



Latvian interactive gambling industry: challenges and solutions to reduce illegal market share

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About the author



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Preface

A man's desire to catch luck and win has created gambling that has existed since the first human civilizations. Dice were found in the excavations of Pompeii, but in ancient China, the territory of the country was even divided with the help of dice. In the books you can find the story that in the 100th century AD, the kings of Sweden and Norway, instead of fighting, used a much more peaceful method of throwing dice to find out who would own Hassing territory.

Gambling has been present in people's lives since ancient times, and it continues to exist today. Nowadays, it is possible to have fun not only in physical gaming halls, but also in virtual ones. Online gambling operators around the world offer their services to players, this sub-industry has acquired the name of *Gametech*. *Gametech* is based on IT and artificial intelligence technologies.

Gambling is a form of entertainment that is based on emotions and there are times when these emotions take over a person so much that they become addictive. Every such story is emotionally saturated, so the gambling industry today tends to be demonized. Addiction is being tackled all over the world, and all experience to date has shown that controlling and combating addiction is only possible if there is a legal, strictly controlled gambling industry. It is also possible to avoid the prosperity of the shadow economy in gambling only by creating a safe, licensed, state-supervised gambling industry.

Since January 1, 2020, the Register of self-stated persons has been operating in Latvia, which applies to both interactive gambling and physical gambling halls. In less than three months, 6,700 people have already registered in the register. According to a study conducted by the Ministry of Health, there are approximately 16,000 people at risk of gambling addiction in Latvia. And more than a third of these people have already taken a big step in the fight against addiction by registering themselves as self-stated persons. We see how effectively this tool solves the problem of addiction. Once a person has entered itself in this self-stated persons' register, he/ she will not be admitted to any physical gambling hall, and will be denied access to licensed operator gambling sites. This significantly reduces the risk of addiction. The minimum term of prohibition is 12 months from the date on which a natural person is entered in the register of self-stated persons. In Latvia, the controller of the Register of Self-Declared Persons is the Lotteries and Gambling Supervisory Inspection of the Republic of Latvia. The self-stated register is not the only one, but one of the most important tools for a person suspected of being addicted to protect himself or herself from this risk.

Experts emphasize the importance of introducing a balanced regulation of the gambling industry that ensures control and restraint without making the offer of licensed operators uncompetitive. Otherwise, players will choose to use illegal gambling sites that have no restrictions and everyone is allowed to play as much as they want. It is particularly important to maintain this balance in the field of interactive gambling, as it is well known that it is practically impossible to ban anything

on the Internet, thereby the problem of unlicensed gambling operators and the shadow economy is particularly acute. Therefore, it is more responsible and profitable for the government to ensure the availability of controlled licensed gambling sites.

So far, Latvia has done a lot in cooperation with experts and government institutions to reduce the risk of addiction and also to reduce the illegal gambling market.

When deciding on a fundamental change in the gambling industry, it must be taken into account that everything that has been done so far to regulate this industry will no longer work. Combating illegal gambling sites and preventing addictions are works to be done in parallel, and they only work successfully in an environment that is regulated and controlled. Unfortunately, drastic, undisputed changes in the industry's regulation are leading to a boom in illegal sites. Illegal sites, on the other hand, are not subject to Latvian laws and regulations, and are not subject to any restrictions, these operators do not care about the fight against addictions, and do not pay taxes to the Latvian state budget.

Our suggestion: to allow work and apply strict control!

Liga Lice
Head of Latvian Interactive Gambling Association

Summary

This study was initiated by the Latvian Interactive Gambling Association (LIAB) at the end of 2019. The main objectives of the study are (i) to identify the main factors contributing to the size of the illegal market in the Latvian interactive gambling market, and (ii) to offer recommendations for reducing the size of the illegal market. The study and its recommendations are based on the assumption that gambling, including interactive gambling, poses serious addictive problems for some gamblers. However, unlike 'land' gambling, it is not possible to completely close access to interactive gambling on the internet. In addition, all the available evidence suggests that, despite various restrictions and educational campaigns, people will still want to gamble legally or illegally.

The issue of state budget revenues from various sectors, including the interactive gambling industry has become particularly relevant in the context of the expected economic consequences of COVID-19. Undoubtedly, gambling has many negative side effects that the government, together with the industry itself, has to fight with. However, no country, including Latvia, has so far not been able and probably will never be able to significantly restrict access to the illegal sector. This is an impressive difference compared to the rest of the gambling industry, which, by the way, is much less regulated and controlled. Just as important is the fact that it is practically impossible to identify the people who use interactive gambling in the illegal market. As a result, there are very limited opportunities to help these people when they are exposed to the risks of gambling. In addition, according to the Ministry of Finance, unlicensed gambling is also a tool that can be used in money laundering and terrorism financing schemes. For these reasons, the recently adopted ban on the organization of interactive gambling in Latvia seems incomprehensible and populist.

The study is based on several complementary data: available statistics of the interactive gambling industry, in-depth expert interviews with the largest company managers in the industry, which in total make up about 90% of the volume of the interactive gambling industry in Latvia. In addition, interviews were conducted with representatives of the main responsible institution: the Ministry of Finance and the Lotteries and Gambling Supervision Inspection. All interviews were conducted in early March 2020.

According to the available data, the market for interactive gambling is growing rapidly both elsewhere in the world and in Latvia. Here in Latvia, interactive gambling licenses have been granted and are used by nine operators, but three operators have been licensed, but they have not initiated any operations. The total revenue from licensed interactive gambling in Latvia in 2019 exceeds 54 million euros, and in 2019 the industry paid more than 12 million euros in taxes to the state budget. The interactive gambling industry in Latvia accounts for 17.8% of the total gambling

volume and the largest proportion of the legal interactive gambling market is occupied by casino games.

According to laws and regulations of Latvia, only those interactive gambling operators who have received a relevant license are considered legal in Latvia. The use of any other interactive gambling services by Latvian residents is illegal. According to the H2gc calculation, the illegal volume of the interactive gambling market in Latvia in 2019 was 38% or more than 33 million euros. Approximately 7 million euros of this amount was not paid to the state budget. The contribution of the legal interactive gambling industry to the Latvian state budget in 2019 amounted to approximately 12 million euros.

As the results of the study show, the respective Latvian supervisory authorities, at least at the level of the civil service, are clearly aware that the creation of major obstacles, including a total ban on interactive gambling, will create greater problems instead of benefits. This is also evidenced by the experience of other countries. The results of the study show that the following solutions of problems would greatly contribute to the reduction of the illegal interactive market:

Firstly, the abolition of personal income tax (PIT) that is generated from the total turnover and not from the actual profit of the player. One of the solutions in this regard is to take over the Lithuanian experience, where only the part that a gambler wins is subject to taxation. Once again, it must be taken into account that it is simply not possible to completely or even significantly restrict access to illegal gambling on the internet. Therefore, if there were only providers of interactive gambling services registered in Latvia, the argument of regulatory authorities that people should pay more for their entertainment would be appropriate. However, given the specifics of the industry, such a tax not only increases entertainment fees, but also provides an additional incentive to move to the illegal market where such a tax does not exist, of course.

Secondly, to allow interactive gambling services proportionate advertising. Controlled, restricted, however, it is important to enable industry to communicate their services legally. In addition, this should be done in parallel with activities that, as far as possible, restrict access to the advertising of illegal interactive gambling operators. It is also important to emphasize that, in terms of advertising, and not only, there is an impressive difference between what can be allowed for interactive gambling and what for the rest of the gambling industry. Thirdly, to make it easier to offer new products by following the global trends in the interactive gambling industry. This would mean cutting red tape in opening up the relevant laws to this very aspect. Fourthly, more effective blocking of illegal sites and payments to illegal interactive gambling operators. Although work has started to fight this issue, much remains to be done, especially with regard to blocking payments. And fifth, a review of payment options for licensed gambling in an interactive environment. Currently, it is allowed to pay for the use of interactive gambling services only through Latvian commercial banks, which creates a number of unnecessary problems for both gamblers and gambling operators. Last but not least, the industry should be convinced that it could

operate in a predictable environment where no sudden tax changes are expected, such as an increase in the gambling tax, or, even worse, suspending operation of the entire industry.

With the implementation of the above-mentioned set of measures, which would work together with activities promoting responsible gaming, as well as the exchange of information between the industry and the government, the majority of Latvian residents would not be motivated to participate in the illegal gambling market. In addition, in most countries, including in Lithuania and Estonia, some of the above mentioned problems do not exist. Consequently, the size of the illegal market in the neighbour countries is significantly smaller. Namely, if, according to conservative calculations, the volume of the illegal market in Latvia in 2019 amounted to 33.8 million euros, then in Lithuania and Estonia it was 13.8 and 10.4 million euros, respectively. According to the managers of companies in the industry, approximately 1/3 of the Latvian illegal market is occupied by 1xBet, which is not licensed in any country and, like other Russian-based illegal interactive gambling operators, is very active in addressing the Russian-speaking population of Latvia through various channels.

There is great potential for further strengthening of cooperation between the industry and the government in promoting the reduction of the size of the illegal market. According to the results of the study, it is supported at the governmental level by both the responsible institutions and the industry itself. It is possible that the interactive gambling industry could be the one to follow the example of the construction industry by concluding a general agreement. On the one hand, the general agreement would provide for extensive co-operation in promoting responsible gaming, curbing the growth of an unhealthy sector and providing information to public authorities, and, on the other hand, it would prevent the above-mentioned key issues in the interactive gambling industry. But it should start, of course, with the lifting of the ban on the interactive gambling industry.

We hope that the information gathered in this study will help policy-makers to better understand the specificities of the sector and will also refrain them from making hasty, populist decisions. This is particularly important at this time when all opportunities are being sought to support entrepreneurship and to supplement the state budget in a responsible way. It is also important to develop measures to protect gambling addicts, which the industry, in cooperation with public authorities, can do more effectively in the legal interactive gambling market.

1. Introduction

The idea to carry out this study emerged at the end of 2019, at the initiative of the Latvian Interactive Gambling Association (LIAB). Namely, LIAB addressed me with an interest in gathering information about the interactive gambling industry in Latvia, including the main challenges facing the industry and to try to find solutions to overcome them. The main interest of LIAB and the reason why I undertook to carry out this study was to identify the main factors that may encourage residents of Latvia to use the illegal market in interactive gambling, as well as to find solutions to reduce the illegal market share. Needless to say, then we did not even know about the upcoming crisis of COVID-19. It is probable that the possible ban on the interactive gambling industry in Latvia, which was introduced in March 2020, was not on the agenda of neither politicians, nor the industry itself.

COVID-19 is likely to cause a global economic decline, including in Latvia. This will be a major challenge not only for businesses and the financial sector, but also for the state budget. The government's efforts to provide financial support to business, even at the expense of borrowed money, are commendable. However, someday such a debt will have to be repaid, usually by taxpayers, with the direct involvement of the private sector. Therefore, maintaining adequate budget revenues while strengthening the business environment will be crucial in the coming years.

Of course, gambling has many negative side effects that the government, together with the industry itself, has to fight with. However, as discussed in more detail in the study, it is also important to realize that there is nothing in the interactive gambling environment that can simply be stopped by banning it. Namely, most people in the interactive environment will continue to gamble, moving from the legal to the illegal sector. Unfortunately, no country, including Latvia, has so far not been able and probably will never be to significantly restrict access to the illegal sector. This is an impressive difference compared to the rest of the gambling industry, which, by the way, is much less regulated and controlled. It is also essential to understand that people who use interactive gambling in the illegal market are practically impossible to be identified. As a result, it is practically impossible to help these people when they are exposed to the risks of gambling.

The study is based on a number of complementary data. The next section summarizes the main statistics in the interactive gambling industry, followed by an overview of the available data on the illegal market share in the interactive gambling industry in Latvia. Chapter 4 summarizes the opinion of the managers of Latvian interactive gambling companies regarding the most essential challenges and possible solutions in the industry, including to reduce the volume of the illegal market. The summary of opinions is based on in-depth expert interviews with the managers of the following five companies, which together account for approximately 90% of the interactive gambling industry in Latvia:

Optibet

Alfor Online

PAFbet
Viensviens
Betsafe

Additionally, to the opinions of company managers, this section also summarizes the opinions of the main responsible institutions regarding the interactive gambling industry in Latvia: the Ministry of Finance and the Lotteries and Gambling Supervision Inspection. In the case of the Ministry of Finance, the head of the responsible department was interviewed, however, with the *proviso* that what was said during the interview may not be the official opinion of the Ministry of Finance. The Lotteries and Gambling Supervision Inspection was represented in the expert interview by the Head of the Inspection. All interviews were conducted in early March 2020. The report concludes with key findings and proposals, as well as a comparison of the key issues identified in the sector with the situation in other countries, summarized in Chapter 5.

Hopefully, the information gathered in this study will help policy-makers to better understand the specificities of the sector by facilitating evidence-based decision-making. This is particularly important at a time when all opportunities are being sought to support entrepreneurship and to supplement the state budget in a responsible way. Looking at the expert interviews, it is gratifying that the responsible authorities, at least at the level of the administration, understand the situation regarding the (so far) legal market for the interactive gambling industry. An opinion of the representative of the Ministry of Finance confirms it, namely:

"Of course, we understand that interactive gambling is not an activity we would like to develop. However, it must be understood that people in the online environment will gamble anyway. If this is not possible legally, it will be played illegally. It is better to do it in a controlled, safe way and with preventive measures. It is not wise to pretend that such illegal opportunities do not exist. Thereby the main focus of the guidelines, we are currently developing with the industry, is on prevention."

"I believe that all the measures mentioned above to reduce the size of the illegal market in the sector (see the study below) should be operated in parallel. We can talk about the competitiveness of the Latvian interactive (auth. gambling) industry if the licensed or legal industry is provided with appropriate conditions. It is our duty to ensure that the opportunities to play licensed and illegal interactive gambling in Latvia are not as simple - to ensure a very difficult life to illegal operators."

The representative of the Lotteries and Gambling Supervision Inspection expresses a similar opinion:

"Strikti ierobežojumi noved tikai pie tā, ka vieta tukša nepaliek. Ir zināma pieredze Austrijā, kur nelegālie grupējumi ienāk azartspēļu tirgu jo tur nav adekvāts regulējums."

"Tas, ka aizliedz kādu daļu no azartspēlēm, cilvēku vēlmes nezūd- cilvēki nereti atrod veidus kā spēlēt legāli vai nelegāli. Mūsu interesēs ir nozari sakārtot. Tas, kas ir nelegāls vienmēr prasa lielākus resursus lai to kontrolētu."

"Strict restrictions only lead to the space that is not being left empty. There is some experience in Austria, where illegal groups are entering the gambling market because there is no adequate regulation. "

"Prohibiting some sectors of gambling does not reduce people's desire - people often find ways to gamble legally or illegally. It is in our interest to put the industry in order. It always requires more resources to control illegal market players."

Last, but not least, as the representative of the Ministry of Finance mentioned in the interview:

"We are open to cooperation with the industry, and the industry must also actively communicate so that we can come up with a solution that is acceptable to everyone."

Domāju, ka tieši šāda pieeja, nevis neapdomāti, politiski (ne)argumentēti lēmumi, ir gan to spēlētāju, kas ir pārmērīgi aizrāvušies ar azartspēļu spēlēšanu interaktīvajā vidē pasargāšanas, gan valsts budžeta ieņēmumu, gan arī pašas interaktīvās azartspēļu nozares interesēs.

I think that this is the approach, and not the ill-considered, politically (un) reasoned decisions, to protect players who are overly obsessed with gambling in an interactive environment, in the interests of the state budget revenue, and in the interests of the interactive gambling industry itself.

2. Review on the Latvian interactive gambling industry

Despite the fact that the interactive gambling market is growing rapidly both elsewhere in the world and in Latvia, the available statistics on the interactive gambling industry in Latvia are limited. Namely, most interactive gambling companies also offer non-interactive forms of gambling, or 'land' gambling services as they are called in the industry. By 'land' is meant various gaming halls, casinos and other gambling offers, etc. According to laws and regulations of the Republic of Latvia, detailed financial statements of companies in the sector must be submitted for their common operation indicators; distinction between 'land' and interactive gambling must only be shown in individual cases, such as total income. For this reason, detailed official statistics on the interactive industry, such as the average salary and the number of employees, are not available in Latvia.

However, separate data on the in Latvia-licensed or legal interactive gambling industry are compiled by both the Lotteries and Gambling Supervision Inspection (IAUI) and the Latvian Interactive Gambling Association (LIAB). According to information published by the IAUI, interactive gambling licenses have been granted for and are used by nine operators. Three more operators have been licensed but have not started operations. As of March 15, 2020, two more license applications were being processed. The market characteristics by volume and individual industry regulations in Latvia, Lithuania and Estonia are summarized in Table 1.

Table 1. Description of the licensed (legal) interactive gambling market in the Baltic States, 2020 data.

	Latvia	Lithuania	Estonia
Number of licensed operators	9	7	17
Capital being necessary	EUR 1 400 000	EUR 1 158 00 + <i>offline</i>	EUR 100 000
License fee for interactive gambling	EUR 200 000	EUR 479	EUR 80 000
Interactive gambling tax	10%	13%	5%

Source: LIAB, 2020

Whereas, data on revenues from the organization of interactive gambling in 2013-2019, indicating the number of licensed operators in a particular year, are summarized in Table 2. Namely, the revenue from licensed (legal) interactive gambling in Latvia in 2019 exceeds 54 million euros. In total, the industry paid more than 12 million euros in taxes to the state budget in 2019 (see Table 3).

Table 2. Revenue from the organization of interactive gambling in 2013-2019 (million EUR) and number of licensed operators in the respective year.

Gambling revenue is the difference between the stakes and the winnings paid out.

	Gambling revenue	Number of operators
Q1 2013	0.487	1
Q2 2013	0.356	2
Q3 2013	0.499	3
Q4 2013	0.746	3
Total in 2013	2.088	
Q1 2014	0.939	4
Q2 2014	1.172	4
Q3 2014	1.427	4
Q4 2014	2.219	4
Total in 2014	5.757	
Q1 2015	2.320	4
Q2 2015	2.404	4
Q3 2015	2.733	4
Q4 2015	3.999	4
Total in 2015	11.456	
Q1 2016	3.792	6
Q2 2016	4.439	6
Q3 2016	4.939	6
Q4 2016	5.150	6
Total in 2016	18.320	
Q1 2017	5.995	6
Q2 2017	6.043	7
Q3 2017	7.182	7
Q4 2017	8.906	7

Total in 2017	28.126	
Q1 2018	9.090	7
Q2 2018	9.175	7
Q3 2018	10.403	7
Q4 2018	12.287	9
Total in 2018	41.155	
Q1 2019	12.384	9
Q2 2019	12.999	9
Q3 2019	13.413	9
Q4 2019	15.888	9
Total in 2019	54.684	

Source: IAUI, 2020

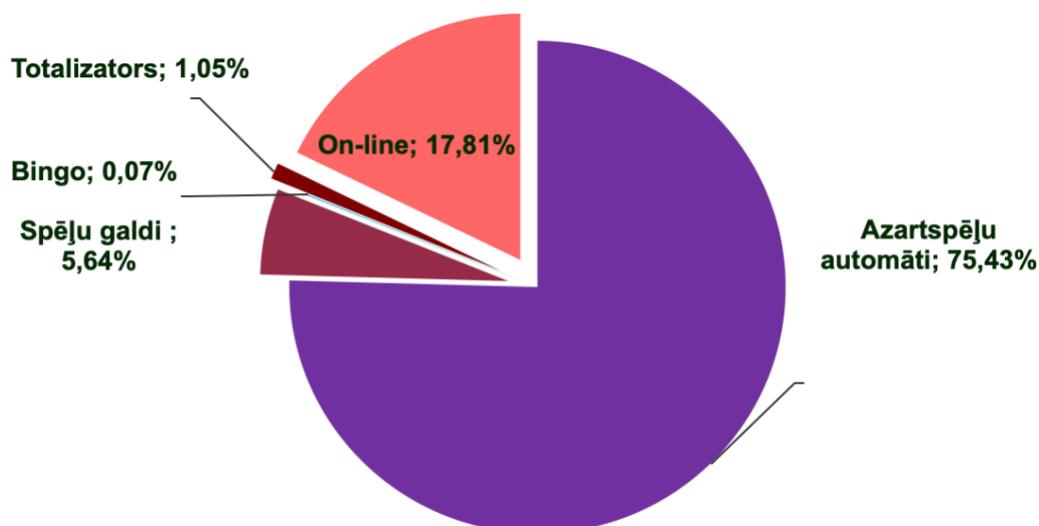
Table 3. Contributions of licensed interactive gambling operators to the state budget in 2017-2019 (EUR million).

	2017	2018	2019
Gambling tax	2.8	4.1	5.5
VAT contributions to the Treasury	1.4	2.1	2.8
PIT and social tax contributions to the Treasury	2.0	3.0	4.0
Total:	6.2	9.2	12.3

Source: LIAB, 2020

According to the available information, the interactive or online gambling industry in Latvia accounts for 17.8% of the total amount of gambling (Graph 1). Whereas, the data summarized in Table 4 show that casinos occupy the largest share of the legal interactive gambling market.

Graph 1. Volume of Interactive (*online*) gambling of the total amount of gambling in Latvia, 2019.



*On-line 17.81%, Betting 1.05 %, Bingo 0.07%, Gambling tables 5.64%, Gambling machines 75.43%.
Source: IAUI, 2020

Table 4. Revenue distribution from interactive gambling in 2018-2019 (EUR millions)

	2018	2019	%
Revenue in TOTAL, including	41.15	54.68	132.8
Casino games	27.60	39.34	142.5
Betting	13.28	14.92	112.3
Card games	0.26	0.42	160.8

Source: IAUI, 2020

3. Amount of illegal market share in the interactive gambling industry in Latvia

The shadow economy is not only a difficult concept to measure, but also an ambiguous one to be defined. This also applies to a specific sub-sector, such as interactive gambling, where the more precise term than 'shadow economy' is 'illegal market share'.

Namely, in accordance with laws and regulations of the Republic of Latvia, only those interactive gambling operators who have received a relevant license are considered legal in Latvia. This means that Latvian residents are allowed to play legally interactive gambling only with these operators. The use of any other interactive gambling service offerings in Latvia shall be illegal.

The unlicensed or illegal market in Latvia is divided into two categories as follows:

The first category includes those interactive gambling operators who do not have a Latvian license but are licensed in another country. These providers of interactive gambling either focus on one or more countries, without the relevant licenses there. Or (in addition) they also serve countries where the interactive gambling industry is not regulated. These operators tend to be very large companies,

for which the Latvian market is not attractive because of its size: neither the purchase of a license nor, for example, the payment of 10% of gambling tax pays off. One of the world's largest such operators is Bet365. Such operators often operate under Maltese or Gibraltar licenses, as these countries have very favourable tax regulations.

According to the interviewed managers of the companies in the sector, although Latvian residents are prohibited by law from playing with these service providers, the players “also find them”. Namely, these operators do not actively advertise in Latvia, however, they can be seen in many channels, which are also visited by residents of Latvia: both in various international sports leagues and through Google search, various Internet banners, etc. In addition, these companies have been offering their services much earlier before the regulation of interactive gambling was introduced in Latvia at all. These services have been and still are used by Latvian residents, although it is illegal and a fine is imposed if caught. It is essential to note that the range of gambling services in the interactive environment is impressive. Therefore, Latvian residents do not always know that they use the services of illegal interactive gambling operators. Consequently, the imposition of fines, at least for the first time, is not a clear preventive measure.

The second category of illegal market contains those providers of interactive gambling services that are not licensed in any country. According to the providers of interactive gambling services licensed in Latvia, these companies often come from the East and are even huge. The most popular is 1xBet. ‘Watching illegal streams, Youtube channels, various popular bloggers, etc., they will be visible everywhere,’ emphasizes a manager of a Latvian interactive gambling company, adding that:

‘Their business model is based on being a pirate, they do not get a license anywhere. This particular company, 1xBet, is very active and they address young people in particular. No one knows what is behind them. 1xBet stands at the world's largest interactive gambling exhibitions, they are the main sponsor of the English Premier League club and their annual turnover is several billion euros. This company simply pays a little more to different payment processors and thus circulates money for its operations. If they could not work with payment processors, of course, the business could not exist. But it is not so easy to control. This particular, but also other completely illegal operators offer a very wide range of products and communicate with customers in many languages. Of course, these companies also offer better rates for games, which is possible because neither license fees nor taxes are paid.’

Other managers of companies in the industry also confirm the impact of 1xBet on the size of the illegal market, pointing out that this company, which is not licensed anywhere, is responsible for approximately 1/3 of the share of the Latvian illegal interactive gambling market. The managers of the companies also emphasize that this illegal operator, like other illegal interactive gambling operators based in the East, is very active in addressing the Russian-speaking residents of Latvia through various channels.

According to the representative of the Ministry of Finance, in addition to the two above-mentioned categories, there is also a third one. Namely, the part that, although it does not include gambling,

according to many indicators is not considered to be an illegal market at present. For example, some video games that children can play freely and are not regulated in any way have distinct gambling elements.

Various measures are being taken in Latvia to restrict access to the illegal interactive gambling market. For example, entering the address of an unlicensed interactive gambling operator in Latvia in the internet browser will display a statement that this is a service provider not licensed in Latvia. The notice will provide information about the threat of using such a service, as well as information about the operators of interactive gambling that are licensed in Latvia. The 'blacklist' already contains around 1,000 such illegal domains, which are blocked from Latvia.

However, as both the providers of interactive gambling services licensed in Latvia and the supervisory authorities recognise that it is very easy to circumvent such blocking. Also, to make a payment (which is usually a mandatory condition for playing interactive gambling with both legal and illegal operators), including depositing money, for example with a *Revolut* card or creating a special e-wallet to play games on any of the illegal sites is relatively easy. 'These e-wallets can be blocked, but they also find ways to re-exist - this has been and will be the case,' emphasizes a manager of one of Latvia's leading companies in the interactive gambling industry.

Calculating the illegal market share of the interactive gambling industry, due to its specifics, is even more difficult than determining the total size of the shadow economy in a country or in traditional industries. This is due not only to limited statistics, but also to difficulties in accessing users and operators of interactive gambling, especially in the illegal market. The illegal market volume in the interactive gambling industries of Latvia and other countries is calculated by an organization called H2gc. Unfortunately, the exact methodology of this calculation is not available and thereby the data provided by H2gc is often criticized. However, they provide at least an approximate idea of the size of the industry's illegal market in Latvia and other countries around the world.

According to the H2gc calculation, the illegal volume of the interactive gambling market in Latvia in 2019 reached 38%, or more than 33 million euros. A comparison of the size of the illegal market in the Baltic States is given in Table 5, showing that, according to the H2gc calculation, the share of the illegal market in Latvia is significantly higher. According to LIAB estimations, approximately 7 million euros (including gambling tax, payroll taxes, CIT, VAT) were not paid in the Latvian state budget. According to the available statistics, the contribution of the legal interactive gambling industry to the Latvian state budget in 2019 amounted to approximately 12 million euros.

5.tabula. Size of the illegal market of interactive gambling in the Baltic States, 2019, EUR.

	Latvia	Lithuania	Estonia
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Size of the illegal market	EUR 33.8 M	EUR 13.8 M	EUR 10.4 M
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Source: H2gc

In general, according to the interviewed managers of Latvian interactive gambling companies, people in the internet environment have a wide range of opportunities to gamble with illegal service providers. They are also convinced that it is highly probable that the largest players of interactive gambling in Latvia play outside Latvia, namely, illegally. This is due to the better rates that illegal operators can offer, the size of the business, and tax evasion (or lower taxes). Also, illegal interactive gambling operators can often offer a wider range of products. One of the interviewed managers of a Latvian interactive gambling company adds:

"Participation in the illegal market also depends on the service used. For example, where playing in an interactive environment does not make a significant difference - casinos look the same everywhere. But, for example, poker players have practically left Latvia due to PIT regulation, at least the big players are gone definitely. We are sure that these players continue to play only with illegal operators. "

When calculating the illegal market share of interactive gambling, the specifics of the industry's revenue generation must also be taken into account. Namely, as the managers of the companies in the industry admit, if not for all, then for a large part of the largest companies in the industry, the largest players make up a proportionately large share of revenue. Namely, about 10% of the largest players can provide from 40%, but in some cases up to 80% of the total volume of the company. The fact that some big players have left the Latvian legal market (e. g. poker players, but also others, see a more detailed discussion in Chapter 4) may mean that the illegal market share of Latvian residents may be higher than the estimated 38% by H2gc. According to both a part of the companies in the industry and the interviewed representatives of the supervisory institutions, the amount of the illegal share of interactive gambling in Latvia could be up to 50%.

It is important to emphasize that in addition to the illegal size of the interactive gambling market, i.e. for the providers of unlicensed operators in Latvia, which are used by non-residents of Latvia, it is likely that there is also a shadow economy within the Latvian-licensed interactive gambling industry. For example, in the form of 'envelope wages'. However, given that the interactive gambling industry is highly regulated and, assuming that it is adequately controlled, it is unlikely that the size of the shadow economy within the licensed interactive gambling industry in Latvia could be significant.

According to one of the interviewed managers of companies in the sector:

'The state has done quite a lot to fight the illegal interactive gambling market. Domains have been blocked, and commercial banks are now largely blocking card payments to illegal sites. There are people who wants anonymity when gambling - something is already being done in this area. In general, each of these activities makes a contribution.'

On the other hand, speaking about the factors that may motivate Latvian residents not to play with illegal operators, one of the company managers interviewed within the framework of this study expresses the following opinion:

'People have gambled and will continue to do so in the interactive environment, whether legally or illegally. Getting a player to play here in Latvia with an operator licensed in our country means allowing the Latvian interactive gambling industry to be competitive. Competitiveness in this case comes in three forms. First, we can compete on price. That is the key. If the gambling tax is raised, it will also be reflected in the price of the service, making the illegal market offer for players even more attractive. It is also about bonus systems and pay-out odds. Second, it concerns the content, i. e., what games we can offer. The law regulating the offer was made in 2008 and much has changed in the meantime. Thirdly, we can compete with service provision, i.e. payment processing and customer service. Here we are winners, because we are still a local company - you can call us for a consultation in Latvian. Security considerations are also important, for example, players know that the payment is made in Latvia and not sent through another country.'

These, and other factors, the main challenges in the interactive gambling industry and their impact on the size of the illegal market will be discussed in more detail in the next chapter.

4. The main challenges in the interactive gambling industry and their impact on the size of the illegal market: the views of business leaders of the industry and supervisory institutions

According to expert interviews with the managers of the five largest Latvian companies of the interactive gambling industry, the main challenges in the industry are largely related to its regulation. Namely, according to their opinion, the regulation in the industry is outdated. Efforts to re-regulate, on the other hand, so far have been rather chaotic. In addition, the interviewed managers of the companies, which also operate outside Latvia, emphasize that in comparison with neighbour countries, Latvia has a large potential to improve the regulation of the industry. By improving regulation, the industry is urging regulators to go much further into the specifics of the industry and to strive for a better understanding of the interactive gambling industry. According to the interviewed managers of the companies, this would help them to make more informed decisions.

Some quotations from expert interviews, which generally reflect the opinion of the interviewed managers of the industry's companies:

'The legal framework in which the licensed interactive gambling industry operates in Latvia is significantly worse than in neighbour countries.'

'New changes are now being made to the regulation on interactive gambling that is relatively accurate and in line with current realities. But often they are put "on top" of the

'The regulation is very old. In 2006, when the gambling law was introduced, online gambling, as we understand it today, was at a relatively early stage of development. Now, changes to the law on interactive gambling often lead to rules that do not apply to online gambling. Part of the existing regulation is also no longer relevant to land games. The regulation changes from time to time and remains very confusing. The law just does not keep up.'

..

elders, so the overall picture can be difficult to understand and interpret.'

'One of the main issues for poor regulation in the industry could be that the relevant authorities do not always fully understand what interactive gambling is. We have tried to promote this awareness through various events and offers, but there is still a long way to go. Unfortunately, the work of the institutions supervising the sector is not always adequately coordinated, which means more bureaucracy for us'

The main challenges related to the regulation of the industry, which directly affect both the opportunities and motivation of Latvian residents to use the services provided by illegal interactive gambling operators, according to the managers of the largest companies in the industry, are the following:

- Ineffective blocking of illegal interactive gambling service providers;
- Payment options for gambling in an interactive environment only through Latvian commercial banks;
- Personal income tax (PIT) for players on volume, not actual winnings;
- Complete ban on advertising for interactive gambling in Latvia;
- Restriction of the range of interactive gambling products to service providers registered in Latvia;
- Gambling tax 10%: a possible increase of it.

In the following, we offer summarized, more detailed information on each of these issues.

4.1. Ineffective blocking of access to illegal service providers

As all the interviewed representatives of the companies in the sector emphasize, inefficient blocking of access to the services offered by unlicensed interactive gambling operators in Latvia, or blocking of the illegal market, is one of the main, if not the main, problems. which contributes to the size of the illegal market. The industry is convinced that for this reason the state budget does not collect large amounts of taxes, as well as points to the link with the requirement to pay taxes:

'If we still say that the interactive gambling industry in Latvia is a regulated industry and we pay taxes, I would still expect good market protection. At least, it makes better understanding of what these taxes are being paid for.'

Recognizing that full access to the illegal market cannot be ruled out, and commending the work already done to advance this issue, the industry calls on the relevant authorities to be much more active in this regard. There are two types of blocking access to the illegal market: **blocking illegal sites** and **blocking payment options for illegal sites**.

Industry executives interviewed largely praise what has already been done **to block illegal sites**. In this respect, the situation is well described by a quote from an expert interview with a representative of the Ministry of Finance:

'If you look at the profiles of players in terms of involvement in the shadow economy, i.e. playing with unlicensed operators in Latvia ... There are, of course, players who are actively looking for such opportunities themselves. But there are also those who unknowingly end up with illegal operators. Therefore, there are different measures for each of these groups. Blocking illegal sites works well for those who accidentally get there. If a player goes to such a website, a window will appear stating that the page has been blocked and the service provider is illegal. The player is redirected to another website, where a list of interactive gambling operators licensed in Latvia is published.'

Table 6 summarizes the results achieved in blocking unlicensed interactive gambling sites, which the industry is generally satisfied with.

Table 6. Blocking of unlicensed interactive gambling sites

	In total since 01/08/2014	Including in 2019
Decisions taken	1192	91
Legal entities	315	24
Domains to be blocked	1206	68
IP addresses to be blocked	2478	87

Source: IUAI, 2020

However, as both the industry's companies and the authorities recognise, blocking illegal sites is not enough. Namely, despite the fact that illegal websites are blocked without allowing Latvian residents to enter them, it is relatively easy to enter them by changing certain parameters. Therefore, in addition to blocking sites, you also need **to block payments**. This is also acknowledged by the representative of the Ministry of Finance:

"... but for those who are looking consciously for illegal interactive gambling, we know that a site blocking solution does not help. In such cases, other solutions are sought. For example, we track payments from Latvian residents to illegal sites and then block them. Our approach is that if not for the first or second time, sooner or later such users of illegal interactive gambling services will be caught. And these players should understand that not the fact that the payment was refused, but the fact that such information goes to the SRS can cause them very serious problems. This means that all of this person's payments could be reviewed for three previous years and a corresponding surcharge made. And it is serious. "

Namely, in order to gamble in an interactive environment, you are required to deposit a sum of money into your gambling account before starting the game. If Latvian residents were denied the opportunity to do so, it would greatly reduce their access to the illegal market. The specifics of payments in the interactive gambling industry are described in more detail in the next subchapter. Below we offer some quotes from expert interviews of both company managers and representatives of the responsible authorities, where they emphasize why it is important to work more on blocking payments:

"Well, illegal domains can be blocked. But from this year, bank cards issued in Latvia also were blocked. From January 1st, banks are obliged not to process a payment to an unlicensed (in Latvia) operator. In addition, the focus is also on payments that go not only to other banks, but also to various payment institutions. This means that from now on it will not be possible to make a deposit to illegal operators with a Latvian bank card - and this is a very positive, really great achievement. The bad thing is that there is a Revolut that works in the EU. They could be informed that such payments may not be processed. However, this has not yet happened and illegal operators can still be paid through Revolut."

"There are those e-wallets that could be warned that they cannot take money from Latvians to play interactive gambling on unlicensed sites in Latvia. We have good contact with some of these e-wallet operators and they have said that large sums of money, measured in millions, leave Latvia for illegal operators. But no one forbade them to do so or threatened not to do so. The industry has been talking about this with the authorities for several years, and little has been done so far. Although there is now a legal framework, a law has been adopted since 1st January that could be used by the EU to address these issues effectively. "

'Of course, not some Yandex Money can do something. They will not care. But with scrapers, etc. payment service providers working mainly in the United Kingdom or Sweden, we could find an agreement.'

"Countries that are effectively fighting for their markets, such as Norway and Switzerland, are investing heavily in blocking payments. If the blocking of payments in Latvia were operated effectively, the unlicensed market would shrink significantly. It is elementary, just two things! Please warn your e-wallets and make sure they do not process payments: skrills and netellers, send emails and they will stop doing so. At least in other countries, this has happened following such requests. Secondly, we need to work with payment providers where Latvians use banks from other countries - Revolut is the most popular. Also inform them that cards issued to Latvians with this code may not be processed. 90% of the unlicensed market will cease to exist in this way, and players will either stop playing, which is unlikely to happen, or switch to the licensed market. The good news is that the inspection has heard this request from the industry. However, there is no concrete action and no result yet. "

The representative of the Ministry of Finance emphasizes that the authorities responsible for blocking payments have already started to implement certain measures, with which the IUAI also agrees.

“For example, we have sent letters to Revolut requesting that they should be forbidden to make payments from Latvia to interactive gambling service sites not registered in Latvia. Due to Revolut's reputational risk alone, it is clear that this issue will be resolved positively. ”

However, the authorities also acknowledge that not everything is fully operational and that it will take some time for the results to be seen:

‘If we talk about the illegal market in general, there are several directions for solving the problems of interactive gambling in this area. One of the directions in which this has already been done is to ruin the lives of illegal gamblers by restricting access to unlicensed gambling in Latvia. Of course, we understand that it is not possible to restrict anything online for 100%, including blocking sites and payments. However, these measures would certainly severely restrict the illegal market.’

‘There are various technological solutions that need to be implemented. We are working on a number of ideas, but this direction still needs to be developed. There is a great potential for cooperation between the state and the industry in this area. And the industry already sees well where and how it can help us. For example, the creation and maintenance of a list of domains or IP addresses has not been shown to be very successful in combating the illegal market. Because illegal ones are also creative, you can add or remove one symbol and have a new address right away. Technological solutions are available to identify that, despite the changes, it is the same site and will therefore be blocked. But such technology costs money, it should be purchased. It really should be done, it would make it much easier to block illegal sites. Of course, in such cases, highly qualified hackers will also bypass the system, but the introduction of modern technology would severely restrict access to illegal sites. We really have big plans for that.’

Summarizing the opinion of the representatives of the Ministry of Finance:

‘... we have a very similar view with the industry on how to eradicate the illegal market in the industry: access to illegal websites, payments and also advertising from illegal interactive gambling operators should be blocked more.’

4.2. Payment options for gambling in an interactive environment only through Latvian commercial banks

According to laws and regulations, in Latvia licensed or legal providers of interactive gambling services may serve customers, residents of Latvia, only through local commercial banks. According to managers of the largest companies in the industry, this factor causes significant problems:

‘In Latvia, in order to receive or pay money from customers, we may only use the services of commercial banks. We cannot use any e-wallets. This is because the law was written in 2008 and the word 'commercial bank' was put there. Times have changed dramatically, haven't they? Why would we want to allow wallets to be used? Because people often do not want to show banks that they are sending money to gamble. Banks can put people at risk groups. It is known that banks, although not all, put everyone in one

basket - if you gamble, then you are a riskier customer. At least, we have heard that some banks charge gamblers a higher mortgage rate, even if they do not gamble often.'

'Using e-wallets would be more expensive for the industry's business. On the other hand, the customer is more secure from the possible consequences from the bank. At the same time, it must be understood that those who use illegal operators are already having money in various e-wallets. If it was achieved that e-wallets cannot be used to pay for the provision of services by unlicensed operators, there would be a high probability that at least part of this money would be directed to operators which are licensed in Latvia - from which the state budget would also benefit.'

Also, in this respect, the companies of the industry emphasize that the industry is over-regulated and largely disorganized in terms of regulation:

'Most of the rules that have been adopted for interactive gambling are based on old laws, including thinking of 'land' gambling. Consequently, the interpretation of how this regulation can be applied online in many situations is also very vague. According to the law, there are no e-payments in Latvia, nor other types of payments that are widely used elsewhere in the world by the providers of interactive gambling services licensed in the respective countries. I really do not understand the reason.'

The responsible institutions, both the Ministry of Finance and the IUAI, see the potential risks of AML, or money laundering, by expanding payment options. To which the industry responds as follows:

'It is considered that e-payment is not traceable and may cause problems related to AML. But these payment institutions are also very closely monitored - at least those that are widely recognized in Europe as e-payment service providers. We are missing only one word in the law. It is written there 'a credit institution', it would be enough to change it to 'a payment institution'. Credit institutions are a very narrowly defined form of payment, as a bank account was simply the only payment option at the time the law was adopted.'

However, the person in charge from the Ministry of Finance generally expresses their readiness to discuss this issue with the industry, at least:

'We have talked to the industry about credit cards. Currently, we have also addressed our colleagues in charge of financial matters. The issue is evolving. If there are no financial risks, we will be open to a discussion.'

4.3. Personal income tax (PIT) for players calculated from volume, not from the actual winnings

All interviewed managers of companies in the gambling industry spoke about personal income tax (PIT) in the gambling sector. Respondents expressed confusion about the reason such a tax has been introduced in Latvia, and pointed out that there is practically no such tax in any other country in the world.

Background. According to the current state of regulation, the PIT is not levied on the result of the game, which is the money won during the game, but on the entire amount of money paid to the player's bank account. This means that even those players who have lost money during the year as a result of the game must pay tax on the total amount of money in circulation. The following binding regulatory enactments provide for such a procedure:

Section 17 (10) (22) of the Personal Income Tax Law. 'The part of the prize of lotteries and gambling which exceeds EUR 3000, if the prize exceeding EUR 3000 has been disbursed in one instalment or by summing up the entire visit of a place where gambling or lottery is organised.'

Paragraph 22.2 of the Procedure for Application of the Norms of the 'Personal Income Tax Law'. '... irrespective of the tax rate applied instead of the payment of income, the taxpayer shall include the income from lotteries and gambling winnings in the tax return and shall calculate the tax in a summary manner ...'.

Section 1 (12) of the Law on Gambling and Lotteries 'Prize - the amount of money paid out to the player by the gambling operator in the event of winning according to the gambling rules, as well as the amount of money or prize in kind paid out to the player by the lottery operator according to the lottery rules in the event of winning'.

The following quotes from expert interviews with the representatives of companies show why this is an essential issue for the industry:

'Income tax on prizes is a serious problem for the legal online gambling industry. To understand the reason, one should know how the gambling industry works in general. For example, a player transfers 300 euros, then loses 100 euros and withdraws 200.0 euros. In our country's opinion, this 200 euros taken out is the player's income and a tax is calculated from it - despite the fact that the player has actually lost money. In addition, players tend to keep money circulating: they usually do not want to lose to zero and therefore from time to time take something out, put something back in their deposit. And they do it often: place one some money, win, take out, place on again, lose, win, take out, place on, take out, etc. But everything that is taken out, for whatever reason, is subject to taxation.'

'It is important to add that the PIT must be paid starting from the amount that exceeds 3000 euros per year. But regarding the specifics of gambling, for example, every third day placing on and taking out 20 euros, the total turnover during the year is really high, but the amount of real money that one person plays is not always large. Many gamblers do not understand this at all, and therefore do not declare, because they just do not think that such a requirement may exist. But if you start analyzing bank statements, and the SRS can also do it on transactions even several years before, many people may have a very unpleasant surprise.'

'It should also be kept in mind that there are various online gambling operators and people tend to gamble at more than one. It is easy to circulate a total of 7,000 euros a year, for example, with 100 euro deposits – placing on and taking out the same 100 euros. And it can be done at several legal operators in parallel. But then, starting at 3,000 euros, i.e. a surcharge from EUR 4000 on the total amount.'

In addition, the PIT varies according to the amount: 23% is increased to 31.4%, which was applied starting from 55,000 euros in 2018 and from 62,800 euros in 2019.

According to the information compiled by the Latvian Interactive Gambling Association (LIAB), 'These players, whose tax consequences occur, account for 68% of the industry's revenue. Due to income tax, they switch to playing with unlicensed foreign operators, where payment of the tax can easily be avoided.' The problem is also highlighted by all interviewed company managers, adding that for this reason the largest players in interactive gambling are simply leaving the Latvian licensed market to switch to the illegal interactive gambling market:

'No one will ever know anything about the illegal market using skrills. Thereby poker is not evolving here either, because it is typical for people to operate in poker – pay in and withdraw - with a lot of money. A lot of money is circulated and the casino takes a small commission. Each professional player would have to pay at least 20,000 euros in taxes for such a turnover. That is why there are no legal, professional poker players in Latvia, they all play illegally. We know them and they say that due to the current regulations they will never play legally. There are small poker players, of course, but they are not professionals. This is not the case in Estonia.'

'Currently, clients have not complained about PIT surcharges, there is no such data. But this has happen relatively recently, coming into force in 2019. This issue can only come to light. However, even when the tax was introduced, the most pragmatic gamblers, which are not only the big poker players, has taken out their money and have never returned. Indeed, many big players have disappeared from the legal market, they have all probably gone illegal. Of course, these players can play in the 'land' because there is less transparency, or when traveling. But knowing that they are moving from land to interactive rather than vice versa, they are more likely to be online, only in an illegal environment.'

Companies of the industry are convinced that this tax should simply be removed:

'Most of them do not pay this tax anyway. What is the point of this money now being somewhere in skrill or bitcoin, and the budget is not getting and will never get anything from it'

... as well as point out the possible issues for gamblers in relations with the SRS:

'The PIT is a big issue. Defining gambling as a type of revenue in general is a specific solution. It is more an entertainment. But, let it be. There is a lack of summary order here. A situation arises where quite a few clients like to withdraw money, keep it in their account and transfer it to the game account again the next day and continue playing. Our revenue is formed as follows: from a large turnover, the actual net revenue in the casino is about 3-5%, in the totalizator 6-7%. Thereby, playing with 1000 euros, the client can make a huge amount of money every year by making deposits and asking for paying out money. And then the SRS knocks on the door and demands to pay the tax.'

'Individuals choose not to declare this, but banks are obliged to report information on persons whose income exceeds 15,000 euros. Of course, not everyone will be checked or caught. But the SRS can also make a surcharge on previous years and then large amounts of tax can be collected'.

Also, company managers emphasize that such a tax is practically non-existent in any country, but Latvia:

'There is no such tax in any other country. This situation creates a strong desire to enter the illegal interactive gambling market.'

... mentioning also an example from Lithuania, which is one of the few countries where the PIT has been introduced, but otherwise:

'In Lithuania, the actual net result is subject to the tax. As an operator, we are obliged to declare and pay this tax instead of the client every time the pay-out exceeds 3,000 euros. But what happens below this amount is the client's own responsibility. If more is accumulated during the year, it is also the client's responsibility. In addition, we only see the amounts that are being operated here - players tend to play at several operators in parallel.'

'In Lithuania it can really be called a prize tax, in Latvia it is a turnover tax.'

One of the company managers expresses an opinion that would be particularly important for the responsible authorities to analyse more detailed:

'This situation with the PIT arose because 'wise' men in gaming halls - most likely from the public sector, who put a large amount into the slot machine. Then they took it out and went to the cashier asking for a payout along with a statement of a prize. For example, a prize of 5000 euros. Thus, customs officers began to declare large winnings. Public authorities are well informed that in such cases they can ask us for information on how much has been paid in, how much paid out - how much has actually been won. In online gambling, unlike land games, can be traced. But instead of somehow sensibly solving this problem, just the PIT was introduced. It turns out that the government set an official rate for how money can be laundered from corruption, and the industry got a useless extra tax.'

The representative of the Ministry of Finance emphasizes in the expert interview that if the PIT is related to the discussion on the size of the illegal market, it has both its pros and cons. The representative of the Ministry of Finance expresses an opinion that:

'... in theory, the philosophy of this tax is that it is not paid from income, namely, an individual plays not to earn, but for entertainment. It is for this entertainment that players pay a tax. It is like going to the movies a person pays regardless of whether they liked or disliked the movie- the same principle is built in gambling. So people just have to take into account that this increases the price of their entertainment. The PIT is not really the right name for this tax at all, because the PIT is about income. This is not about what you earn; it is about entertainment.'

The Ministry of Finance also reminds that the field of gambling is not harmonized and that each country chooses how much it wants to liberalize or restrict the products concerned. Like excise duties, this is a matter of public policy and budget revenue. However, the Ministry of Finance

admits that a situation where a player only finds out at the end of the year that he has to pay such a tax that he has not been notified about, warned in time, is not correct.

Although the industry itself does not agree with this, the Ministry of Finance also calls for not blaming the PIT for ‘all the problems of the industry’. The Ministry of Finance, at the level of officialdom, also reminds that this is one of the political issues related to budget revenues:

‘We hear the industry's argument about the problems posed by PIT. For example, the big poker players are gone due to this tax. However, I would not blame the PIT in Latvia for all the problems. This is not that simple and is also easy to manipulate with. If we look at illegal games more globally, we can say that not only is the PIT in Latvia a problem, there are other things to be considered – illegals do not pay the CIT, maybe they employ employees on the black market, maybe they treat their players unethically (“undress them”) and because of that these games are cheaper.... We definitely need to talk more about this topic, but let's not hide that it forms a budget revenue for the state.’

‘However, if we compare the final price of the product, the PIT forms only one part of this price if compared with the illegal ones.’

The representative of the Ministry of Finance also expressed her opinion as follows:

‘If we move forward pragmatically, it is important to separate tax issues in interactive gambling from all other issues, because as soon as we put both together, everyone will be talking about money, but no one will remember people. The main focus of the guidelines is on protecting the rights of the people themselves, their family, relatives, so that their entertainment does not become a disease.’

4.4. Complete ban on advertising for interactive gambling in Latvia

According to Latvian laws and regulations, legal providers of interactive gambling in Latvia are very limited in terms of giving information on their offer. Namely, any advertising is prohibited at all. People who want to gamble in an interactive environment can easily find unlicensed, thereby illegal gambling providers in Latvia with the help of search platforms (such as Google). Advertising is permitted for licensed interactive gambling in almost all countries, of course, with certain restrictions. Therefore, Latvian residents can easily find out about the interactive gambling offer not licensed in Latvia both from advertisements on the internet and by watching various sports events, for example. As a company manager of the industry emphasizes:

‘Realizing that access to illegal interactive gambling is still relatively simple, this is a serious issue and a significant factor that indirectly ensures greater involvement of a large part of the Latvian population in the illegal use of interactive gambling services.’

Companies in the industry also point to the possibility that some Latvian residents have been playing interactive gambling with one of the operators that is still not licensed in Latvia, probably 10 years ago, when the market in Latvia was not yet regulated. Often these people continue to do so and tell others about this practice.

Emphasizing that it is not possible to legally inform about the legal, interactive gambling industry in Latvia at all, the representatives of the companies of the industry say that various ways are being sought, which are often bordering the law on being lawful:

'In Latvia, we cannot legally advertise at all. Of course, everyone is trying to do something and the most popular is through sponsorship. For example, in the Optibet Football Super League, people find out about the company. People often go for what they learn first when talking about licensed operators in Latvia. Often people do not even know what is and what is not licensed in Latvia.'

'For example, also 'Google ads' and others would block our ads due to prohibition of advertising for interactive gambling in Latvia.'

'Prohibition of advertising is a big obstacle. In Latvia, we are a legal business, but it is so reversed that it does not even allow us to communicate with clients – legally it is not allowed anywhere. Of course, we are looking for various creative expressions for advertising, where we are balancing on the edge of the law. It turns out that a legal business is trying to survive in a somehow maimed manner.'

'The biggest absurd situation in our industry is that the state collects money from taxes, but almost nothing is allowed to do business. Especially in terms of advertising. We cannot tell about our existence in any way. The law allows to give information only on your website. But there is no legal way to tell someone that we have such a website.'

Needless to say that service providers licensed in Latvia are very dissatisfied with such a situation:

'Except Italy, which recently took a similar step, Latvia is the only country in Europe that I know where such advertising bans exist. We pay 200,000 euros for the license, and also for the license renewal. But how do we legitimately fight for our market share?'

'Until now, the illegal one could safely manage here without any investment. Also in terms of advertising, because when watching live, people see advertisements on their heroes - sports players' shirts, hats, on boards in playgrounds, etc. But in order for us to somehow give information about ourselves, we need to try all kinds of maimed advertising methods. In Estonia, for example, there is no such restriction, at least you can tell who you are, with certain restrictions avoiding a direct invitation for people to consume. But you can tell about your existence by associating yourself with a sporting event, etc.'

'In the end, Latvijas Lotto, which is recognized in Europe as gambling, is advertised at every step. Including in national TV. There is no consistency.'

‘In terms of advertising we are not even allowed for what is allowed to quick loans. Advertising is prohibited. Nor is it really defined what advertising, so different industries may interpret it differently.’

Representatives of the Ministry of Finance and the IUAI, at the officialdom level, during the interviews at least partially support the industry's desire. The authorities also emphasize the need to step up the fight against advertising from illegal sites, as this directly affects the size of the illegal market:

‘We hear an argument that illegal ones advertise much more freely - especially in channels that are not broadcast from Latvia, but many Latvians watch and it is aimed to our population. With the latest amendments, we have allowed the providers of interactive gambling services registered in Latvia to say little about their existence. But there is strong opposition from the Ministry of Health, which believes that no advertising for interactive gambling is allowed. We rather believe that the information should not be very conspicuous and that a number of restrictions should be left on advertising. However, informative advertising so that people have information about the legal offer should exist – there is nothing bad, it would only help a person to understand that if I want to have fun like this, I know where to find it legally.’

The Ministry of Finance also admits that they are aware of legal Latvian interactive gambling providers violating Latvian laws and regulations and ‘... some Latvian gambling providers hiding under trademarks. But we will definitely not allow it,’ emphasizes the Ministry of Finance. At the same time, both the Ministry and the IUAI acknowledge that:

‘However, the issue is also politically sensitive and the general opinion in the country is that gambling can be allowed only in a very controlled environment and to a minimum. In order to ensure this minimalism, however, we believe that some information should be allowed. The guidelines also state that a ban on advertising should be considered. The Ministry of Health opposes this and we respect this opinion.’

Unfortunately, due to the situation related to COVID-19, it will not be possible to obtain the opinion of the Ministry of Health within the framework of this study. However, the following quote from the interview raises hopes for resolving this issue:

‘We, the Ministry of Finance, are often the moderator of various extreme views, including a total ban on advertising and a complete authorization on advertising. We are not on any side completely. We would like to find a balanced, sustainable solution here, and in terms of advertising, I think there should be a non-discriminatory opportunity for legal operators to tell us about their existence. Because gambling is not prohibited in Latvia, there is a law that says it can be done. If so, how- and this issue is not yet resolved. I hope that the guidelines will enable us to address this issue.’

4.5. Restriction of the range of interactive gambling products for service providers registered in Latvia

As another sufficiently essential challenge, Latvian interactive gambling operators point out that the industry is relatively limited in terms of the range of gambling offered:

'It is limited in Latvia. If the providers of interactive gambling registered in Latvia could offer the same range as others - even if the odds may not be so competitive - due to the size of the market, the need for illegal offers for a large part of Latvian interactive gambling players would decrease significantly.'

Namely, in Latvia a list of offered range of interactive gambling products that legal operators may offer has been approved. According to company managers in the industry, this list is largely outdated, as more and more different types of interactive gambling appear in the world. The representative of the Ministry of Finance expresses the following opinion on this argument:

'It is not our aim to impose artificial obstacles to the industry. Also, regarding new products. What we have agreed with the industry is that if the industry says that there are variants of interactive gambling products that exist elsewhere in the world and we are not allowed to - let's look at the story and accordingly agree to use it in Latvia as well. Of course, the industry knows better the global tendencies and we expect the first step from the industry here.'

'We are open to this matter. We have also talked to the industry and asked for a list of where there is a willingness to expand the product range.'

The Ministry of Finance also points out that it has been observed that there are a number of games which were not previously recognized as gambling, but which, in essence, have developed to such an extent that they already correspond to gambling. For example, in video games, where there are no restrictions - even for children - but there are distinct components of gambling.

Also, in the IAUI's opinion the institution has no objections to the introduction of the new types of games offered, stressing that:

'The problem is that different new games need a different taxable base - it is necessary to make changes to the law regarding the tax and fees of gambling and lotteries. Interactive gambling is generally taxed on income, but there are games where a player plays against another player, e.g. in poker, where one part remains with the organizer and the rest is paid out proportionally to the winners - there is a different tax structure.'

The IAUI also emphasizes that any issues related to the opening of the gambling tax are very complex, long-lasting and often politicized:

'There are risks to reviewing the gambling law. We are aware of matters that are needed and should be fixed, but for some reason that have not been done yet. Mostly, this is directly related to the political issues that interfere. But we look at more pressing issues every year, along with budget matters, and we have moved a lot forward.'

4.6. Gambling tax 10%: its possible increase

According to Latvian laws and regulations, licensed interactive gambling operators pay a 10% gambling tax on revenue (rate minus prizes). As the industry itself acknowledges, this is competitive if comparing with many other countries:

'For example, the gambling tax is 2% in Malta and 5% in Estonia. But there are countries like the United Kingdom with a 15% and in some cases even 21% the gambling tax, and the Netherlands with 30%.'

Regarding this matter, representatives of the interactive gambling industry are concerned that this tax could be suddenly increased. As several company managers in the industry emphasize:

'It is quite common to raise gambling, including interactive gambling tax immediately, every time money is needed in the state budget. Not to mention that this actually increases the size of the illegal market and does not increase the revenue from gambling itself.'

Regarding the Latvian policy of the gambling tax, the industry recommends the following:

'It should be kept in mind that Latvia has a very small market for interactive gambling. If I am told that there will be, for example, a 20% gambling tax, practically all operators licensed in Latvia will simply close their business. It is not possible to pay so much in taxes at this volume. There is also no certainty that policymakers understand this, and we are really afraid that one year this tax will simply be raised. This will heavily change the business model and not in favour of tax revenue. But the argument is known - look, the Netherlands have this tax 30%, we have it so small. Markets are not comparable. So far this has not happened, which is good. In this respect, it would be worthwhile to learn from the Estonian example, where with its 5% gambling tax they collect more than it would be charged in Latvia at a similar market size. With such a tax policy, Estonia is able to attract more operators who are also active in the export of interactive gambling.'

According to the interviewed representatives of the Ministry of Finance and the IAUI, no changes in gambling tax rates are currently planned.

In addition to the above mentioned, the company managers of the industry, as well as representatives of the Ministry of Finance and the IAUI, also talked about other issues relevant to the interactive gambling industry. One of them: the intention to close access to interactive gaming halls for a few hours a day. The companies in the industry responded to this matter as follows:

'It must be understood that there is a significant difference between interactive and land gambling (P.S. as the industry calls gambling outside the interactive environment). This is indeed a ill-considered decision. It would take a lot of planning and costs to implement something like this. Policymakers are advised to take the situation seriously and not to introduce a single framework of regulation for both online and land-based gambling. Imagine a situation - a championship league game or other sports game

in different parts of the world takes place all the time. Bets are placed on it, but suddenly for a few hours everything in Latvia is turned off. You can ban some people individually, but definitely not everything!'

Also, in the interviews, the managers of the companies in the industry often emphasized the problems of **the image** of the industry, which greatly complicates the work on the organization of the industry, despite the fact that interactive gambling has been a legal business in Latvia, at least until now.

'The public image of the industry is a serious problem. It is often assumed that if a person is gambling online, he or she is simply written off.'

'Officials tend to be very negative. We are put in the same position as land gambling, even though it is not correct. We are controllable as banks are.'

Representatives of the industry admit that the gambling business, including the interactive is likely to continue to have an 'unfavourable aura'. This is, of course, understandable, because gambling, like alcohol abuse, tobacco, illegal drugs, and so on can cause a great damage. However, operators in the sector point out in this connection that:

'All Latvian gambling money goes through banks, because it is currently the only possible way to pay for interactive gambling. So this is the income that stays in the banks, not somewhere in the black economy, and these games are often played by very respectable people in society - including doctors, businessmen and teachers. And most of them do it to relax and for entertainment.'

Also, **the specifics of client identification in the industry** are closely related to the matter of image, which is closely linked to relationships with commercial banks. According to one of the representatives of the companies in the industry:

'The law stipulates how a customer must be identified in distance. There are four ways: a video call that must be recorded and saved as proof. A passport picture and a self-portrait. An electronic signature and an identification payment. Of these four types, the only thing that is normally applicable in our industry is the identifiable payment - the others require all kinds of additional tools – applications, etc. But it is a problem, because banks do not really like this industry - and this is where the whole story ends. For example, we cannot even open an account in some Latvian banks, because the business does not correspond to a client profile.'

In addition, the IUAI recommends that **appropriate regulatory amendments** should be considered:

'There may be different requirements for obtaining a license. For example, reduce the share capital but significantly increase the deposit, which would guarantee the pay-out of the prize fund at some critical moments. It should be taken into account that the market in Latvia is small and large international companies do not want to sort all the paperwork in Latvia.'

... and reminds that:

'Previously, the income from the gambling was directed to sports industry. Currently, this is not the case.'

Finally, both the industry itself and the respective authorities acknowledge that, despite various challenges, ***the interactive gambling industry is growing worldwide and also in Latvia.***

The IAUI has a similar opinion:

'We have to be aware that generations are changing, now those born in 2000 can play - those who were born together with the rapid development of internet technologies. It is much easier for these people to get involved in this interactive environment. Technology is also evolving; the offer is only increasing. Many of the games played by young people, including video games, also known as e-sports, already have a lot of gambling components.'

'Of course, the interactive market is growing. Those who are now in the land gambling are also looking at the interactive environment, because that is the future of the industry.'

As you know, growth is usually accompanied by a variety of challenges. With regard to interactive gambling, one of them is the protection of people who have various problems due to excessive gambling. That is why both the industry and the authorities are increasingly discussing about ***how to promote responsible gambling and help people in trouble.***

Undoubtedly, ***responsible gambling*** is one of the matters that only the legal industry can help to develop. The industry itself, its business leaders, are in favour of promoting responsible gambling, emphasizing that it is in the industry's own interest. Moreover, analysing interviews with the industry representatives, the companies have thoroughly delved into the available information, including in the scientific literature on the psychology of gambling addicts and are ready to become more involved both in identifying these people and in offering solutions to reduce the problems.

However, the industry also acknowledges that, despite the increased work required to inform the target audience about the various options for dealing with gambling addiction, the players themselves have to take some responsibility too.

'One factor that many may not be aware of is that a central register of self-stated persons has finally been set up. We are also required by law to become actively involved in this. And indeed, if a person has a problem, they can very easily protect themselves.'

The register of self-stated persons is an important initiative that can help people who are addicted to gambling. However, several other initiatives are also available in Latvia, including 'Anonīmie spēlmaņi' ('Anonymous Gamblers'), 'Spēles brīvība' ('Freedom of the Game'). Assistance is also offered by the Riga Mental Health and Substance Abuse Centre: Minnesota Program. Information on these and other options can be found on the Lotteries and Gambling Inspection's website. The

website of the Interactive Gambling Association also extensively describes both the risks of interactive gambling and offers solutions to problems.

The Ministry of Finance has also thought about working with the industry to promote a safe gambling. For example, one of the ways in which the Ministry of Finance sees an opportunity to address the issue of the Ministry of Health's strong position on restrictions on advertising is to propose the introduction of a cooperation program between the industry and the state.

'If entrepreneurs want to change the situation in the industry, for example, to allow advertising, then we could talk about a mutual agreement that the industry is also cooperating. For example, on monitoring issues. We would find useful information about players: who is playing, in what hours they are playing, what are the indicators when it is clear that a person is too addicted to gambling, etc. If we know where the problems exist and we can build such a database, we will also be able to regulate the industry in a more targeted way, while promoting responsible gambling.'

In general, according to the opinion expressed by the Ministry of Finance, both the Ministry of Finance and the Ministry of Health are concerned about the rapidly growing trend of interactive gambling:

'A new generation is entering, which is more familiar with the digital environment, and the interactive gambling industry is growing. The availability of interactive gambling is indeed simple and growing, which can become an even bigger problem over time.'

One solution to this situation the Ministry of Finance is currently considering is to regulate this growth by involving the industry in a way that is sustainable and less harmful to users:

'We are talking here about a mechanism for limiting the amount of interactive gambling - in some cases also for players to leave gambling - and for the industry itself to promote this. Namely, the number of players in the industry is growing and revenues as well. The companies in the industry should draw the line where they have enough such players and, consequently, revenue. In other words, companies should be prepared to give up the part of growth that is already causing problems for the gamblers and thus 'raising the temperature politically'. How to give it up? One way is to divert this part to some other activity, where these gamblers get the same psychological benefits through good deeds – charity, etc. This is an issue that we and the industry would be happy to discuss in more detail.'

It would be important to add here that responsible gaming initiatives and any other measures can only protect those gamblers who operate in the licensed market. There is simply no information about those in the illegal market. This is another essential aspect of why the environment should be created as much as possible for those Latvian residents who choose to play interactive gambling to do so with gambling operators licensed in Latvia - and not in the illegal market.

5. Conclusions and recommendations

This study and its recommendations are based on the assumption that gambling, including interactive gambling, causes serious addictive problems for some gamblers. However, depending on 'land' gambling, it is not possible to completely close access to interactive gambling on the internet. In addition, according to all available evidence, despite various restrictions and educational campaigns, people will want to gamble anyway.

It is also known that the illegal gambling market is highly developed around the world. According to several companies licensed in the interactive gambling industry in Latvia: up to the level where completely unlicensed companies participate in the world's largest gambling exhibitions and sponsor world-famous football clubs. Under such circumstances, including in order to protect people who may suffer from gambling addictions, as well as to supplement the state budget, it is important to maintain a legal interactive gambling industry in Latvia as well.

According to the available data, the interactive gambling market is growing rapidly both around the world and in Latvia. In accordance with the information published by the Interactive Gambling Supervision Inspection, interactive gambling licenses have been granted and used in Latvia by nine operators, but three operators have been licensed, but no operations have been initiated. As of March 15, 2020, two more license applications were being processed. The total revenue from licensed (legal) interactive gambling in Latvia in 2019 exceeds 54 million euros and in total in the state budget in 2019 the industry paid more than 12 million euros in taxes. The interactive gambling industry in Latvia makes up 17.8% of the total amount of gambling. The largest share of the legal interactive gambling market in Latvia is occupied by casinos.

According to Latvian laws and regulations, only those interactive gambling operators who have received a relevant license are considered as legal in Latvia. The use of any other interactive gambling service offerings in Latvia is illegal. According to the H2gc calculation, in 2019 the amount of the illegal interactive gambling market was 38%, or more than 33 million euros. Approximately 7 million euros of this amount was not paid to the state budget. The contribution of the legal interactive gambling industry to the Latvian state budget in 2019 amounted to approximately 12 million euros.

As the results of the study show, the Latvian supervisory authorities, at least at the level of the officialdom, are clearly aware that the creation of major obstacles, including a total ban on interactive gambling, will create greater problems than benefits. This is also affirmed in experiences of other countries. Here is just one example from Sweden that was shared by one of interviewed company managers:

'Adequate regulation of the interactive gambling industry on the size of the illegal market is crucial. An example from Sweden. For a long time, there was no regulation in this industry in Sweden. All operators were licensed in either Malta or any other country. But there is a big market: at least 20 times bigger

than in Latvia. Sweden did not have a gambling inspection or a self-stated person register. People were not protected, there were many addicts, but the money did not come into the treasury from the industry at all. Seeing tendencies in other countries, Sweden adopted regulations, introduced an 18% gambling tax, and a condition that only one player can receive one bonus in a lifetime. A register of self-stated persons and a complicated licensing process were also implemented. The biggest gamblers handled it all and moved to the legal market. But the idea of only one bonus system had many negative consequences. Because people were used to always get back 5% of the amount lost - now it was no longer possible. As a result, many continued to gamble in the unlicensed market. In general, for these reasons - by raising taxes quickly and not allowing bonuses, only 50% of the illegal market was legalized, and the rest remained in the illegal market. '

Unfortunately, recent experience, namely a total ban on interactive gambling, shows that decisions in Latvia regarding the interactive gambling industry are politicized and are contrary to the interests of both the gamblers and the budget revenues. In a way, similarly to people who leave Latvia and settle in other countries, a significant part of Latvian residents who have played interactive gambling with Latvian licensed operators will never return. However, they will continue to play, either illegally, either by replenishing the treasury of another country (playing with operators licensed in other countries) or by making a financial contribution to completely illegal entities. During the interviews, both the industry and respective authorities acknowledge that "the place will never be empty". In addition, according to the Ministry of Finance, unlicensed gambling is also a tool that can be used in money laundering and terrorist financing schemes.

The question is whether Latvian policy makers really want such a scenario. And are they ready to take responsibility for those problematic gamblers - residents of Latvia, who will gamble in the illegal sector?

Assuming that such a hasty decision will be removed and the legal interactive gambling industry, which will have the opportunity to continue negotiations with policy makers, the study shows, the following measures would be important to reduce the illegal market:

Firstly, the removal of personal income tax (PIT) that is generated from the total turnover and not from the actual profit of the player. One of the solutions in this regard is to take over the Lithuanian experience, where only the part that a player wins is subject to taxation. Once again, it must be taken into account that it is simply not possible to completely or even significantly restrict access to illegal gambling on the internet. Therefore, if there were only providers of interactive gambling services registered in Latvia, the argument of regulatory authorities that people should pay more for their entertainment would be appropriate. However, given the specifics of the industry, such a tax not only increases entertainment fees, but also provides an additional incentive to move to the illegal market where such a tax does not exist, of course.

Secondly, to allow interactive gambling services proportionate advertising. Controlled, restricted, however, it is important to enable industry to communicate their services legally. In addition, this should be done in parallel with activities that, as far as possible, restrict access to the advertising

of illegal interactive gambling operators. It is also important to emphasize that, in terms of advertising, and not only, there is a big difference between what can be allowed for interactive gambling and what for the rest of the gambling industry. Thirdly, to make it easier to offer new products by following the global trends in the interactive gambling industry. This would mean cutting red tape in opening up the relevant laws to this very aspect. Fourthly, more effective blocking of illegal sites and payments to illegal interactive gambling operators. Although work has started to fight this issue, much remains to be done, especially with regard to blocking payments. And fifth, a review of payment options for licensed gambling in an interactive environment. Currently, it is allowed to pay for the use of interactive gambling services only through Latvian commercial banks, which creates a number of unnecessary problems for both gamblers and gambling operators. Last but not least, the industry should be convinced that it could operate in a predictable environment where no sudden tax changes are expected, such as an increase in the gambling tax, or, even worse, suspending operation of the entire industry.

I believe that with the implementation of the above-mentioned set of measures, which would work together with activities promoting responsible gambling, as well as the exchange of information between the industry and the government, the majority of Latvian residents would not be motivated to participate in the illegal gambling market. And, it is essential to stress out that such solutions are reasonable, because in most countries such restrictions do not exist in the interactive gambling industry (see Table 7).

7.tabula. Comparison of separate regulation for interactive gambling industry in the Baltic States

	Latvia	Lithuania	Estonia
Advertising	Prohibited	Allowed under conditions	Allowed under conditions
Possible payment types	Bank payments	Any type of payments	Any type of payments
Tax from a prize	23% of a pay-out	15% of a capital gain	Not relevant
Campaigns and bonuses	Significantly limited	Insignificantly limited	Unlimited
Products	Limited	Limited	Full range of products

Source: LIAB, 2020

In addition, as one of the company managers emphasized regarding experience in the Estonian market:

‘Also, in Estonia, there is still no effective blocking of payments to illegal operators. But e-wallets can be used there, not just making payments through commercial banks. There is also no PIT from the amount of gambling. Therefore, this market attracts more gamblers. With their 5% gambling tax rate, I am sure that they obtain more on taxes from interactive gambling than in Latvia. Many even choose to be licensed to work in unlicensed markets - they compete with Malta.’

I am convinced that a controlled, responsible and sustainable interactive gambling industry is essential in Latvia. However, seeing the many problems faced by legal companies in the interactive industry in the country, I asked this question: "Given the circumstances, what are the reasons why you still prefer to work in a legal environment?". One of the answers I received to this question was as follows:

'This is our business strategy, to be in the legal market. Because we believe that in such a way the business is sustainable. For example, we can work with confidence that the industry will survive, and that its regulation is not expected to be too disruptive.'

In the context of recent events, unfortunately, this opinion turns out to be misleading.

Another company manager expressed the following position in an interview:

'We have accumulated competence and knowledge of what is happening in the industry. And we have grown enough to start thinking in the long run. It also means being able to put things in place before any of us ask – and we do it often. We are really open to wider and deeper cooperation with the government.'

In addition to what the manager of a particular company said, I think that there is great potential in such cooperation between the industry and the government. According to the results of the study, it is supported at the officialdom level by both the responsible institutions and the industry itself. It is possible that the interactive gambling industry could be the one to follow the example of the construction industry by concluding a general agreement. On the one hand, the general agreement would provide extensive co-operation in promoting responsible gambling, curbing the growth of an unhealthy sector and providing information to public authorities, and on the other hand, preventing the above-mentioned key issues in the interactive gambling sector. But firstly, of course, it should start with the lifting of the ban on the interactive gambling industry.