15.023
	18 - 64 Jahre	18 - 65 Jahre	16 - 65 Jahre	16 - 65 Jahre	14 - 65 Jahre
Pathologisches %	0,20%	0,56%	0,19%	0,45%	0,35%
Spielverhalten n	103.000	290.000	100.000	242.000	193.028

*1 Bühninger, G., Kraus, L., Pfeiffer-Gerschel, T. & Steiner, S. (2007), Pathologisches Glücksspiel in Deutschland und Bevölkerungsrisiken, Sucht 43, 296 - 308; *2 Buth, S. & Stöver, H. (2008) Glücksspielteilnahme und Glücksspielprobleme in Deutschland: Ergebnisse einer bundesweiten Repräsentativbefragung, Suchttherapie, 9, 3 - 11; *3 Bundeszentrale für gesundheitliche Aufklärung (2008), Glücksspielverhalten in Deutschland 2007, Köln; Bundeszentrale für gesundheitliche Aufklärung; *4 Bundeszentrale für gesundheitliche Aufklärung (2010), Glücksspielverhalten 2007 und 2009; Ergebnisse aus zwei repräsentativen Bevölkerungsbefragungen, Köln; *5 Meyer, C., Rumpf, H.-J. et al., Pathologisches Glücksspielen und Epidemiologie (PAGE): Entstehung, Komorbidität, Remission und Behandlung, Greifswald und Lübeck 2011

Chart 2 - NUMBER OF PATHOLOGICAL PLAYERS CONSTANT AT 0.6 PER CENT
 The impression is being created in public that the number of addictive players is increasing rapidly in Germany. That is a false conclusion. Since 2007 nation-wide evaluations have been carried out each year. This results show a percentage of pathological players in Germany at between 0.19% and 0.56%. The results are wave-formed proving no rise in numbers. In comparison with other European countries that show a rate of up to 2.2% of pathological players, Germany is at the bottom of the table. The results of different studies are shown:
 Pathological Playing Habit in Germany. Results from evaluations
 Erhebungsjahr = date of evaluation
 Stichprobe = number interview
 Pathological %
 Pathological total



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A: The state presidents have ostensibly approved the laws. Whether they really knew what they were approving is another matter. Experts drew this up with the clear goal to reduce the annoying competition compared to what it is today and potentially to even destroy it and so to allow state-controlled gambling a clear path ahead.

Q: Taking into account that the industry has voluntarily introduced new restrictions with 4.1 and the reaction of the German state presidents in their recent debate on German commercial gaming; was 4.1 introduced too late and do the new 4.1 restrictions offer enough player protection?

A: The general working conditions were tightened further upon the introduction of 4.1. I need to further expand upon this: We plan shortly to offer even more items, for example we have been training the service staff at Merkur-Spielothek since 1st January 2011 with the Caritas Berlin in order to properly recognise and offer on-site help to pathological players. And we will continue to make the 'preheating' on AWP's difficult or impossible - i.e. playing a second AWP at the same time.

Q: Is there an ulterior motive - as the Berlin state president Herr Wowerit said on German TV news that the states wish to gain control over street gaming?

A: What the Berlin Mayor says is ultimately wrong. What they don't like are the many, many bars and pubs that are partly run by foreigners without a licence. These are then often mistaken for our arcades - but have nothing to do with them. For example, in the Hermannstrasse in Berlin there are only two arcades but 37 bars, pubs, restaurants. The number of AWP's in bars, etc., is three times higher than in the arcades. One thing is being mixed up with another here. They don't want either, place both together in the 'arcade' hat as gaming is the same wherever it is for them.

Q: Recent news reports on the German commercial gaming industry link gaming addiction to the growth in the AWP market but said nothing about casino, lottery or online gaming. Why were these reports so one-sided?

A: Indeed, the turnover for state gaming (casinos, lotto, etc) has fallen enormously since the introduction of the Lotto State Treaty in 2004 and the Interstate Gambling Treaty in 2008. At lotto the percentage drop is 18, 44 per cent at casinos and 62 per cent at Oddset (sports betting) whereas our commercial



Paul Gauselmann, Prof. Dr. Kurt Biedenkopf and Uwe Christiansen open the IMA Germany 2011 exhibition.

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3. Gewerbliches Automatenspiel: Geringstes Gefährdungspotenzial nach Lotto

Beim gewerblichen Automatenspiel kommen auf je 81 Mio. Einnahmen 1 % der pathologischen Spieler, bei allen anderen Glücks- und Gewinnspielen kommen bereits auf jeweils 35 Mio. Einnahmen 1 % der pathologischen Spieler. Das gewerbliche Automatenspiel ist zwar mit über 200.000 Geräten weiter verbreitet als andere Spielformen; es hat jedoch nach dem Lotto ein weit geringeres Gefährdungspotenzial als andere Spielformen. Dies zeigt der Pathologie-Potenzial-Koeffizient. Beim gewerblichen Automatenspiel ist er nur halb so groß wie bei den sonstigen Glücks- und Gewinnspielen.

Spielform	Einnahmen pro Jahr je Spielform in Mrd. €	Von allen (100 %) pathologischen Spielern entfallen auf	Pathologie-Potenzial-Koeffizient	Einnahmen pro 1 % path. Spieler
	9,34 Mrd. € (gesamt)	100,0 %	1,000	93 Mio. €
Lotto/Lotterien	3,75 Mrd. €	6,0 %	0,149	625 Mio. €
Gewerbliches Automatenspiel	4,00 Mrd. €	49,1 %	1,147	81 Mio. €
sonstige Glücks- u. Gewinnspiele	1,59 Mrd. €	44,9 %	2,624	35 Mio. €

Quellen: Meyer, C., Rumpf, H.-J. et al., Pathologisches Glücksspielen und Epidemiologie (PAGE): Entstehung, Komorbidität, Remission und Behandlung, Greifswald und Lübeck 2011, IFO Institut für Wirtschaftsforschung e.V. an der Universität München, Wirtschaftsentwicklung Unterhaltungsautomaten 2010, München: Januar 2011, Schätzung div. Marktdaten, zu den sonstigen Glücksspielen zählen Poker, Pferde- und Sportwetten, andere Lotterien, privates (illegales) Glücksspiel (Basis: Archiv- u. Informationsstelle der dt. Lotto- u. Toto-Unternehmen, Mai 2011)

Chart 3

1% of takings in Germany from addicted players comes from the AWP industry per 81 million euros takings - for other types of gaming 1% of addictive players is reached at 35 million euros. The commercial AWP industry is wide-spread with over 200,000 AWP's as other forms of gaming. After lotto it has the least dangerous force of gaming addiction. This is proven by the addiction-potential-co-efficient. This is half of other gaming forms.

Spielform = gaming form

Lotto/Lotterien = lotto / lotteries

Einnahmen pro Jahr... = Takings per year per gaming form in billion euros

Mrd = billion

Von allen (100%)... = From all (100%) addictive players, these are accounted to

Pathologivcal-potential co-efficient

Einnahmen pro... = Takings per 1% of addictive players

gaming industry has risen moderately by 25 per cent in the past years. Then again illegal betting on the internet that comes from outside of Germany has risen by over 800 per cent. That shows that the state has no control on games on offer with all its laws, etc. The new state law is there to bring its own games offering back into the forefront and push back the annoying competition. This intention is surely not justified. There is no response against internet gambling and that will remain the biggest competitor.

Q: The AWP voluntarily introduced an alcohol ban in the 1980s in arcades to

ensure a 'clear head' when gambling. This argument is being turned on its head to explain why AWP's should be banned in the food and drinks sector. How do you see this?

A: Indeed we did force through a voluntary alcohol ban in the 1980s. Here gaming is the major focus and not eating and drinking. The number 1 thing in bars, pubs and restaurants is eating and drinking - gaming takes place as a sideline. Therefore, gaming in arcades and in bars and restaurants is not comparable.



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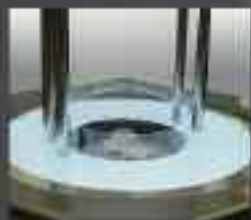
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Interview

PAUL GAUSELMANN

Q: Why is there now such a strong political debate on AWP's in the food and drinks (gastro) sector with the Federal Drugs Commissioner Dyckmanns suggesting that all AWP should be banned here?

A: The new Federal Drugs Commissioner, Mrs Dyckmanns, practically was talked over by the gaming addiction experts - even though she is a member of the liberal FDP party - to ban AWP's in the gastro sector. Every now and then a bar owner may not be so exact as our arcade staff and allow under 18s to put a coin in the AWP's. We will make this even more difficult to do in the future by - just like with cigarette vending machines - introducing an ID card here to then be able to play on the machines.

Q: Each and every arcade has to be approved by local governments. Therefore, why do politicians complain that there are too many arcades when each and every arcade has been approved by politicians?

A: The 'flood of arcades' is also an obsession of public opinion. All the municipalities who have made use of the altered Federal land Utilisation Ordinance from 1989 have control of the arcade number. Those who did not do this work have to deal with alteration bans and occupancy plans and so have a 'flood' and look to place the blame somewhere else. In reality they had always the possibility with available legal means to limit the number of arcades.

Q: Many local communities have large deficits. Are increases in the amusement tax (Vergnügungssteuer) throughout the country a reaction to this or does it solely support player protection?

A: Amusement tax is a hostage of the industry. It has more than doubled in the past years. Three to four years ago the amount was 200 million euros. This year it will be over 400 million euros that we will pay in amusement tax. The reason is a foolish process that an industry lawyer pushed through by himself - namely the 'reality measure'. In other words every entrepreneur in Germany must show his or her receipts to the regulatory authority and then pay between 10 per cent and 20 per cent of this amount. When a civil servant sees that here and there that comparatively much money is being earned, then envy often raises its head and the amusement tax is then correspondingly increased.

The fact is that the amusement tax increase does not reduce the enjoyment

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"Lengthening closing times is a question for lawyers. When bars are open around the clock, when all other things in the field of entertainment are open 24/7, then arcades should be allowed this as well. If they are closed, where do the people then go? They go to a bar to play or go home to play on the internet."

Paul Gauselmann, CEO Gauselmann Group.



of gaming whatsoever. It is not the player who pays the amusement tax but the operator. That the amusement tax is not increased too much so causing arcade closures - there is a law in Germany that prevents companies being throttled. We are at this moment in time putting together a report on the widest front in Germany to prove that given reasonable management an amusement tax levy should be at 5 per cent in normal and 10 cent in better regions, with the limit being 15 cent. The exact results will be published shortly. At present these figures are my estimate.

Q: How do you see the increasing number of restrictions on arcade opening hours?

A: Lengthening closing times is a question for lawyers. When bars are open around the clock, when all other things in the field of entertainment are open 24/7, then arcades should be allowed this as well. If they are closed, where do the people then go? They go to a bar to play or go home to play on the internet. They will always find the right offer given the innumerable choices - without social contact and without a

single job in Germany being secured by this or a single tax euro remaining in Germany.

Q: Casinos criticise their viewed lack of a fair playing field as casino players must show ID and a national computer system ensures that a banned player in one casino cannot enter any other casinos. On the other hand, there is no ID requirement to enter arcades. Are the casinos right to complain?

A: It's the casinos' own fault that they have this file to ban players. Maybe this was the right thing to do 200 years ago to have a residency ban so that everyone has to show ID, so practically preventing locals from entering the casino. This is completely illusory in the times of internet and illegal gambling. Banning someone from entering a casino means that this person can find another possibility to lose a lot of money five minutes later somewhere else - without any legal controls. I think that this decision that previously only was required only on live gaming and became a must in the gaming halls - where casinos earn 75 per cent of their takings - since the new state treaty in



2008 is the reason for the drop in turnover over the last three years from 950 million euros to 580 million euros. Here should be done what we also do: recognise players, offer them help and keep observing them. Should it happen again, speak to them, whether this has helped with either 'yes' or 'no' and offer practically psychologically support them but not to ban them.

Q: Many arcades call themselves 'casinos'. Has this in retrospect been a mistake to use this reference as clearly arcades are not casinos and, secondly, it potentially opens the door for the casino industry to criticise the arcade industry, stating that many of their players now play in arcades?

A: The word 'casino' is not just limited to the 'Spielbanken' (ed: the official German word for casino is Spielbank) but also to Officer Casinos, in the foods and drinks sector, etc. We have had this confirmed at the highest legal level. The word 'Spielbanken' refers particularly to this sector. Going to a 'casino' could be a large roulette room or in an Officers Casino to take a drink there. Our high-class arcades deserve to be called

casinos and this is not questioned. This has been clearly legally confirmed.

Q: Arcades used to offer a good mix of AWP's and amusement machines. Nowadays the focus is almost if not completely on AWP's. Has this change in the balance been a contributing factor in the negative press and does this balance need to be readjusted?

A: Indeed during the 1980s we had very large operating spaces. When the law was changed in 1985 we could only operate 10 AWP's in an area of 150 m². We filled the remaining area with internet, pool, pinball, darts, etc. Our experience has shown us that the true AWP player wants to have peace and quiet to play and does not want to be disturbed by the noise of amusement machines, even the clicking of pool balls. We noticed that even more in arcades that also have sports betting. The noise was so loud here that the AWP guests 'ran away'. Thus, the players want peace and quiet, does not want to be distracted by the noises of other machines that inevitably belong to entertainment.

"It is very good that sports betting is finally finding a way to be offered alongside Oddset in Germany. Up to know 90 – 95 per cent was bet on the internet from abroad. No taxes could be collected in Germany at all. It is not clear whether this is enough as the laws have now been passed with only seven companies allowed alongside Oddset. To demand a tax of 16.6 per cent from the bet made will not lead to them being competitive to the offers on the internet."
Paul Gauselmann, CEO Gauselmann Group.

It cannot be denied that pure amusement machines have perhaps almost disappeared from many locations in commercial arcades so that they look more and more like a casino and so the optical difference is not so big. This has led to increased frustration – particularly on the casino side and their political lobby – so to then limit our business.

The fact is that the offers are very different indeed. The AWP's have an hourly taking of between 5 and 15 euros, on average 11 euros. It was previously double that under the Gaming Regulation before 2006 at 22.50 euros per hour. At that time an average of 2.6 AWP's were played on per player due to the game unattractiveness. This led to an average play of 60 euros per hour.

Today, it is an average of just 1.4 AWP's played by a single player – thus the average play is 15 euros per hour. Thus a quarter of what it previously was. Normally we would be bankrupt here. Fact is that people usually have a budget to spend on gaming and they have carried on spending this budget. Furthermore, we have almost 100 per cent more players, many being ladies. And this is perhaps the most positive thing about the new Gaming Regulation – much more fun is generated with much less money. Even though the small number of problem players is brought out of proportion as if it related to almost all players.

Q: Sports betting and online gaming may be liberalised in Germany. How will this affect this debate and how do you see the regulation of these activities affecting the street gaming sector?

A: It is very good that sports betting is finally finding a way to be offered alongside Oddset in Germany. Up to know 90 – 95 per cent was bet on the internet from abroad. No taxes could be collected in Germany at all. It is not clear whether this is enough as the laws have now been passed with only seven companies allowed alongside Oddset. To demand a tax of 16.6 per cent from the bet made will not lead to them being competitive to the offers on the internet. But it is a beginning and rationality slowly has to come back in Germany. The civil servants are particularly challenged to be adaptable here.

It is clear: We played no role in the first and second Interstate Gambling Treaty and still today play no role here. We must come out here but would then have the burden of dealing with all the individual state governments to fight through and enforce our problem relating to the set of issues relating to arcades.