

Game Over?

Czech Republic

A decade ago Czechia had more gaming machines per capita than any other European country. Today tells a different story. The number of casinos has dropped by three quarters, the number of slots has halved and with a recent ban on slots in Prague city, figures look set to fall even lower. With an increase in taxes and a second wave of lockdown, the Czech Republic is having a very bleak time.

Once upon a time the Czech gambling market was booming. The Czech Republic was traditionally one of the most successful and buoyant markets in Europe and a cash cow for many in the industry who have enjoyed years of selling or operating gaming machines in the country.

Back in 2011 there were almost 102,000 slots in Czech dropping to around 70,000 in 2014. Today that figure is around 36,800 whilst the number of gaming venues has dropped from over 8,350 (of which 8,000 were games rooms and 350 were casinos) in 2011 to 1,162 at the beginning of this year divided between 580 casinos and 582 gaming halls.

This is a drop of almost 30 per cent in venues

since 2018 and a 70 per cent decline since 2016 when there were over 4,000 venues. Slots in bars and restaurants have also all but disappeared.

So what happened?

In the Czech Republic, although gambling is legalised and regulated at state level, an amendment was added to the Lottery Act in 2012 which granted each individual municipal region the right to impose restrictions or bans on certain activities relating to their own policies.

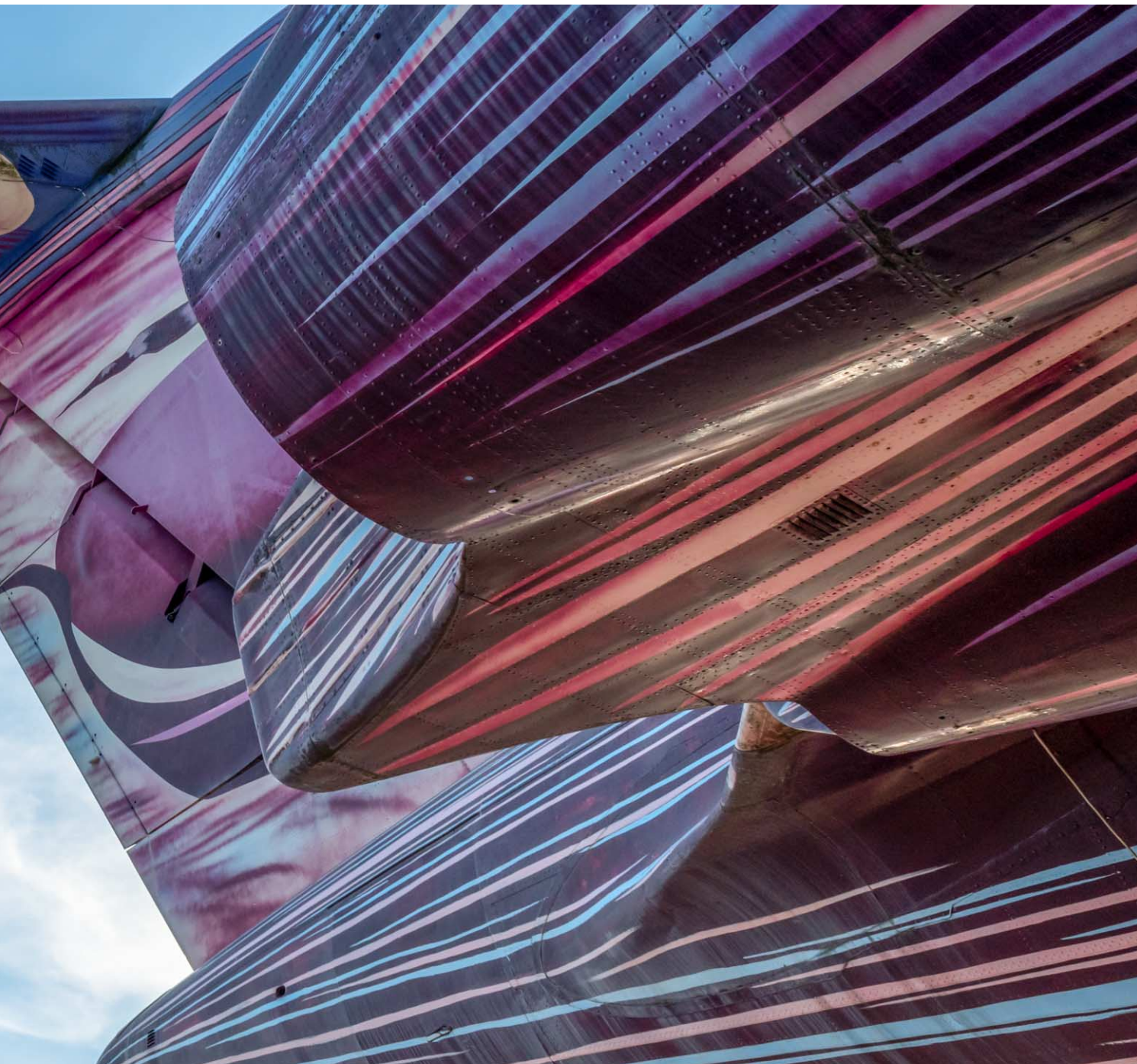
Czech is made up of 14 regions (kraje) and 6,258 local municipalities. Prague is divided into 57 municipal parts which since 2001 have been grouped into 22 numbered administrative districts. At the moment around 457 Czech

municipalities have implemented total bans on casinos or gaming halls.

Meanwhile the 2016 Gambling Act introduced tougher restrictions for existing licences in a bid to help the country fight gambling addiction and tax evasion issues. The idea was to combat gambling problems after several reports painted a damaging picture of the number of problem gamblers.

The number of Czechs who gamble has been growing. A report showed in the last 12 months up to 50 per cent of adults have played games of chance, particularly lotteries. The opening of the online environment in 2017 is also partly responsible for the increase.

It is estimated that 1.6 per cent of the population over the age of 15 are at risk of developing problem gambling issues. This is around 145,000 people of which 74,000 fall into the high risk category.



CATASTROPHE WITH A CAPITAL 'C'

As the Czech gambling market struggles it received a further blow in September when the Prague City Council voted to approve a decree to ban all technical games in the capital. This will prohibit mechanical, electromechanical and electronic games such as slots and VLTs.

This decree is a blanket ban on all slots which will come into force on January 1 2021, although existing approvals can complete their licensing term with a bridging period of three years which will allow them to operate until 2024.

Prague is the 14th largest city in the European Union and home to around 1.3 million people. It is recognised as one of the most beautiful European cities, as well as the political, cultural and economic hub of central Europe.

Over the years it has become a hugely attractive city for international companies basing their

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European headquarters here. Around one fifth of all investments in the Czech Republic take place in Prague.

Prague's GDP per capita is almost double that of any other region in Czech and in 2017 it was the seventh richest region in the EU. The city is responsible for around 21 per cent of the national GDP.

Prague has become a hugely popular weekend break destination. Known as the City of a Thousand Spires, its cultural and architectural gems however can be marred by the allure of cheap booze and gambling. Something the city now wants to tidy up.

Slots at one time were found everywhere around Prague whether they were located in the



This is the third decree to regulate gambling in Prague. The first, back in 2007 permitted only 16 of the city’s 57 districts to offer legal gambling, which saw the number of gambling locations in the city drop from 1,422 to 101 registered today. The number of gaming terminals also fell from around 16,000 in 2010 in the city to just 4,000 in 2020.

casinos, amusement arcades, Herna bars (gaming halls) or the bars and cafes.

Amusement arcades have been losing their appeal for the last few years and with no drinks licence they are mostly frequented by youngsters who often prefer the video games on offer. The bars (Pivnice and Hospoda) however, still hosted slots whilst players would also head to the Herna Bars which offered non-stop play.

Lawmakers now want to limit the availability of gambling which they believe will have help clear up the negative social problems.

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Although casino venues are permitted to still operate live gaming tables within these 16 districts, many of the venues are expected to shut down once the ban comes into place as they are heavily reliant on the slots compared to table gaming offer. Under the new decree each district can decide whether to ban live games too.

E-gaming is one such company which will be affected. As a developer, provider and indirect operator the company has an operation network in Czech of more than 10,000 VLTs.

Pavel Michalcio of e-gaming said: “This regulation will affect everyone in the business. Prague is the capital of the Czech Republic and therefore a high percentage of gaming operators and facilities are concentrated here. So this regulation will have a very negative impact on both operators and manufacturers and the whole gaming business.

“How big the consequence will be in the end is the question, because we all believe that it is

Essential information and facts about Czech Republic:

Capital	Prague
Total Area	78,867 sq.km
Population	10,702,498
Median age	43.3 years
Religion	Roman Catholic, Protestant, other
Ethnic Groups	Czech (64 per cent), Moravian (5 per cent), other
Languages	Czech (official), Slovak
Currency	Koruny (CZK)
Government type	Parliamentary Republic
Chief of State	President Milos Zeman (since 2013)
Head of Government	Prime Minister Andrej Babis (since 2017))
Elections	President elected by vote for five year term. Next election 2023. Prime Minister appointed by President for a four year term.
Unemployment	3.7 per cent (October 2020)
Tourism	22 million (2019)

“In essence these 100 per cent bans mean that gambling gets out of control and unfortunately it doesn't deal with pathological gaming from the social issues point of view, because something which is clearly identified, has its rules and is taxable becomes something else with no control and zero economic benefit.” *Pavel Michalcio of e-gaming*

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The Czech's gambling sector is already struggling under the weight of legislative changes and illegal operations. The quiz or trivia machines (Kvizomats/Quizzomats) have popped up to replace slots and are in a legal battle over whether they are permitted. Many Kvizomat operators refuse to pay gambling taxes and over the last two years the customs administration has impounded around 3,000 machines.

Meanwhile a further hindrance is the launch of the Register of Excluded Persons which is part of the Ministry of Finances AISG (Analytical Module 6) plan to also help tackle gambling addiction problems. The AISG collects gaming and financial data from operators to support regulatory strategy in the market.

The Gambling Exclusion Register is the latest

measure introduced by the Gambling Act and is part of a country wide effort to tackle problem gambling. It allows players to voluntarily self exclude themselves from all forms of gambling but also allows authorities to place certain players on the register such as those on welfare, those who are bankrupt or already receiving treatment for problem gambling.

It began as a pilot scheme on September 15 which will run until December 20. At the end of the pilot scheme operators will be obliged to verify whether players requesting to participate in gambling are listed on the register. This will apply to casinos, arcades and online gaming.

Some operators are anticipating losses in sales revenues of between 10 and 20 per cent because of the register as many people will be excluded from gaming by the authorities due to the measures.

Of course with the slots ban Prague city taxes will also be hit. The majority of the taxes from gambling are filtered to sports and cultural facilities and last year Prague collected around Czk700m in gambling taxes of which Czk400m

more or less a political and populist act, which is not supported by any real study and we trust that this decision will be further negotiated by both the capital and the operators and there will be a debate on how not to ban gaming business but regulate it purposefully.

“It is generally believed and even confirmed on the basis of real data that if there is a total widespread ban of gaming it leads to enormous growth of grey and black economies. As to the grey economy there are concerns about the so called Quizzomats and similar gaming machines, but in the field of the black economy it is the operation of illegal arcades and casinos.

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“We decided to follow the path of a blanket ban on slot machines throughout the city because we set ourselves the goal of reducing the most dangerous forms of gambling, which include playing slot machines. Various statistics show that limiting the availability of gambling has a significant positive impact in the area of negative social phenomena such as pathological gambling on non-payment.”

Hana Kordová Marvanová, City Councillor

(€15.1m) of this came from electronic gaming machines.

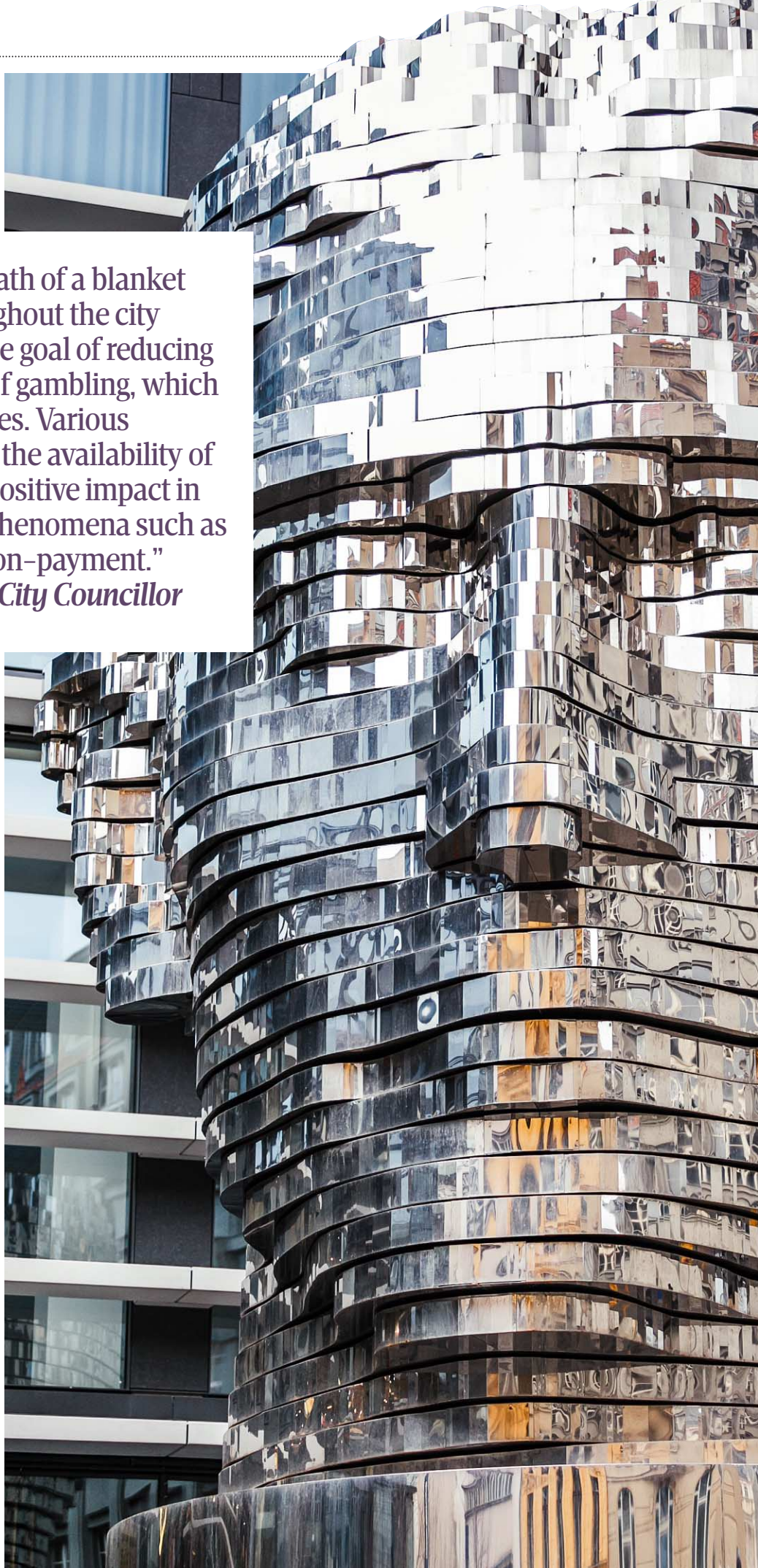
City Councillor Hana Kordová Marvanová has been key in implementing the ban saying the aim is to reduce the “most dangerous forms of gambling” in the city.

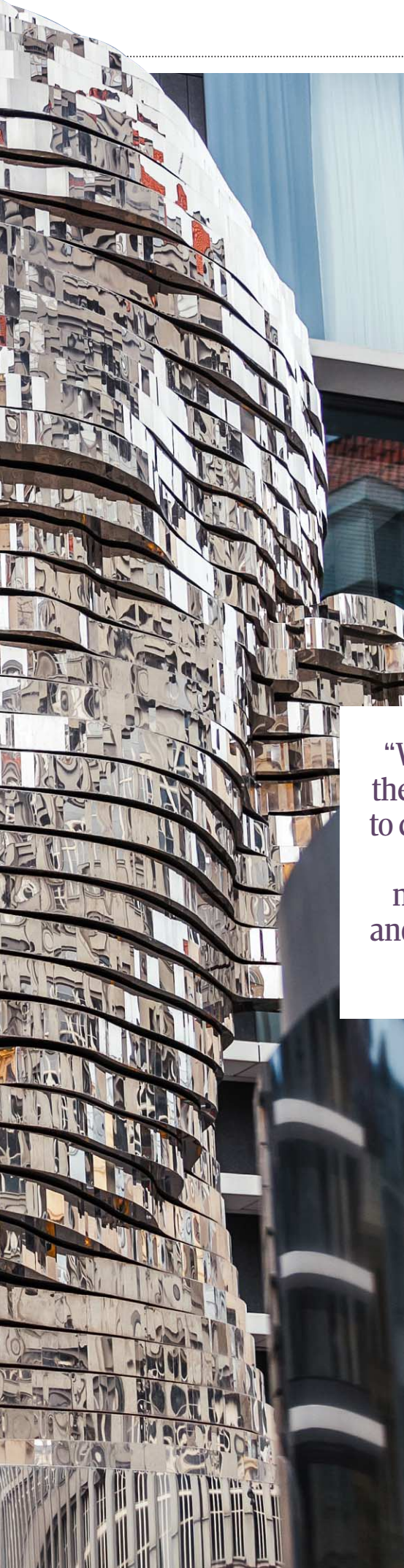
She said at the time: “In Prague we decided to follow the path of a blanket ban on slot machines throughout the city because we set ourselves the goal of reducing the most dangerous forms of gambling, which include playing slot machines. Various statistics show that limiting the availability of gambling has a significant positive impact in the area of negative social phenomena such as pathological gambling on non payment.”

The Gambling Act permits each of the municipalities the decision to permit or restrict certain gaming operations or certain types of gaming in their territories in the form of local ordinances. Some ban arcades but permit casinos, whilst other permit arcades but not bingo.

Several other cities outside of Prague have already implemented similar slot gambling bans such as in the city of Brno where gaming machines are banned. Prague 7 for example also closed its last gambling site in November 2019 complying with a zero tolerance policy against gambling enforced by a 2015 decree.

Pavel added: “We do agree with gaming regulation but according to clear and precisely defined rules within the certain time frame. We do not feel that the total ban will solve anything. We can clearly see the situation for example of another large city, Brno, where gambling has not legally existed for the past five years, but there are hundreds of thousands of machines which are operated illegally and are absolutely out of control and nobody is able to solve this situation and find a real solution.”





There are about 100 casinos in Prague and 16 Herna Bars (gaming halls) where slots or sports betting or poker games are held.

Admiral operates 44 casinos and seven gaming halls across the Czech Republic of which five casinos are located in Prague.

Dominik Racic spokesperson for Admiral said: "We are monitoring regulatory developments and changes very closely and will take appropriate actions as necessary."

Merkur operates 16 casinos across Czech of which five of these casinos are in Prague. Jan Herrmann, PR Editor at Merkur said: "We will be allowed to operate our VLTs in their current form for another three years until the end of 2023. The transition period will then end and, after that, only live games will be allowed. For economic reasons it is very probable that we will then have to close all five venues in Prague as of 2024. This is because an arcade simply cannot be viably operated without gaming machines.

"It is anticipated that other cities will follow the example of the capital city. The same scenario already exists in many places. One example is the city of Brno where gaming machines are already banned. A similar ban is also expected

THE ECONOMIC OUTLOOK

Despite the loss of venues and products last year the total GGR for gambling operators amounted to CzK36.3bn (€1.3bn), an increase of CzK5bn (15.8 per cent more) compared to 2018 but CzK3.5bn less than in 2017.

The gambling act permits several types of gambling: lottery, odds betting, technical games (slots), live games, bingo, totalisator games, raffles and small tournaments.

Two thirds of the GGR is made up of landbased gambling with CzK24.4bn in GGR (67.5 per cent market share) of which the majority (41.7 per cent) comes from gaming machines with CzK15.1bn in GGR. Landbased lotteries saw a GGR of CzK6.2bn (17 per cent share); landbased table games saw a GGR of CzK2.06bn; retail betting CzK1.1bn and bingo with CzK8m and totalisator with CzK2m.

The online gambling market makes up the remaining third with CzK11.7bn in GGR (32.5 per cent share) of which online betting saw CzK7.7bn in GGR (21.3 per cent market share); online slots with CzK2.83bn; online lotteries with CzK988m and online table games with CzK223m.

"We have a saying that rabbits should only be counted after the hunt, so we are waiting for our annual results to see how to continue. We had to take a number of precautions though.

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to apply in Ostrava as of summer 2022.

"Gambling is already very heavily regulated in many cities and communities in the Czech Republic – for example only live games or only casinos and no arcades or restricted opening hours – or is even completely banned (in České Budejovice for example). Overall the number of cities and communities in which gambling is heavily restricted or even banned is in the three digit figure range."

Meanwhile Synot operates 30 gaming halls and casinos in Czech and one casino in Prague, the Synot Tip Casino Praha Drahojov.

Synot's Director Petr Mikoska said: "We don't know what will be the overall impact for Synot. We have a saying that rabbits should only be counted after the hunt, so we are waiting for our annual results to see how to continue.

"We had to take a number of precautions though. We had to decrease the number of employees, lower the number of operations and make operations more effective and we had to focus on online activities etc, to make sure we survive this hard time."

By the beginning of 2020 there were 55 companies licensed to operate in Czech of which 42 operate slots in landbased venues, six operate online slots, six online betting companies and eight online betting.

The total amount of tax collected in 2019 amounted to CzK10.1bn of which CzK6.1bn came from slots whilst in the first quarter of 2020 the state received around CzK3.2bn in taxes from gambling and technical games.

In 2017 the Gambling Act 186/2016 came into force which replaced the old lottery act which had existed since the 1990s. The idea was to bring the Czech market in line with European legislation and curb gambling addiction issues and reduce the black market. It also created a licensing scheme for the online sector to enable operators to legally operate their online casinos whilst it opened the market to foreign operators.

The 186/2016 includes the following points:

- Gambling operators must be located in Czech and a legal entity in Czech or another EU or EEA state with a minimum capital of €2m.

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- A deposit is required plus a bank guarantee for gambling location licences which is:
 - CzK1m for each gambling room (CzK10m minimum and CzK50m maximum for all gambling rooms with one operator)
 - CzK10m for each casino (CzK20m minimum and CzK50m maximum for all casinos with one operator)
- The highest bet and highest win is for 'technical games' (slots) in arcades – CzK100 maximum bet and maximum win CzK50,000; for casinos games – CzK1,000 maximum bet and CzK500,000 maximum win and for online 'technical' games – CzK1,000 maximum bet and CzK500,000 maximum win.
- Technical games – can only be operated on gambling premises and must be connected to a server. There must be a registration process for players to include identity and age and this will record deposits, bets and winnings. Each gambling participant can have only one user account with one operator. This information is archived for 10 years.
- Participation in a technical game will be interrupted after 120 minutes for at least 15 minutes break. The payout is a minimum of 75 per cent.
- Slot halls can operate a separate slot area marked clearly as such and the slot hall must be closed from 3am until 10am and only house slots and should have at least 15 gaming positions and maximum of 30 machines.
- Casinos can operate live gaming tables and

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have at least three live gaming tables and at least 30 slots and maximum of 100 machines. In a casino with technical games for each additional live gaming table (above the minimum) there can be a maximum of 10 technical games. This doesn't apply to casinos where gambling limit is set to a minimum of 10 live gaming tables. It must also be kitted out with a complete monitoring system for real time recording this must also be stored for 24 months.

- Internet – Internet gaming is permitted to Czech, EU or EEA operators. User accounts



DATA PER REGION

Annual report 2019 drogy-info.cz – 1.1.2020

REGION	No. of slots	No. of gaming venues (total)	No. of casinos	No. of gaming halls (Herny)	No. of bookmakers
Praha	4,236	102	86	16	225
Středočeský	3,88	146	62	84	208
Jihočeský	2,677	63	34	29	132
Plzeňský	4,098	102	55	47	115
Karlovarský	2,243	80	24	56	80
Ústecký	4,005	153	81	72	179
Liberecký	1,862	63	34	29	75
Královéhradecký	1,456	63	16	47	66
Pardubický	1,235	47	17	30	72
Vysočina	657	24	7	17	63
Jihomoravský	4,078	99	47	52	243
Olomoucký	2,414	79	41	38	182
Zlínský	1,689	56	32	24	161
Moravskoslezský	2,336	85	44	41	387
TOTAL	36,874	1,162	580	582	2,188

The second wave caused the government to tighten restrictive measures and a 30 day state of emergency was declared on October 5 and by October 9 casinos were forced to close down once again alongside schools and most non-essential shops whilst restaurants and bars can only provide takeaway services.

have to be set up with registration process to include identity, any self restriction measure and payment methods. A maximum of CZK5,000 in 24 hours is allowed for cash deposits.

The lacklustre gambling market seems to echo the general Czech economy at the moment. Previously Czech's economy was thriving. 2017 was a bumper year and GDP rose to 4.5 per cent and the country was soaring. And then Covid arrived.

Lockdown and disrupted supply chains has had a huge adverse impact on the economy. The National Bank has predicted GDP will decrease by 8.2 per cent this year. Last year GDP was around 2.5 per cent with a per capita rate of €20,666.

The first infected person in Czech was confirmed on March 9 and a state of emergency was introduced on March 12 with group gatherings restricted and international travel banned. Restaurants, hotels and most non-essential shops were closed from March 16 although certain businesses could re-open by April 20.

According to the OECD retail sales fell by nine per cent in March year on year and industrial output dropped by 11 per cent. The once prosperous Czech market economy is led by the automobile industry which was also forced to close down under March lockdowns with supply chain disruption. The unemployment rate began to rise to around 3.8 per cent whereas previously it has been around two per cent (2019) – one of the lowest rates in Europe.

Initially Czech was praised for its swift response

to the Coronavirus crisis as the curve began to flatten and restrictions were lifted in mid May. It had one of the lowest rates of infection in Europe and had a comprehensive lockdown, mandatory use of masks and a system of staged re-opening with a voluntary track and trace system in place.

The plan called 'smart quarantine' intended to keep the infected at home and was advocated by health minister Adam Vojtech.

But seven months down the line numbers have increased dramatically with around 10,000 to 15,000 new cases spiralling in late October/early November, and the country now has the second highest per capita death rate over seven days in the world. There were a total of 492,000 cases by November 23 and 7,200 deaths – half of which have happened in the last few weeks with 150-200 deaths per day.

Health services are struggling, the economy is ailing and there is a huge feeling of unrest with several anti-lockdown protests in the capital.

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Merkur's Jan Herrmann said: "We are recording considerable losses in our operating results due to an enormous fall in sales and ongoing costs with only partial reimbursement programmes by the government during the lockdown months."

FINANCIAL DATA PER SECTOR

Mfcr.cz - 2019-2020

SECTOR		2019 TOTAL	Q1 2020	No. of Operators 2020	No. of machines 2020
Lottery	Total spend	CzK14.3bn	CzK3.4bn	7	
	Total winnings	CzK8.17bn	CzK1.8bn		
Lottery online	Total spend	CzK2.28bn	CzK735.7m	3	
	Total winnings	CzK1.24bn	CzK430m		
Total Lottery	Revenues	CzK7.19bn	CzK1.9bn	9	
	Taxes	CzK1.65bn	CzK666.4m		
Odds betting	Total spend	CzK6.54bn	Czk1.29bn	6	2,188 bookmakers
	Total winnings	CzK5.44bn	Czk1.04bn		
Betting online	Total spend	CzK78.4bn	Czk19.3bn	8	
	Total winnings	CzK70.68bn			
Czk17.3bn Total betting	Revenues	CzK8.82bn	Czk2.26bn	11	
	Taxes	Czk2.03bn	Czk519.9m		
Totalisator	Total spend	CzK8.2m	Czk1.6m		
	Total winnings	CzK5.7m	Czk318,000		
Totalisator online	Total spend	0	0		
	Total winnings	0	0		
Total Totalisator	Revenues	CzK2.48m	Czk1.2m		
	Taxes	Czk573,000	Czk296,000		
Bingo landbased	Total spend	CzK30.9m	0	0	0
	Total winnings	CzK23.2m	0	0	0
Bingo online	Total spend	0	0	0	0
	Total winnings	0	0	0	0
Total Bingo	Revenues	CzK7.73m	0	0	0
	Taxes	Czk1.7m	0		
Slots landbased	Total spend	CzK196.4bn	CzK43.7bn	42	36,800
	Total winnings	CzK181.3bn	Czk40.8bn		
Slots online	Total spend	CzK68.7bn	Czk24.6bn	6	
	Total winnings	CzK65.9bn	Czk23.5bn		
Total Slots	Revenues	CzK17.9bn	Czk4.04bn	46	
	Taxes	Czk6.2bn	Czk1.41bn		
Live games landbased	Total spend	CzK16.3bn	Czk2.93bn	35	4,474
	Total winnings	CzK14.2bn	Czk2.54bn		
Live games online	Total spend	CzK6.01bn	Czk1.83bn	4	
	Total winnings	Czk5.7bn	Czk1.75bn		
Total live games	Revenues	CzK2.28bn	Czk464.4m	37	
	Taxes	Czk526m	Czk106.8m		
Tombola	Total spend	CzK124,000	0		
	Total winnings	CzK13,000	0		
	Revenues	CzK111,000	0		
	Taxes	CzK26,000	0		
TOTAL REVENUES		CzK36.3bn	Czk8.67bn		
TOTAL TAX		Czk10.4bn	Czk2.71bn		



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"The considerable losses in sales revenue continued even after the re-opening in May. On the one hand there is general uncertainty in the population regarding the future, and on the other hand, we also lost some customers to online casinos during lockdown. Furthermore there is a cohort of guests that would prefer to stay at home due to fear of possible contact.

"All venues have been completely closed since October 9 and will remain closed until further notice. This second lockdown will be in place until November 28 and possibly even longer. This is hitting us very hard. For these reasons we recorded considerable economic damage at Merkur Casino Czech Republic for 2020."

There are protests and riots in Czech over the lockdown restrictions whilst other say controls should have been instigated sooner. The regional and senate elections, which were held on October 2 and 3, were blamed on the late instigation of the second round of restrictions. The Prime Minister brought in a new health minister to help try and curb the rising figures.

However, Roman Prymula 'the Colonel', who announced further lockdown measures was caught violating his own 'mask wearing' rules and was then forced to resign and Jan Blatný has recently taken his place.

Czechia is no stranger to political dramas. The country is headed by President Miloš Zeman of the centre left Czech Social Democrat Party who won a second term in 2018. He had previously served as Prime Minister from 1998 to 2002. He retired, but returned to politics a few years later and in 2012 announced his intention to run in the presidential elections.

His alleged excessive drinking has been subject of many discussions, whilst in 2013 the coalition government led by Petr Nečas collapsed and Zeman appointed his long-term friend and ally, Jiří Rusnok, as Prime Minister, which left a bitter taste in many mouths as it essentially undermined the parliamentary democracy and expanded Zeman's powers. Rusnok's government, however, was short-lived and he resigned after a vote of no-confidence.

Prime Minister Andrej Babiš of the ANO movement is a billionaire former finance minister and has served as PM since the end of 2017. He formed a fragile minority coalition government in 2018 with the Social Democrats, but relies on the support of the communist party. Babiš has been subjected to a no-confidence vote, protests and has also undergone fraud investigations.

Meanwhile, the Czech borders were closed down on October 22 restricting all international tourism further damaging the economy.

The Czech Republic has become one of the major tourism destinations in Europe. A population of 10.6 million welcomed more than 22 million visitors last year, an increase of 3.5

LOTTERY GGR

CZK6.2BN (17% MARKET SHARE)

LOTTERY ONLINE GGR

CZK988M (2.7% MARKET SHARE)

BETTING GGR

CZK1.1BN (3% MARKET SHARE)

BETTING ONLINE GGR

CZK7.7BN (21% MARKET SHARE)

NO. OF BOOKMAKERS

2,188

TECHNICAL GAMES GGR

CZK15.1BN (41% MARKET SHARE)

SLOTS ONLINE GGR

CZK2.8BN (7.8% MARKET SHARE)

NO. OF SLOT HALLS

582

NO. OF SLOTS

36,800

TABLE GAMES GGR

CZK2BN (5.7% MARKET SHARE)

TABLE GAMES ONLINE GGR

CZK223M (0.6% MARKET SHARE)

NO. OF CASINOS

580

per cent on the year before. Prague itself sees over eight million visitors a year, of which seven million are foreign visitors. During Q2 2020 the number of visitors dropped by 82 per cent year on year (a decrease of 4.8m guests) with around 988,000 in total.

LOTTERY TAX INCREASES

If a ban on city centre slots coupled with a pandemic isn't enough to cripple an entire industry, then a hike in taxes might just be checkmate.

In mid November there were several draft amendments discussed by the budgetary committee of parliament regarding gaming taxation. MEPs have put forward three possible options:

- An increase in tax rates from 23 per cent to 25 per cent for off-course sports betting; totalisator games; bingo, live games; tombola and small tournaments.
- An increase in taxation from 23 to 25 per cent for off-course sports betting; totalisator games; tombola and small tournaments and from 23 to 30 per cent for live games and bingo. The Ministry of Finance has backed this option.

“To limit the financial impact of these restrictions we have been working to drive online sales across all our markets. This includes the introduction of new digital products which are being thoroughly tested in order to meet the highest standards of responsible gaming, and measures to promote our existing online and digital offerings to new customers and customer who have previously played through physical channels.”

Robert Chvátal, CEO Sazka

- An increase in lottery taxation from 35 per cent to 55 per cent and an increase for live games from 23 per cent to 25 per cent. This option has been accepted by the committee and this recommended option will now go before the house of parliament for a vote.

The third option has been put forward by Pavel Belobradek, former Chairman of the KDU-CSL party and new vice-governor of the Hradec Kralove region, who wants to hike up lottery taxes in particular. He has argued that the European average taxation for lotteries is 64 per cent (total levies).

The problem is the government needs funds in the wake of the financial mess Coronavirus has left the state. Apparently the government is looking for ways to reduce the huge deficit of CzK320bn. Belobradek says increasing lottery taxes to 55 per cent would bring in CzK1.3bn or more. He claims, unlike other sectors, the lottery was not negatively affected during the pandemic. Losses for the lottery are said to be around CzK600m compared to CzK1.2bn losses for the betting industry and CzK1.8bn for gaming machines.

The sector has already seen tax changes over the last couple of years. Czech Republic's Gambling Act in 2017 set out various measures including a ban on advertising gambling and new taxes for the industry and was aimed at bringing in stricter state supervision and higher taxes. Many saw this law as the government dividing the industry into what it deemed as 'good' gambling and 'bad' gambling.

The 'bad' being the VLTs and AWP, which were removed from the single site market and only permitted in larger arcades and casinos, whilst the 'good' gambling was sports betting, lotteries and online gambling.





At this time Zeman also sanctioned one of Europe's toughest regulatory and operating codes for the gambling sector and via the 187/2016 law introduced a 23 per cent GGR betting tax and 35 per cent GGR slots tax which saw a number of companies leave the market at that point.

Then last year the tax base for lotteries was increased again from 23 per cent to 35 per cent of GGR.

This was part of a Ministry of Finance plan to introduce a three tier plan to increase taxes across all 'vice sectors' which also saw increases for tobacco and alcohol products.

Apparently the Ministry of Finance said the average wage growth in Czech between 2009 and 2018 was 45 per cent whilst consumer tax on alcohol was last increased in 2010. With the increases, the government hopes to raise an additional CZK10bn in revenue this year.

This decision caused some arguments with many claiming the lotteries are the least risky in terms of gambling issues whereas online gambling was not addressed. Sazka lodged a complaint with the European Commission at the time over the lottery increases and also stopped advertising with the Mafra publishing house and reduced advertising in other media as a protest. Until then it was one of the top 10 largest advertisers in the country. Mafra belongs to Agrofert Holding, which was previously owned by PM Andrej Babis. Sazka is owned by Karel Komárek, the third richest Czech.

“The decrease in GGR is primarily caused by the impact of Covid-19 with revenues in different geographies and segments affected to varying degrees. The reduction of sales of certain products through physical retail networks was partly offset by strong performance in digital-only games and online sales.” *Robert Chvátal, CEO Sazka*

Meanwhile Sazka has recently indicated that if taxes are increased to 55 per cent this could mean the end of certain products such as the less profitable scratchcards, whilst distribution and sales network would be reduced and tax levies to the state would drop instead of increase with company losses of up to CZK60m. It is possible the company could shut up shop completely in Czech.

The main goal of the Czech government is to protect its citizens against addictions which officials see as not only detrimental to health of Czech citizens but represents a high economic burden for public budgets and consumers.

Studies have placed the societal costs of alcohol consumption up to CZK60bn a year and smoking CZK100bn. The cost of drug policy is also rising from around CZK1bn back in 2014 to CZK1.6bn this year, whilst CZK15bn is spent on gambling addiction issues.

Reports

CZECH REPUBLIC MARKET

Last year Czechs spent CzK249.5bn (€9.1bn) on gambling with around 60 per cent of this spent on technical games (mostly slots) whilst the share of lottery spend was about 5.8 per cent.

The lottery is made up mostly of number and instant lotteries and the main operators are Sazka, Fortuna and Tipsport.

Sazka was established in the Czech market back in 1956 and is the market leader for lotteries and instant lotteries with 11,400 PoS and a 94 per cent market share for numerical lotteries and 85 per cent share of instant lottery market.

It is part of the Sazka Group which also operates in Greece, Cyprus, Austria and Italy and operates a total of 63,000 PoS and serves 79 million adults with annual sales of €17bn.

Sportka was the first numerical lottery game launched in Czech in 1957 whilst Eurojackpot was introduced in 2014 and online lotteries were introduced in 2017. Sports betting was launched in 2009 and today Sazka Bet is the third largest player in the Czech sports betting market.

During the pandemic lockdown Sazka actively promoted the use of its online platforms for lottery products and digital only offerings and improved the sign up process to allow for safe registration and authorisation without having to visit the physical Points of Sale. Around 70 per cent of Sazka's PoS network remained operational throughout the lockdown period which recovered to 95 per cent before the end of the first restrictions.

Sazka CEO Robert Chvátal said: "To limit the financial impact of these restrictions we have been working to drive online sales across all our markets. This includes the introduction of new digital products which are being thoroughly tested in order to meet the highest standards of responsible gaming, and measures to promote our existing online and digital offerings to new customers and customers who have previously played through physical channels."

The Sazka Group saw a total amount wagered of €5.46bn in 2019 with a GGR of €1.9bn, a six per cent increase on 2018 which in part has been attributed to the instant lottery and digital games sector growth in Czech which saw an increase of €30.9m in GGR during 2019. The sale of its stake in Croatian operator SuperSport more than doubled net profit for the company.

Sazka Czech saw CzK17.7bn wagered in 2019 with a GGR of CzK7.34bn. Sazka paid CzK1.7bn to the state in gambling tax last year.

The 1H 2020 Sazka Group results saw a GGR of €651.9m, a drop of 28 per cent on 2018 figures for the same period ending June.

Mr Chvátal said: "The decrease in GGR is primarily caused by the impact of Covid-19 with



"Pokerstars made no changes to their gaming plan and software so Czech PokerStars players are forced to wait for 50 per cent of GTD collected before entering a tourney and still get limited offerings etc. However, PartyPoker.cz, SynotPoker and all landbased casinos benefited from the law change." *Lukas Horak, Asociace Hracu Pokeru a Kurzovych Sazek*

revenues in different geographies and segments affected to varying degrees. The reduction of sales of certain products through physical retail networks was partly offset by strong performance in digital-only games and online sales.

"The gaming industry is characterised by rapidly changing technology including the increasing importance of online and mobile channels, which has accelerated during the Covid-19 pandemic and lockdowns. The future competitiveness of our businesses depends on our ability to respond to technological changes effectively.

"The introduction of new games or the modification of existing games may require the approval of the relevant regulatory authorities. We may face regulatory conditions and restrictions that limit our ability to create new games, enter into new market segments or otherwise grow our business."

In Czech the 1H 2020 GGR increased by €18.2m

and growth was mostly attributed to the increase in digital only games to the amount of €13.5m whilst numerical lotteries saw a GGR of €4.8m.

The appeal of the lottery is growing in Czech. Back in 2013 around 54 per cent of adults played a lottery game rising to 73 per cent in 2019 according to a study by Kantar.

In Czech by the end of 2019 Sazka had 270,000 fully registered and active online customers whilst online accounts for 20 per cent of total sales.

Sazka has recently expressed an interest in operating the British National lottery and may submit an official offer. The lottery is currently run by Camelot whose licence expires in 2023. Sazka has hired British public affairs group Flint Global to assist with its potential bid.

Meanwhile investment company Apollo Funds has agreed to invest €500m to set up Sazka Entertainment, a newly established company wholly owned by Karel Komárek's KKCG group.



This will enable the Sazka group to capitalise on acquisition and growth opportunities in Europe and North America with a focus on lotteries.

PLAYER TAX INCREASES

When the new Gambling Act came into force in 2017, there were some restrictions for the live game tournament sector (basically poker) which caused some concerns.

Section 59 stated that:

- a) A guaranteed tournament cannot be held unless at least 50 per cent of the guarantee is collected in advance of the game starting.
- b) If the guarantee is met or the tournament does not have a guarantee, then no more than 95

per cent of money collected can be paid back to the players.

Lukas Horak of the Asociace Hracu Pokeru a Kurzovych Sazek (Czech Poker Player Association) said: "This created a lot of problems as most guaranteed tournaments usually pass the 50 per cent of prize pool collected in the late registration period, not before the start.

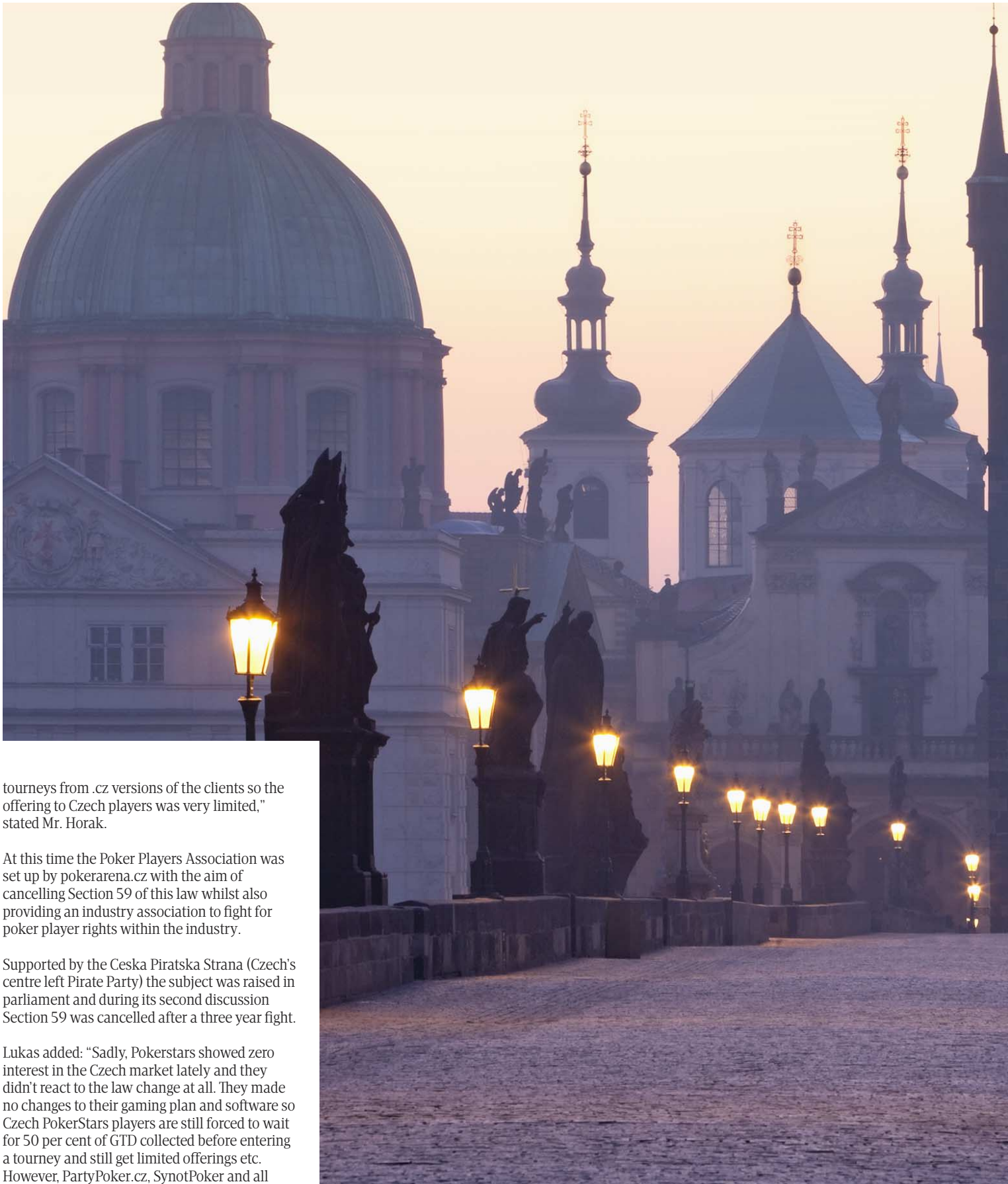
"Landbased casinos found ways around this and still held guaranteed tournaments, although with unconventional rules added sometimes. It was much tougher for online poker, as modifying tournament rules for all players in the world just to comply with Czech law was not an option."

Later an agreement was established between

the Ministry of Finance and online operators so Czech players could register into guaranteed tournaments although they had to wait until the 50 per cent condition was met.

"So we could not play tournaments right from the start and had to wait for the late registration period. Tournaments that missed their guarantee by a bigger margin and paid big overlays to players were completely unavailable. Also some higher stakes tournaments, which traditionally collect a smaller fee, were prohibited, as they pay out more than 95 per cent of the prize pool to the players.

"The same problem arose with Sit and Go tournaments, those were considered guaranteed and the fee is often less than five per cent. Operators just removed all the problematic



tourneys from .cz versions of the clients so the offering to Czech players was very limited," stated Mr. Horak.

At this time the Poker Players Association was set up by pokerarena.cz with the aim of cancelling Section 59 of this law whilst also providing an industry association to fight for poker player rights within the industry.

Supported by the Ceska Piratska Strana (Czech's centre left Pirate Party) the subject was raised in parliament and during its second discussion Section 59 was cancelled after a three year fight.

Lukas added: "Sadly, Pokerstars showed zero interest in the Czech market lately and they didn't react to the law change at all. They made no changes to their gaming plan and software so Czech PokerStars players are still forced to wait for 50 per cent of GTD collected before entering a tourney and still get limited offerings etc. However, PartyPoker.cz, SynotPoker and all landbased casinos benefited from the law change."

Meanwhile, the proposal to tax player winnings on anything exceeding CzK100,000 a year was also contended. Prior to the proposal players were exempt from any tax on their winnings.

Finally, the government compromised and the 15 per cent tax rate now applies to anything above CzK1m per year per game to apply to

professional players. Lukas further commented on the subject: "More foreign operators entering the Czech market is what would help Czech players the most."

The betting industry was born in 1990 when the Czech market unveiled its gaming act and Fortuna and Tipsport were among the first to establish their betting brands.

Although a law on digital gambling was introduced in 2012 and a law on interactive gambling came along in 2017 under the new Gambling Act which saw online gaming arrive.

Although there is not a large number of online operators, that number is expected to increase over the next few months due to the current Covid circumstances and the municipality bans on certain landbased operations.

and the majority are located in the Moravian-Silesian and Olomouc regions. Back in 2014 there were around 7,300 registered betting shops.

The main operators are Fortuna Game, Tippsport, Sazka and Synottip.

Fortuna Entertainment Group offers online and landbased betting and gaming products and was established in 1990 in Prague. The group has around 174 betting outlets in Czech and almost 400 partner betting outlets. The group saw revenues of €335.1m in 2018 for all markets.

Synot Tip was set up in 2002 and operates sports betting to online casinos to supplying gaming equipment. Synot Tip is part of the Synot Group which was set up in 1991 and does business in more than 20 countries. Synot Tip was established in 2005.

After closing down due to Covid in mid March until mid May the company has been forced to close venues a second time due to the second wave in October.

For the last two years e-Gaming has also been focusing on online gaming and online content development. Under the current market situation in Czech and with Covid worldwide the diversion has been strategically a good move. The company focuses primarily on markets where they are already active and have an established supplier or operator name and solid business partners.

Pavel Michalcio at e-gaming said: "All the licensed operators in Czech are domestic entities, because due to the valid legislation and necessity of the face to face player verification it is very complicated for somebody who does not have local retail network to register players and operate online casinos.

"It is such a big handicap this is one of the main reasons why the big international companies do not enter the Czech market. More than 90 per cent of online casino turnover is made up of three large companies, which have historically had the longest presence in the market and in online gaming when they first began with sports betting and then added online casinos when it was allowed.

"We assume the number of operators will increase due to the fact that it is a current global trend, not only in gaming but also in commodities, when the majority of business is now handled online and the pace of online market development is exacerbated by Covid-19 when landbased operations had to, and probably will have to, be closed in the future so online casino in a good alternative and kind of additional business."

"We assume the number of operators will increase due to the fact that it is a current global trend, not only in gaming but also in commodities, when the majority of business is now handled online and the pace of online market development is exacerbated by Covid-19 when landbased operations had to, and probably will have to, be closed in the future so online casino in a good alternative and kind of additional business."

Pavel Michalcio, e-gaming

the unnecessary bureaucracy, restrictions and heavy taxes whilst player verification hinders the sector.

Bettors must verify their identity via a branch or online via the bank, and they must verify the payment method for deposit and withdrawals. They must set self limiting limits for bets and the maximum deposit and withdrawal at branches is CzK5,000 within a 24 hour period.

A bill by the Ministry of Finance would have allowed remote registration of players but this was amended in October to retain in person registration.

As of January 2020 there were six companies licensed to operate and some 2,188 bookmakers

GGR in 2019 for betting was CzK1.1bn for landbased sector and CzK7.7bn for the online sector which has a 21 per cent market share.

Pokerstars entered the market in February 2017 as the first international licensed casino and poker operator in the newly regulated market and although it was hoped others would follow, the market never really flourished to its full potential. Many operators were simply put off by

A short history of the prohibition of slot machine games in Prague



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This September, the City of Prague adopted a ban on slot machines and video lottery terminals (the so-called technical games). The ban will take effect from January 1, 2021, although slot machines will not disappear completely for another three years because the licences issued prior to the ban will remain valid until their expiry. In practice, that means Prague should be free of technical games by 2024.

In the process of preparing the decree banning technical games, several city districts called for an exemption from the ban for specific companies, such as real hotel-type casinos. However, these exemptions were not granted because the City of Prague argued that such an exemption could establish a distortion of competition and Prague could face a fine from the Office for the Protection of Competition.

The ban covers those slot machines and terminals that operate automatically and do not need to be operated by staff. According to a survey carried out by the city of Prague, several operators are already circumventing this rule and masquerading a technical game as a live game by having bar staff nearby.

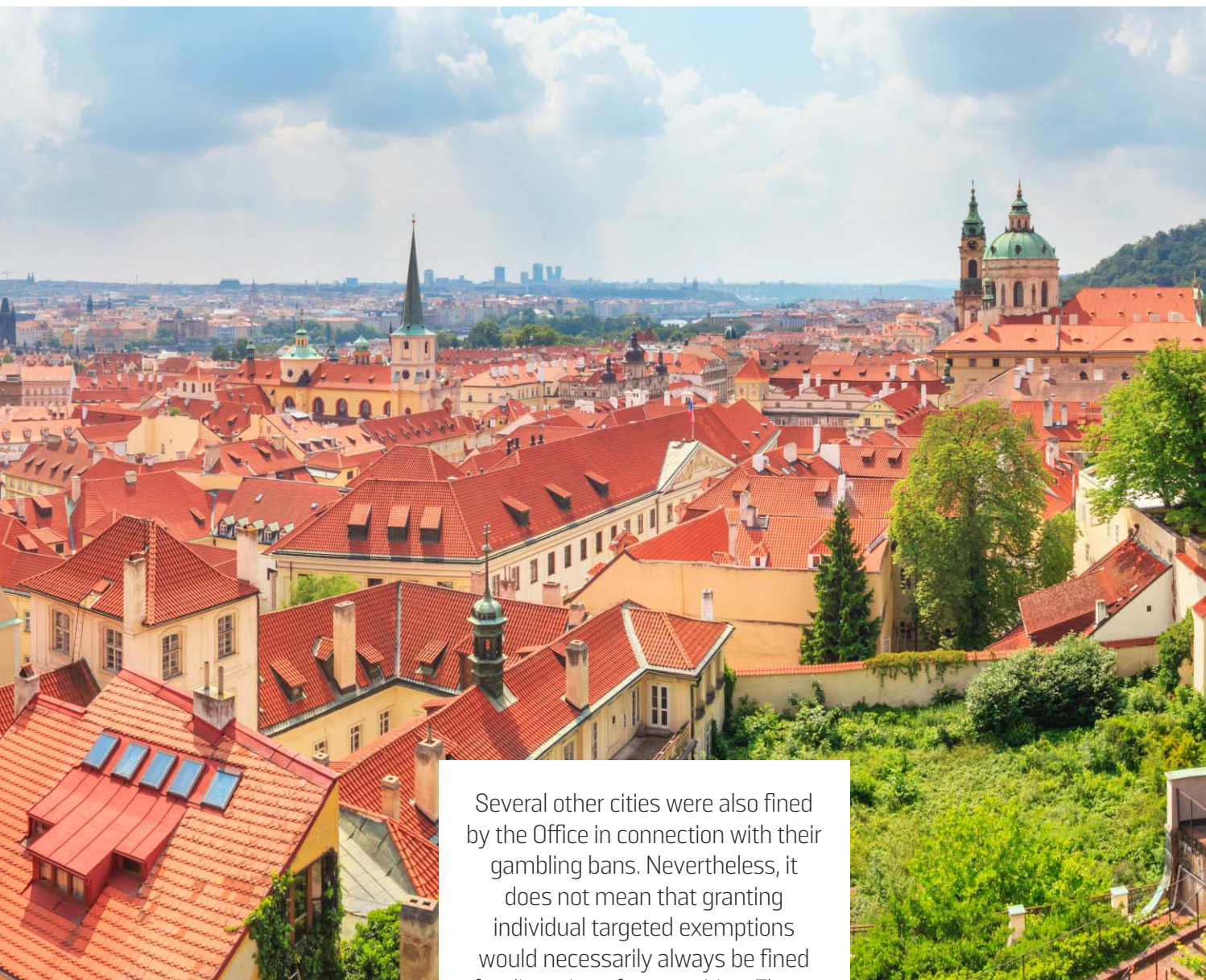
Currently, both technical and live games are only permitted at specific locations within the city limits. Under the new regulation, it should only be possible to play the so-called live games in Prague. The aim of the regulation is to further reduce the negative impacts of gambling in the territory of Prague, especially in its most dangerous form, which is considered to be technical gaming.

Unsurprisingly, the proposed ban also has its opponents. They argue, in particular, that a general ban on technical games and a general permission for live games (without restriction to specific locations) means that the city would lose ability to control where casinos – even without slot machines – would be established. In addition, they point to the financial

impact the ban will have. Revenues from gambling taxes are a relatively significant part of budget revenues for the city and individual city districts. When the ban is imposed, revenues of the city and the city districts are expected to drop by about €15 million per year by 2024. However, the city has promised to compensate the city districts for the loss of revenue.

Live gaming should remain allowed in city districts that do not have a zero tolerance for gambling, i.e. in 16 city districts out of a total 57 city districts. In the process of preparing the decree banning technical games, several city districts called for an exemption from the ban for specific companies, such as real hotel-type casinos. However, these exemptions were not granted because the City of Prague argued that such an exemption could establish a distortion of competition and Prague could face a fine from the Office for the Protection of Competition.

In the past, several Czech cities have passed decrees banning gambling in their territory. They mostly tend to ban gambling across the city with a few targeted



exceptions. However, according to the Office for the Protection of Competition, such regulation is not always lawful. An example is the City of Ostrava, where they only allowed gambling at selected addresses listed in the annex to the decree. The Office for the Protection of Competition subsequently imposed a fine on the City of Ostrava for violating the Act on the Protection of Competition, as these places were not selected on the basis of objective, non-discriminatory and known criteria.

According to the Office, the City of Ostrava, without objective reasons, distorted competition on the market for the operation of gambling in the City of Ostrava by favouring competitors who could continue to operate gambling in the permitted places.

Another example is the City of Brno, which also faced a fine from the Office for the Protection of Competition. The City of Brno issued a decree on a total ban on gambling in 2014, with the

Several other cities were also fined by the Office in connection with their gambling bans. Nevertheless, it does not mean that granting individual targeted exemptions would necessarily always be fined for distortion of competition. These exceptions may be lawful if they are determined on the basis of objective justifiable criteria.

exception of two specific casinos. Subsequently, in 2017 Brno adopted the "Rules of the Statutory City of Brno for the definition of localities that can be included among the places where gambling may be permitted". These rules contain conditions for the inclusion of further targeted exceptions in the decree regulating the operation of gambling.

In July 2017 an additional operator applied to be included in the decree as another exception to the gambling ban. Despite the relatively transparent and objectively set conditions, the City of Brno rejected the application, although the applicant met all the conditions set out in the Rules. After nine months, the City of Brno eventually included the applicant among the

exceptions. The Office for the Protection of Competition fined the City of Brno for the nine months of violating its own rules without stating any objective reasons, thus unlawfully preventing this applicant from entering the relevant market. The City of Brno filed an appeal against the decision; however, the Office confirmed its initial decision as well as the fine in July this year.

Several other cities were also fined by the Office in connection with their gambling bans. Nevertheless, it does not mean that granting individual targeted exemptions would necessarily always be fined for distortion of competition. These exceptions may be lawful if they are determined on the basis of objective justifiable criteria. For example, the rules for granting exemptions laid down by the City of Brno meet such an aspect of objectivity and had the City of Brno not unjustifiably deviate from them, its practice would most likely be in compliance with the law.