

Tick Tick Boom

Estonia

Once Estonia gained independence from the Soviet Union, its gambling laws became one of the first things to be amended. The Lottery Act, introduced in 1994, was quickly followed by the Gambling Act of 1995. The two liberalised the gaming business and kickstarted a boom.

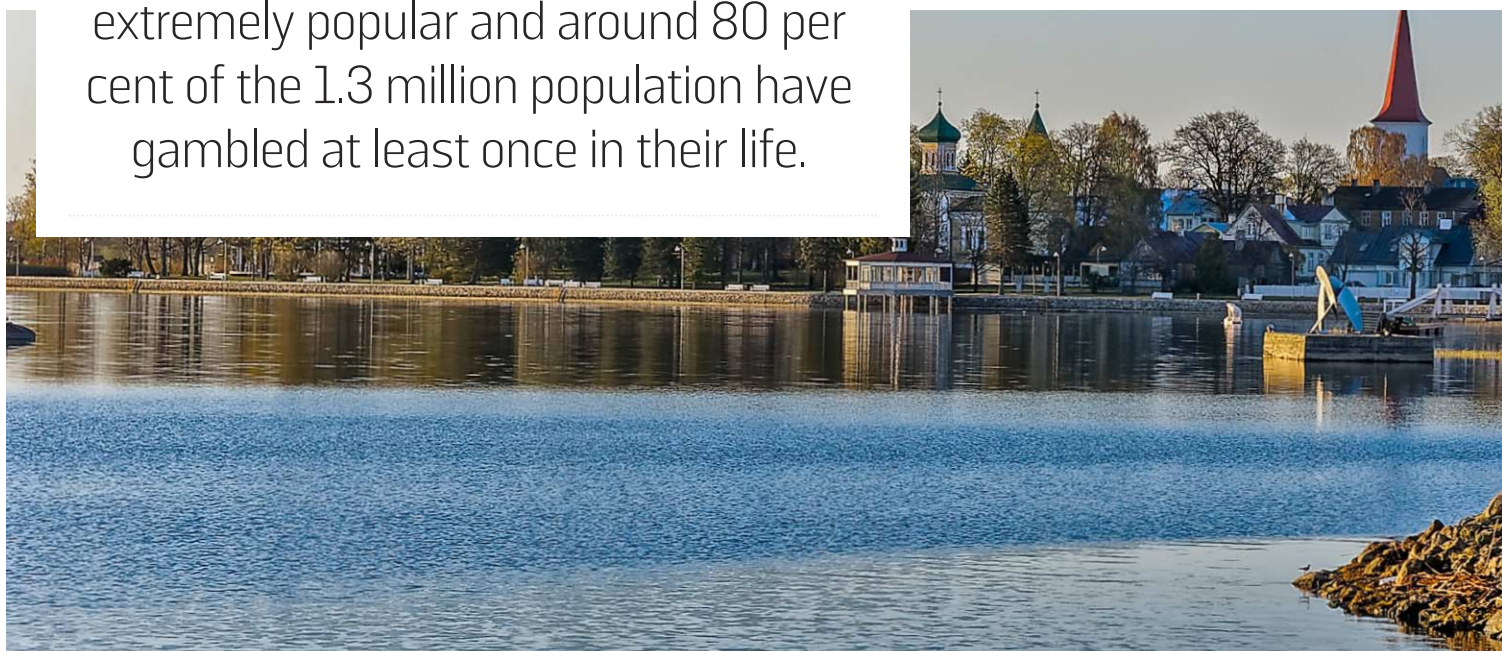
Today, gambling in Estonia is extremely popular and around 80 per cent of the 1.3 million population have gambled at least once in their life.

The online gaming sector has seen tremendous growth since it was legalised. Back in 2018, online casino games saw a GGR of €31.2m doubling to €60.2m in 2019, rising to €78.13m in 2020. The first six months figures for 2021 had already hit the €50m mark, while the total amount wagered topped €2bn in 2020.

Conversely, land-based slots sector GGR fell by €16m from €52.45m in 2019 to €36.35m in 2020. The sports betting sector also saw a decline in 2020 with €14.98m in GGR compared to €21.95m in 2019. Much of this was as a result of closures due to Covid in both the spring and part of December 2020.

As a result of the decline in revenues there was a big drop in taxes and funding for health and social projects, which are normally financed in four annual rounds each quarter with a total of €100,000 allocated in one round adding up to around €400,000 annually.

However, with casinos closed down in spring the drop in tax payments meant a big hole of around





€500,000 to €700,000 in the budget. Some applications for funding had to be cancelled even into 2021 as tax income was not expected to have recovered. Tax revenue for the gambling sector fell by 30 per cent in February 2020 alone.

Usually 45 per cent of gambling tax revenue comes from the lottery with 34 per cent from slot machines, five per cent from gaming tables, four per cent from Toto, 10 per cent from online/remote gambling and one per cent from tournaments.

In September 2021, the government approved a draft bill to amend the gambling tax law, which changes the regulation concerning the use of proceeds from the gambling tax paid into the state budget.

The Coronavirus crisis showed that the distribution of money corresponding to the percentage of receipts didn't work in situations when gambling tax revenues dropped significantly. Under the current Gambling Tax Act a fixed percentage of 47.8 per cent goes to

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the Cultural Endowment of Estonia fund and four ministries to finance specific areas – Ministry of Social Affairs, Ministry of Culture,

Ministry of Education and Ministry of Finance.

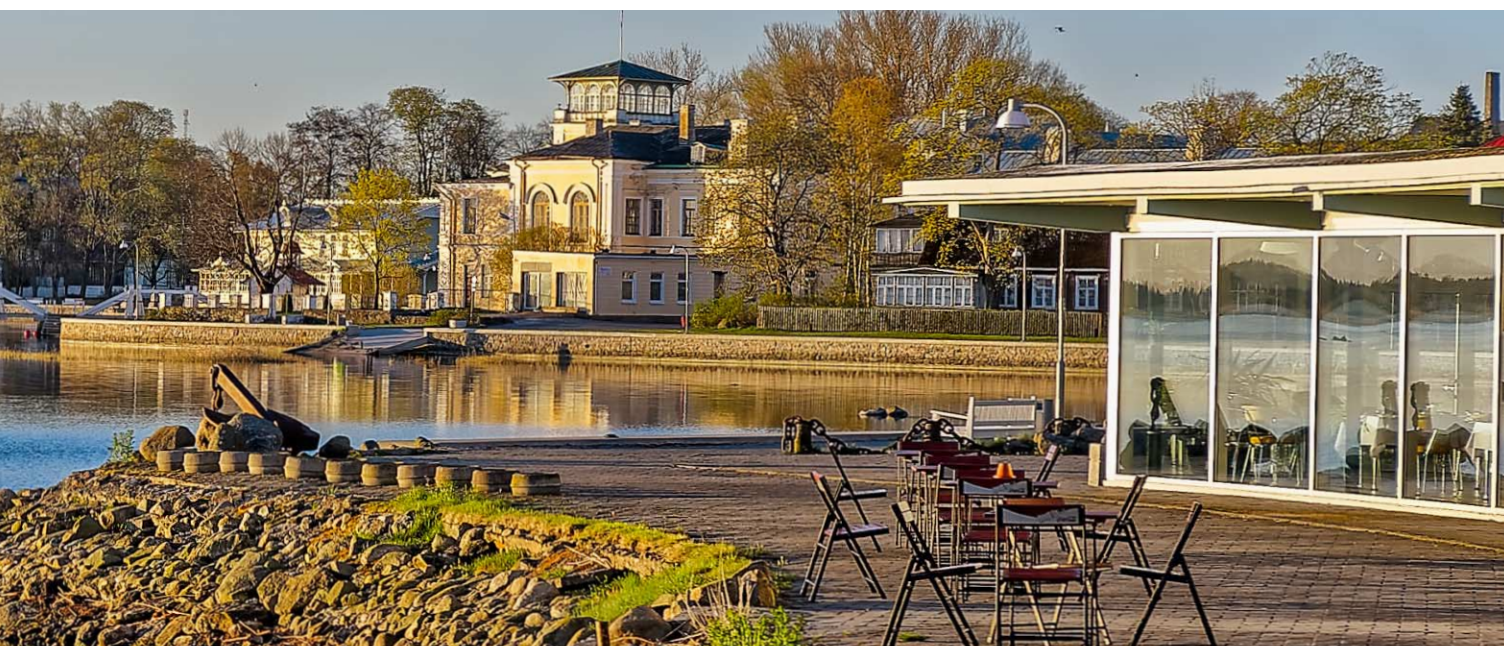
The new bill would mean in future the revenue from gambling taxes will be transferred to the general state budget and the ministries will have the flexibility to decide on which areas to help with financial assistance.

GENERAL OVERVIEW

Before 1991 when Estonia was part of the USSR all types of gambling activities were banned even though illegal casinos still operated despite the prohibition.

After independence the country was so eager to bring foreign investment into the country that it opened its doors and began to issue licences.

In 1994 the government took a regulatory approach and enacted the Lottery Act and a year later, the Gambling Act. These two acts were crucial in transforming Estonia into a regulated market and saw four types of gambling introduced – games of chance, games of skill,



The new Gaming Act coincided with the global economic crisis, which saw a lull in the market, particularly in the number of land-based operations, which dropped from 90 down to around 30. Finally, in 2010, Estonia legalised online gambling after realising the huge tax benefit this sector could provide. An advertising campaign to promote legal gambling was introduced and a blacklist was set up that currently includes over 1,600 domain names.

totalisators and betting. The gambling market expanded and there were 90 plus casinos and gaming halls in Tallinn alone by 2008 and more than 170 casinos and gaming halls in total across the country.

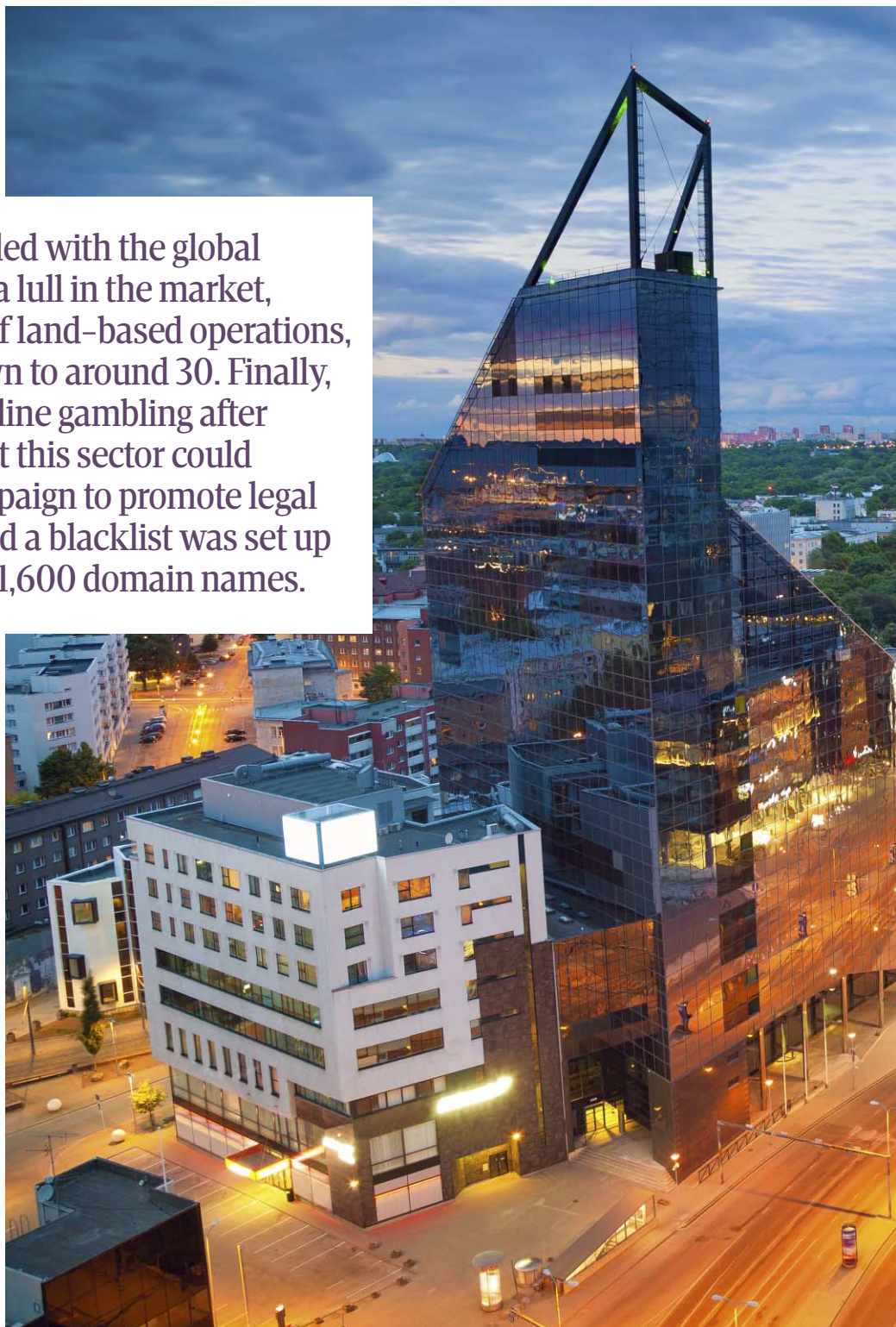
In 2009, the new Gambling Act 2008 was introduced providing a tighter legal framework to help curb underage gambling.

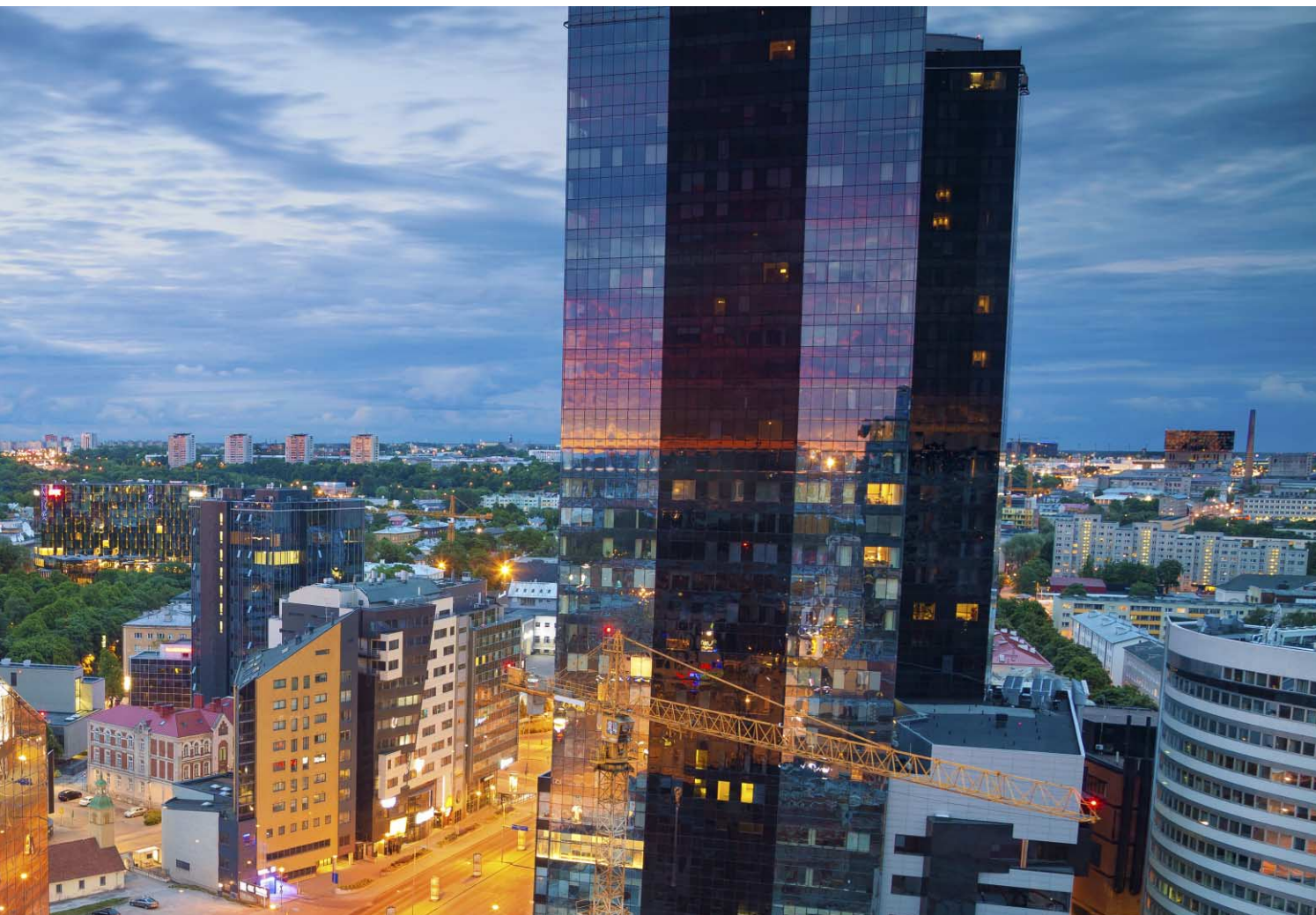
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The issue of activity licences and operating permits falls under the responsibility of Maksu-ja Tolliamet (Estonian Tax and Customs Board – EMTA).

The Gambling Act of 2008 includes the following:

- Types of gambling permitted are games of chance (gaming tables, slots etc); lotteries (classical and instant); Toto or sports betting; games of skill; remote gambling (introduced in 2011); commercial lottery and tournament games of chance.
- Licences are not required for – skill games where the win is to re-enter the game; lotteries with a prize pool of less than €1,000 and commercial lotteries.
- Operators of games of chance can be organised by a Public Limited Company or Private Limited Company with a share capital of at least €1m; games of skill with share capital of at least €25,000 and pari-mutuel betting with share capital of at least €130,000.
- An Operating Permit is issued for the opening of a gaming location to operate games of chance, Toto, games of skill, organising remote gambling or organising a lottery. These are issued for five years (lottery and remote gambling) or 20 years (games of skill locations) and five to 20 years (games of chance and Toto locations).
- Players must be over 21 years of age whilst over 18s can play the Toto. Lottery is restricted to over 16 years of age.
- Gaming halls and casinos can only be situated in separate buildings, hotels, conference centres or shopping centres with a separate entrance. They cannot be located near schools or youth institutions.
- Each gaming hall or casino shall operate at least 40 slots or at least five gaming tables.
- To apply for an operating permit for a gaming site, applicants must submit written consent of the municipality, full description of the site, gaming equipment, rules, security overview and personal data protection information.
- A state fee is required for the review of application for a gambling licence:
 - €47,940 for game of chance;
 - €3,200 for games of skill/remote gambling;
 - €31,960 for pari-mutuel betting.





ESTONIAN GAMBLING LICENSEES

COMPANY	BRAND	CASINO	ONLINE	SHIP	TOTO	LOTTERY
Eesti Loto	Eesti Loto					yes
Olympic Entertainment	Olympic Casino/Olybet	23			yes	
OÜ Novoloto	Fenix Casino	18	yes		yes	
OÜ Best4U	City Casino	4				
PAFER	Paf		yes	5	yes	
OÜ Alpache	GrandX		yes			
OB Holding1 OÜ	Olybet		yes		yes	
Osaühing Tonybet	Tonybet		yes		yes	
REEL Estonia Ltd	Pokerstars		yes			
TrioGames OÜ	Betsafe		yes		yes	
KingsWin Online OÜ	Kingswin		yes			
LEXBYTE DIGITAL LTD	Unibet		yes		yes	
Optiwin OÜ	Optiwin		yes		yes	
Dreambox Games OÜ	Chanz		yes		yes	
StayCool OÜ	Coolbet/Bravio		yes		yes	
Kopikas Entertainment OÜ	Slots.io		yes			
Hillside Plc	Bet365		yes		yes	
Ninja Global Ltd	Ninja Casino		yes		yes	
Play North OÜ	Kiirkasiino		yes			
North Point Management	Shnellwetten		yes		yes	
STS.BET Ltd	STSBET		yes		yes	
IUP Services Ltd	Kanuua		yes		yes	
Estolio Ltd	Posido		yes		yes	
PH Primary OÜ	Primary		yes		yes	
Totalisaator	Toto				yes	
GLB GmbH	Goalbet				yes	
		45	21	5	19	1



CURRENT SITUATION

The gambling market has been growing steadily in Estonia, although the impact of Covid has shifted many players from land-based to online and tax revenues for the offline sector have fallen.

- Taxes are covered by the 2009 Gambling Tax Act which includes:
 - Gaming machines pay €300 per month per machine and 10 per cent of the GGR.
 - Gaming tables pay €1,278 per table per month
 - Games of skill pay €31.95 per game per month.
 - Lottery tax rate is 18 per cent of ticket sales.
 - Totalisator and online gambling pay five per cent of GGR.
 - Gambling tournaments pay five per cent on amount collected from entry fee less prize pool proceeds.

Before obtaining a permit, an operator must implement an electronic accounting and control system called EAKS which collects data on gambling including games played and winnings. This is accessible by the Tax and Customs Board and therefore must be connected to this via a gambling reporting system called EHMA.

Meanwhile a Restricted Gambling Persons (HAMPI) register is also available to enable players to exempt themselves which covers all sectors except instant lotteries.

The players can exclude themselves per gambling sector and do this via the online application in e-MTA, directly at the Tax and Customs Board office or via the venue. The exclusion can be between six and 36 months.

Retail outlets, including gaming locations, were closed in Estonia between March 16 and May 31 2020 then additionally from December 28 to January 31 2021 and again from March 3 until May 24 2021.

In April 2020 Swedbank issued a report on consumer spending in the Baltics and in Estonia card spending was down by 50 per cent (excluding food and miscellaneous stores) whilst cash withdrawals in the country also plummeted by 50 per cent.

A government decree ruled Estonians must have a Covid vaccination certificate as a prerequisite for entry into public spaces starting November 1 until spring this year. This means anyone entering a casino must have a vaccination passport or proof they have had Covid within the last six months, alongside their identity documentation.

On the upside, by the end of last year it was reported that Estonia's economy was recovering faster than expected and at nine per cent growth the country was set to see the second highest level of economic growth in the EU in 2021. The projections were published in November last year by the European Commission and will depend heavily on the evolution of the pandemic and turnaround in demand.

Estonia has been seeing a growth rate driven by private consumer demand, government stimulus and buoyant exports and is expected to be strong throughout this year and next, supported by a recovery in employment, sustained wage growth and dynamic foreign demand.

In October last year a government decree ruled Estonians must have a Covid vaccination certificate as a prerequisite for entry into public spaces starting November 1 until at least spring this year, if not beyond. This means anyone entering a casino must have a vaccination passport or proof they have had Covid within the last six months, alongside their identity documentation.

Total number of Covid cases reached almost 219,500 by the end of last year in Estonia with 1,770 deaths after a big peak in spring last year and again end of last year. By end November 2021 around 57 per cent of the Estonian population were vaccinated.

In late November Estonia witnessed over 1,780 new daily cases, equivalent to the March pandemic peak and its rate is one of the highest in Europe.



LAND-BASED SECTOR

There are 45 casinos operating in Estonia run by three companies. There is no distinction between casinos or slot halls and since 2010 they are both required to have at least 40 slots and/or five tables. Many casinos are just operating slots.

The number has fallen over recent years from 115 back in 2002 with 2,500 slots and 89 table games to 62 in mid 2019 with over 2,000 slots and 110 table games.

Olympic Entertainment Group is the largest operator with around 40 per cent of the casino market. Olympic began operating in 1993 and today has 23 slot halls/casinos with 917 slots, 19 tables and six electronic roulette in Estonia of which 18 are in Tallinn with others in Pärnu, Narva and Jõhvi. The table games are available in three of the operations – Olympic Park Casino, Olympic Casino Olümpia and Tartu Casino. The latest opening was in September last year with a casino in the new Lasnamäe Center building which has 40 slots and an Olybet sports bar. One of the largest casinos is the Olympic Park Casino in the centre of Tallinn at the Hilton Tallinn Park Hotel, which has 95 slots and 18 table games. The Olümpia houses Estonia's largest sports bar plus 17 slots and five tables whilst Tartu is located in a university town and offers an Olybet sports bar plus 40 slots and four tables.

Olympic saw a big loss of €78.3m in 2020 due to Covid restrictions compared to a profit of €42.5m in 2019. Gambling and sales revenue amounted to €35.6m in 2020 compared to

ESTONIA GAMBLING DATA 2019-2021

SECTOR	2019	2020	2021 H1
ONLINE GAMBLING			
Online casino games			
GGR	€60.2m	€78.1m	€49.9m
Tax	€3m	€3.9m	€2.49m
Bets	€1.64bn	€2.04bn	€1.26bn
Online poker tournaments			
GGR	€3.64m	€4.15m	€3.99m
Tax	€182,379	€207,928	€199,846
Bets	€13.9m	€22.1m	€55.4m
Online poker cash games			
GGR	€3.03m	€8.04m	€4.31m
Tax	€151,623	€402,323	€215,825
LAND-BASED GAMBLING			
Land-based tournaments (poker)			
GGR	€719,005	€392,794	€18,884
Tax	€35,950	€19,639	€944
Bets	€10.98m	€3.64m	€155,773
Land-based cash games (poker)			
GGR	€672,889	€389,895	€11,153
Tax	€33,644	€19,494	€557
Land-based slots			
GGR	€52.45m	€36.35m	€9.87m
Tax	€12.58m	€8.55m	€2.27m
Land-based table games			
Tax	€1.64m	€1.18m	€276,180
TOTO			
Toto (sports betting)			
GGR	€21.95m	€14.98m	€10.79m
Tax	€1.09m	€749,128	€539,971
Bets	€470.8m	€258.03m	€139.9m

Reports

ESTONIA MARKET UPDATE



The lottery dominates the offline gambling sector and is operated via monopoly Eesti Loto. Players can buy tickets from age 16 whereas the other forms of gambling require players to be 18 or 21 whilst a blanket ban on gambling advertising initiated via the Advertising Act of 2008 doesn't apply to the lotteries.

€40.5m the year before, whilst gambling revenues before tax amounted to €41.1m (€47.4m in 2019).

In November last year, Entain made a \$1bn buy-out offer for OEG with reports that Entain is looking to acquire the company's online business, OlyBet, alongside its operations. OEG operates around 120 casinos across Europe with the majority in the Baltics.

OEG is owned by London's Novalpina Capital which acquired Olympic in 2018 for \$325m. However recent reports say the NSO Group (parent company of Novalpina) is liquidating its assets due to bankruptcy.

Novoloto, meanwhile, operates 18 casinos in Estonia of which 10 are in Tallinn. Novoloto OÜ was founded in 1996 and operates in Estonia under the brand Fenikss Casino and is part of

the Novomatic group. Late last year, Urve Palo, the former Estonian Minister of Population and Ethnic Affairs, who became the Executive Director of Novoloto in 2019, announced she was stepping down from her role in December 2021.

The first Novoloto casino opened in 1993 in Hotel Tallinn under the brand Play-In Casino whilst in 2019 Novoloto purchased Grand Prix Casino resulting in the acquisition of seven

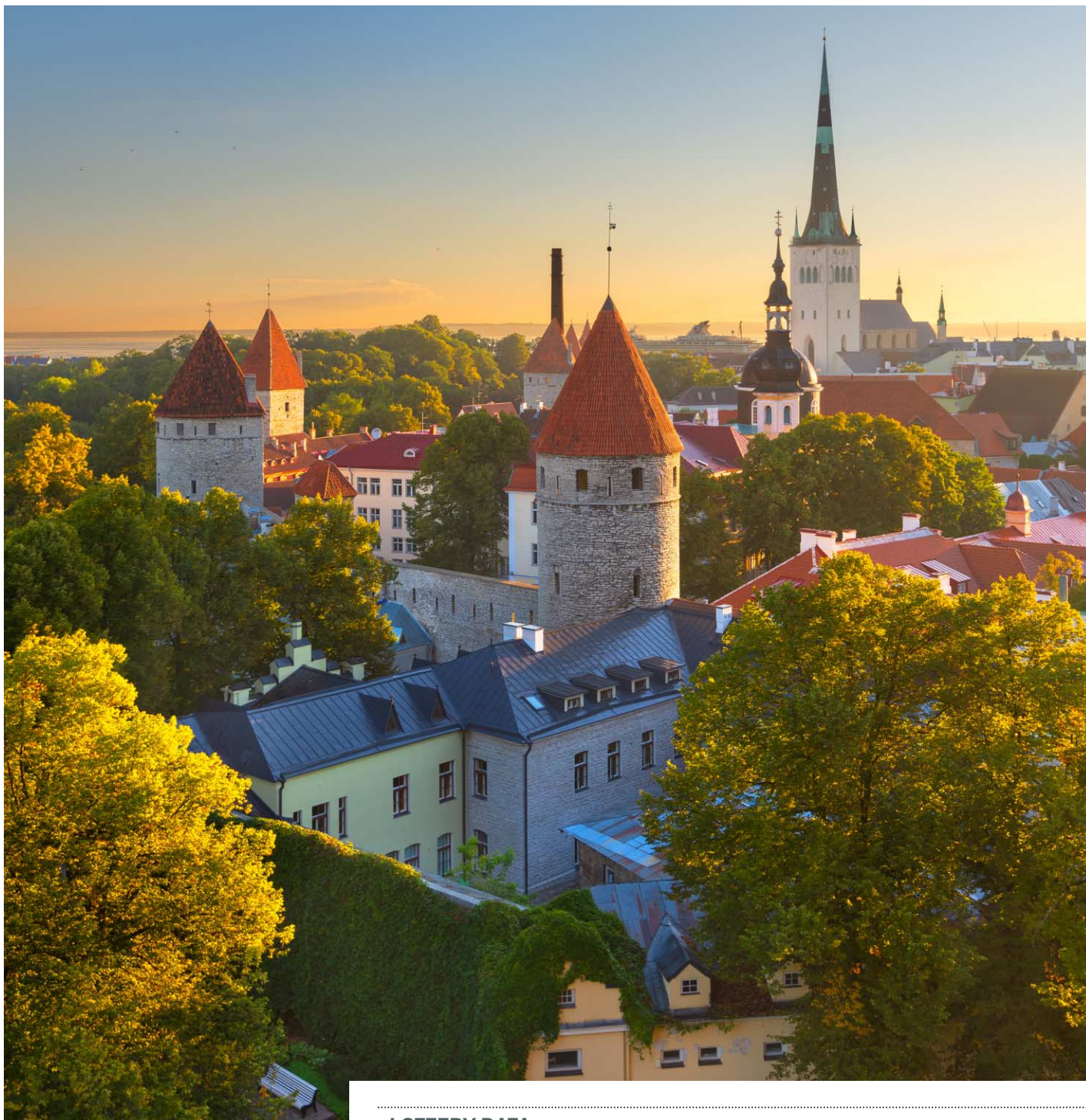


casinos. Grand Prix Casinos was run by IMG Kasiinod AS and opened its first casinos back in 1989.

Finally, Best4U operates four casinos under the City Casino brand – Coca-Cola Plaza City Casino, Mustakivi City Casino, Marja City Casino and Pärnu City Casino. The company began its activities in Estonia back in 2001 by opening Bally's Casino which was a chain of gaming halls belonging to Ritzio Entertainment Group.

THE LOTTERY

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Eesti Loto is a state owned company which has 770 sales outlets in the country. The lottery pays a gambling tax of 18 per cent and this tax is divided up and dished out to support cultural projects (49.3 per cent), regional investment aid (12.7 per cent), youth projects (10.1 per cent), welfare projects (15.3 per cent), Olympic projects (8.2 per cent) and sports projects (4.2 per cent) and 0.2 per cent to fight against the manipulation of sporting events.

The lottery offers 14 products including 10 instant lotteries and four class lottery games – Bingo Lotto, Viking Lotto, Eurojackpot and Keno. The classic lotteries account for 86.7 per cent of the turnover.

Lottery turnover in 2020 amounted to €77.5m – an increase of 27.5 per cent on 2019 figures (€60.8m) whilst profit in 2020 was €12.1m compared to €7.9 in 2019.

LOTTERY DATA

	Q3 2021	Q2 2021	Q1 2021	Q4 2020
- Classic lottery	€18.9m	€17.6m	€19m	€17.5m
No. of players	320,345	315,128	333,500	328,817
- Instant lottery	€2.7m	€2.8m	€2.5m	€2.9m
Tickets sold:	1,072,794	1,082,863	1,033,290	1,201,318
Sale revenue total	€21.6m	€20.4m	€21.6m	€20.5m
Winnings	€8.8m	€8.3m	€8.3m	€7.5m
Profit (before tax)	€4.46m	€3.76m	€4.4m	€3.2m

Although Covid impacted on the sales of instant lotteries in 2020, the sale of classic lotteries increased by €16.7m (32.9 per cent) compared to the year previously. Bingo Lotto sales saw the highest increase (65.8 per cent) followed by Keno, Eurojackpot and Viking Loto, with a

growth rate of 34.5 per cent, 18.4 per cent and 13.9 per cent respectively. The number of players playing the lottery in 2020 increased to 445,353 – 5.6 per cent more than in 2019 and there has been a big increase in the number of players buying tickets online.

Estonia, being the smallest of the three Baltic States, has enjoyed a steady and consistent growth of its gaming sector over the years. The number of licensed gambling operators has expanded, and every month seemingly brings at least one new operator to the field, which is a noticeable increase. The new operators are all in the areas of online casinos and/or sports betting with no new land-based gambling operators during recent years.

Currently, there are 30 licensed gambling operators in the Estonian market (both online and land-based). This number is not impressive, but it needs to be seen in the context that Estonia is a very small country with a total of 1.3 million inhabitants.

Out of the licensed operators, there are some with a stable local presence (including land-based facilities), such as the listed Olympic Entertainment Group and Fenix Casino, but also some regional operators – such as Paf, Åland's (a partly self-governed part of Finland) publicly held organisation, NinjaCasino and CoolBet – with a strong focus on the Nordics and then, of course, the big international players. Out of the total of 22 online licences, nine have been issued to foreign legal entities.

The history of Estonian gambling regulation is that, in principal terms, it has remained unchanged for more than 20 years. The general idea of differentiating games of chance, games of skill and totalisators has been the status quo throughout all amendments made to the Gambling Act. The last time there were any major amendments made to the Gambling Act was the introduction of regulation of online gambling in 2008.

Ever since, the general principles of the Act have remained effectively unchanged. The main purpose of the Gambling Act was to regulate offline casinos and to collect special taxes. The online aspect has essentially just been added as an afterthought. What this means for the current and future licensees is that the regulation is anachronistic and insufficient to adequately answer the questions that any modern business plans may raise; for example, video games including loot boxes.

THE GAMBLING INDUSTRY MOVES QUICKER THAN THE LEGISLATION

There is a need to bring the Estonian gambling legislation up to date with what is going on in the market.

For example, Estonian gambling regulation is exclusively B2C-oriented. Estonia does not offer, nor regulate, B2B licences. We have spotted a



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need for an EU-wide, passportable B2B licence. This demand can also be seen from the enquiries from the large number of software companies in the gaming industry, and the general high level of Estonian digital industry would give Estonia another unique selling proposition and would give gambling operators an alternative to the existing Maltese B2B licences.

A modern and innovative regulatory environment would not be anything out of the ordinary for Estonia. The Estonian start-up-friendly ecosystem including its successful e-residency programme has enabled Estonia to be used as a giant sandbox for testing new ideas, mainly in the fintech market. As the business models of intended start-ups become more and more complex, there is a definite trend of gambling aspects being included in various financial and gaming business models. For example, these could be lotteries built on the blockchain, being part of investment tokens and/or virtual reality games where some parts of the outcome of a game are chance-based and other parts depend on real events.

The gambling tax has also stayed the same over a longer period of time and creates some irritation among the operators.

The main issue is that gambling tax is considered a special turnover tax making the organisation of gambling exempt from VAT, and as the Estonian VAT Act treats gambling as tax-free supply, the input VAT cannot be deducted from goods and services purchased for the organisation of gambling; even if the gambling generates taxable supply abroad, the input tax can only be deducted with prior consent from the Estonian tax authority. Another issue among operators is that Estonia uses the same gambling tax rate, five per cent, for online casino as for online sports betting, while other countries offer different tax rates.

At the time of writing, there is a draft law in the Riigikogu, the Estonian parliament, that would change the distribution of the revenues from gambling tax to be more flexible. Whereas previously the law directly stated what proportions of the tax would be allocated to specific cultural institutions, the proposed changes would mean that the tax is distributed directly to the general revenues of the Estonian state.

AML AND GAMBLING

Since Malta was added to the Financial Action Task Force's grey list of jurisdictions under increased monitoring there has been a clear increase in interest for the Estonian gambling market from operators already licensed in Malta. Estonia's relative stability and security,

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combined with the business risk that comes with operating from a grey-list country, has undoubtedly increased the attractiveness of Estonia in the eyes of Maltese gambling operators.

If there are any limitations to the overall growth of the gambling sector in Estonia, then those can mainly be found from the outside. For example, Estonia has not been without its own AML concerns. This, in turn, has made the local banks fairly conservative and unwilling to open accounts for non-resident companies. The approach of the Estonian banks has forced companies to seek financial services from abroad, which is not the most efficient way of conducting business in Estonia or AML/CTF.

COVID-19 IMPACT ON THE BUSINESS

The Covid-19 pandemic has affected, and will continue to affect, every part of our lives for the foreseeable future. Gambling operators, especially casinos, are no exception to that. Looking at the collection of gambling tax in Estonia, it is quite easy to spot some fundamental trends that can be attributed to the global and local health situation and the restrictions that have followed.

For example, the gross gaming revenue (GGR) in Estonia for gaming machines (slot machines) remained largely the same from 2017 to 2019. However, in 2020, the GGR for gaming machines dropped by roughly 30 per cent.

The results for the first half of 2021 were even more drastic, with the decrease projected to be an additional 50 per cent from the already weak 2020. The reality of 2021 will presumably not be as severe, since the restrictions to casinos being open were much stricter in the first half of the year compared to the second. The same trend is also visible regarding gaming tables.

Meanwhile, online casinos have enjoyed a marked increase in popularity, which, of course, makes complete sense. The GGR for online casinos increased in 2020 compared to 2019 by also around 30 per cent. Since the GGR for online casinos was larger to begin with, the total increase has also been more substantial. The trend has certainly continued to 2021, with the first half of the year already nearly making up the total for 2019.

The overall increase of GGR from 2016 to today has been drastic and points to an increasingly stronger and healthier online gaming market. As the increase in GGR for online gaming has been continuous for the past five years, it is difficult to say if Covid-19 is the sole catalyst. But at the same time, it has clearly given a significant boost and enabled gambling operators to find new clients.

