

Betting on BRAZIL

The opportunities are plentiful but challenges lie ahead

By Brendan D. Bussmann

Latin America continues to present itself as one of the greatest opportunities for gaming expansion. While it is home to a number of existing markets, there continue to be more opportunities for existing and new market players as expansion and reform take place in the Southern Hemisphere.

One of the greatest opportunities in Latin America remains in Brazil, due to its size, scope and potential offerings from both an expansion and reform perspective. However, the market still has its challenges as it considers next steps for lottery, sports betting, integrated resorts, and other potential forms of gaming.

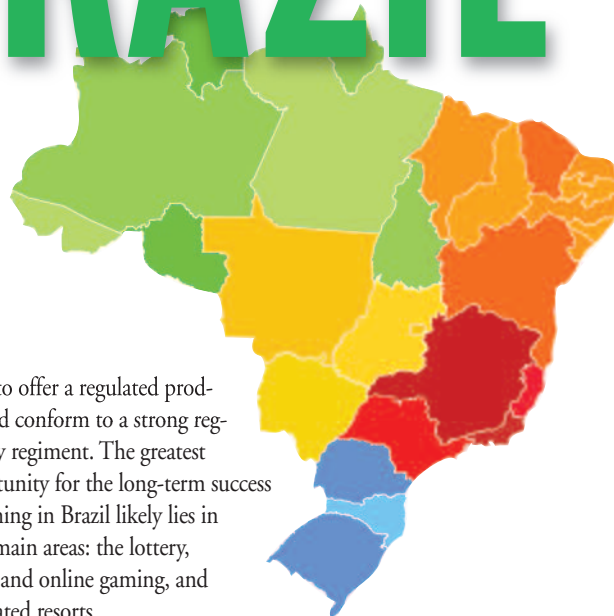
As the world pushes forward past the Great Shutdown, gaming continues to be one of the avenues that markets across the globe are looking towards to be an economic engine for investment, job growth and tourism growth. To that end, Brazil continues to be one of the most discussed jurisdictions. Stakeholders continue to drive the gaming conversation in this market due to changes that have occurred legally over the last year with the lottery as well as an expressed desire for regulated sports betting. Furthermore, Brazil tends to get the utmost attention from outside stakeholders because of the long-rumored movement toward integrated resort legalization.

Latin America is not always an easy place to do business, and requires interested parties that understand the local environment and have existing relationships in the market. While this can be said for any new or emerging jurisdiction, the region also provides several other interesting challenges. There is no one-size-fits-all model that will work from country to country.

Brazil is entirely different from less proximate countries like Mexico, and is even different from neighboring countries like Uruguay. Understanding local cultures, the existing legal and gray market footprints, key stakeholders and other challenges, like an unbanked community, are all key parts of understanding what may or may not be the right regulatory and development fit for a new gaming opportunity in Latin America. This certainly holds very true for markets like Brazil.

While the gray market continues to play a significant role in Brazil, there are certain parties that want to shift to a legal framework, allowing

them to offer a regulated product and conform to a strong regulatory regiment. The greatest opportunity for the long-term success of gaming in Brazil likely lies in three main areas: the lottery, sports and online gaming, and integrated resorts.



Flipping the Script on Lotteries

In 2020, the lottery market in Brazil decided to shift its course as focus on the lottery shifted from the national government to the states. Back in October 2019, Scientific Games and IGT teamed up to jointly run the national instant lottery from the LOTEX Concession. The combined effort was granted in partnership CAIXA Econômica, the country's largest lottery network. The partnership fell apart in October 2020 when IGT and Scientific Games failed to authorize a contract by the deadline. CAIXA failed to execute on the contract, which left 13,000 lottery retailers at the time without a distribution network.

At roughly the same time last year, the Supreme Court of Brazil issued a ruling stating that the federal government's monopoly on the lottery was unconstitutional. This allowed Brazil's 26 states to consider their own individual lottery offerings, adding further layers to an already complicated playing field. While the opportunity for state-run lotteries probably provides a greater opportunity for multiple operators to enter the market, it creates its own challenges as the nation pulls away from its previous monopoly-based federal model, which was in place only six months ago.

This Supreme Court ruling was in response to a challenge by the state of Rio de Janeiro, which challenged the federal government's ability to shut down its state-run lottery. The court ruled that lotteries were a form of "public service" and were allowed to continue to operate under the constitution. It is now up to each state to decide whether to allow its own form of lottery, which throws the national lottery into flux since it no longer holds the monopoly.



A court decision has placed the future of the national lottery up in the air, giving more power to Brazil's 26 states

Betting on Sports

Sports betting and online gaming continues to be one of the biggest gaming expansion opportunities for current operators and potential new market entrants. While most of the buzz surrounding sports betting has focused on the United States with the repeal of the Professional and Amateur Sports Protection Act by a Supreme Court decision, LatAm and Asia remain other strong long-term opportunities.

Brazil is currently getting ready to go through the regulatory phase of sports betting. While this topic has been discussed in the market for the past couple of years, BNDES (Banco Nacional de Desenvolvimento Econômico e Social) recently released an RFP to hire a technical and legal consultant to assist in the regulatory process for sports betting. With a decision expected in the near term, BNDES, along with their consulting partner, will develop the sports betting market's regulations, number of concessions, licensure process, and administration and enforcement components before the end of the year.

As noted previously, this would be considered a public service in the

same way that lotteries are structured and operators must follow the protocols established by the PPI (Programa de Alianças de Inversão) and the PND (Programa Nacional de Privatização). BNDES will have the opportunity to select which model they believe is best for Brazil as they evaluate the best way to privatize. They will evaluate the best legal and regulatory framework for the market, an appropriate general structure for regulation, and the best method to address the market opportunity in terms of number of operators.

This process will also try to establish a competitive market that details how operators may address the market in terms of land-based and mobile offerings. Assuming everything stays on track, it is viewed that sports betting could be legally operational in 2022 through the federal government.

Sports betting in Brazil has undergone a long process since the law was originally passed in December 2018. It will likely be three years since the original law was passed before a legal wager is made in the country. Brazil wants to make sure that it has everything running on all cylinders by 2022 as it does not want to miss the betting opportunity associated with the World Cup. As

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Jogo do bicho, a popular animal betting game, is part of the gray market in Brazil that officials are trying to regulate

such, this process will unfold at the same time as states work toward their lottery legalization models as they seek to capture additional gaming revenue.

IRs Remain a Goal

Integrated resorts (IR) have been discussed for years in Brazil. Like Japan, Brazil's stakeholders have viewed the IR opportunity as a mechanism to ensure post-Olympic boosts to tourism. At one point or another, many of the major global gaming companies have shown interest in the market, with Las Vegas Sands largely driving some of the most recent conversations in the market prior to the Great Shutdown.

Over the years, one of the main challenges for IR implementation has been how to create an ideal market for integrated resorts. In previous sessions of the National Congress, there have been two camps for legalization. One proposal has always centered around a comprehensive package for all of gaming that would legalize the gray market as well as a limited number of integrated resorts. This approach would yield a significant revenue stream for the state and generate tens of thousands of jobs. The other proposal would solely rely on integrated resorts with a limited number of locations, thus keeping the rest of the gaming market operating illegally and without regulation.

The second proposal becomes the tougher model to enforce because the gray and black markets exist today. While IRs have proven to be solid economic and tourism engines, they do nothing to address the local gray market that will continue to operate unless a regulatory structure is developed that can capture that revenue and bring operators into compliance. As mentioned previously, some of these operators have indicated that they would desire this level of legalization. Some interested international operators believe this is the best approach, but have not fully thought through how to appropriately combat the entrenched, existing gray market.

Regardless of the approach ultimately chosen for IR legalization in Brazil, international operators need to know that they have a legal framework in place that will allow them to develop large-scale facilities in a well-regulated and fair environment. The chosen regulatory model must include a reasonable tax rate with strict regulations, a rational licensing fee, and license term and roadmap that shows that each operator's investment will pay off in the long term. Should Brazil open up to integrated resorts in the short or long term and develop a sound regulatory structure, it will likely be one of the most sought-after land-based gaming opportunities.

Brazil will continue to make a strong case for IR development until it passes legislation, but the nation must address the existing markets in the same legislative action. While there continues to be a debate among legislators and stakeholders interested in the market, there is one common theme that gaming prohibition is no longer an option. The gray market seeks to have their machines allowed and operated in an open, regulated environment. The online market is currently rampant in Brazil, and it remains un-

regulated and dominated by offshore operators. Through proper regulations, Brazil could generate large levels of tax dollars for the state and protect its population from rogue operators.

Moving Forward

Regulation remains one of the biggest hurdles in the development of the long-term gaming market in Brazil. The chosen regulatory model must address the fact that numerous gray- and black-market operators are participating in the market. This effort will require strong support from legislators, as it will be a tough issue to tackle.

Additionally, legalization will also face the age-old anti-gaming arguments that occur in any new jurisdiction which say that if you legalize gaming you will bring crime, money laundering, drugs, prostitution and other ills to communities. While none of this is the case, the social ills argument continues to plague any gaming debate whether it is in Brazil, the United States, or a market in Asia.

The last challenge that exists for Brazil is that there continues to be diverse opinions and lack of consensus on how best to regulate the market. The development of gaming policy takes time, and there is only one chance for a market to get it right. This challenge is almost greater in Brazil because of the existing stakeholders in the market and current climate.

Within Brazil's Congress, there continue to be calls for gaming legalization and legislation. One of the more vocal proponents in this effort comes from the Tourism Commission and the Finance and Tax Commission, which believe the greatest chance for revenue and economic benefit stems from integrated resorts. These parties recognize that IRs will provide great levels of gaming revenue as well direct, indirect and induced jobs, spending, and tax revenue. They also recognize that these impacts would come from locals as well as tourists to the country.

If the market is crafted properly, Brazil still has the opportunity to be one of the largest gaming markets in the world. The greatest and most immediate opportunity is on the sports betting and online gaming front. This is not solely because of the existing process to construct the regulatory framework for sports betting, but also because of the opportunity to recapture dollars that are lost within the borders of Brazil from those residents that gamble with unregulated providers.

Brazil is a sports-driven culture that should seek out this gaming revenue source in short order and not delay the creation of a legal market further. At the same time, states will continue to try and reap the benefits of newly created state-run lotteries. While the rest of the gaming market should be legislated and regulated as well, the legalization and implementation of these two forms of gaming might help serve as a catalyst to end the tired myths surrounding other forms of gaming, allowing the country to develop a robust gaming market with a variety of offerings.

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