

How Big Is Canada's Black Market for Sports Betting?

The Gambling Industry's Claims Don't Survive Scrutiny

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One of the arguments made when single-event sports betting was legalized in Canada in 2021 was that people were going to bet on sports anyway, so why not make it safer to do so, and taxable?

There's an element of truth to this. Regulation does allow for government oversight and improved play protections, and it's better for gambling revenue to go to problem-gambling treatment and other government programs than to organized crime.

Yet there are several problems with the argument. For one, it presents gambling demand as basically inelastic: people have a certain amount they want to bet on sports, and that's the amount they're going to bet, regardless of the legal conditions for doing so. But gambling corporations (including government-owned corporations such as OLG) clearly don't believe demand for their product is inelastic, given that they spend hundreds of millions of dollars each year trying to stoke demand through advertising.

Nor do the gambling industry's claims about the size of the sports-betting black market hold up to scrutiny. In the ten years leading up to the legalization, the Canadian Gaming Association argued consistently that Canadians were wagering \$4 billion on grey-market offshore websites (sites that may be legal in their geographic jurisdiction but not legal in Canada) and \$10 billion with black-

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market bookies within Canada.¹ Other proponents of legalization drew on the Association's estimate: Rogers cited it in a submission to Parliament.² MPs cited it in the House when the bill to legalize single-event sports betting was being debated.³ The CBC cited it, saying that the figures were "according to the federal government."⁴ And the Department of Justice cited it in a news release on the bill's coming into force.⁵

In the House of Commons, the sponsor of the bill remarked:

The gaming industry in Canada is a multi-billion dollar industry. . . . However, none of that includes the single-event sport betting industry, which is a \$14-billion industry in this country. Unfortunately, all of that activity is taking place underground. Offshore websites like Bodog and bet365 take in billions of dollars a year, and criminal organizations operating black market betting rings across the country are taking in billions of dollars more. . . . Imagine what we could do with our share of \$14 billion. . . . single-event sports betting is already taking place in Canada to the tune of \$14 billion a year. However, instead of safely regulated, these activities are run by the black market gambling rings and offshore websites. None of this money, absolutely none of it, goes back into the public coffers and none of it goes to addressing issues like problem gambling or mental health support.⁶

Cardus has been able to find just one Canadian Gaming Association publication that includes a source for these figures: the 2011 press release in which the numbers first appeared.⁷ The press release provides a link to a study that HLT Advisory had prepared for the Association. HLT Advisory is a consulting firm specializing in gambling, hospitality, and tourism.

¹ See, for example, Canadian Gaming Association, "Canadian Gaming Association Acknowledges Major Milestone to Allow Single-Event Sports Wagering In Canada," March 2, 2012, <https://canadiangaming.ca/canadian-gaming-association-acknowledges-major-milestone-to-allow-single-sevent-sports-wagering-in-canada/>; "The Canadian Gaming Association Welcomes NHL Partnership on Sports Betting to Provide a New Level of Fan Engagement," October 29, 2018, <https://canadiangaming.ca/the-canadian-gaming-association-welcomes-nhl-partnership-on-sports-betting-to-provide-a-new-level-of-fan-engagement/>; "Canadian Gaming Association Calls on All Party Support for Single-Event Sports Betting," October 10, 2019, <https://canadiangaming.ca/canadian-gaming-association-calls-on-all-party-support-for-single-event-sports-betting/>; "Canadian Gaming Association Urges Quick Action on Legislation for Sports Betting," November 3, 2020, <https://canadiangaming.ca/canadian-gaming-association-urges-quick-action-on-legislation-for-sports-betting/>; "Sports Betting Fact Sheet," <https://canadiangaming.ca/sports-betting-fact-sheet/>.

² Rogers Communications Inc., "Repatriating Billions of Dollars in Illegal and Grey Market Activity: The Economic Benefits of Legalizing Single-Event Sports Betting," Submission to the House of Commons Standing Committee on Justice and Human Rights, March 2021, <https://www.ourcommons.ca/Content/Committee/432/JUST/Brief/BR11167370/external/RogersCommunicationsInc-e.pdf>.

³ See, for example, Canada, House of Commons, *Hansard*, 43rd Parl, 2nd Sess (November 3, 2020) <https://www.ourcommons.ca/DocumentViewer/en/43-2/house/sitting-25/hansard#10990330> at 1715 and <https://www.ourcommons.ca/DocumentViewer/en/43-2/house/sitting-25/hansard#10990499> at 1745.

⁴ P. Evans, "Canada Legalizes Single-Game Sports Betting, Opening Up Billion-Dollar Market," *CBC News*, August 13, 2021, <https://www.cbc.ca/news/business/canada-sports-betting-1.6138865>.

⁵ Department of Justice Canada, *Government of Canada Highlights Coming Into Force Date of Criminal Code Amendments on Single Event Sport Betting* (August 12, 2021) <https://www.canada.ca/en/departement-justice/news/2021/08/government-of-canada-highlights-coming-into-force-date-of-criminal-codeamendments-on-single-event-sport-betting.html>.

⁶ Canada, House of Commons, *Hansard*, 43rd Parl, 2nd Sess (November 3, 2020) at 1745.

⁷ Canadian Gaming Association, "Canadian Gaming Association Welcomes Changes to Allow Enhanced Sports Wagering in Canada," September 28, 2011, <https://canadiangaming.ca/canadian-gaming-association-welcomes-changes-to-allow-enhanced-sports-wagering-in-canada/>.

HLT Advisory estimated the grey market as “likely in the \$2.0 to \$4.0 billion range” in 2010.⁸ This estimate was in turn based on an estimate from H2 Gambling Capital, a market-data company. In 2009, according to H2, Canadian internet “betting”—a category that included both sports and horse racing—generated around \$190 million in “win” (that is, revenue after prizes). HLT Advisory then extrapolated from win to wagers, using the average win rate in Nevada, which was 5 percent.

It is not clear how H2 got its numbers on Canadian online betting, how HLT Advisory got its numbers on Nevada’s win rate, and whether Nevada’s win rate can be extrapolated to the Canadian situation. And even if the 5 percent win rate and \$190 million grey-market win figures were in the right ballpark, the latter did not refer to sports betting alone but also included revenue from horse racing. According to the HLT Advisory report, sports accounted for around half of betting wins globally. In Canada, “sport is thought to represent the largest component” of betting, though the report did not specify by how much.⁹

As for the \$10 billion figure for the black market, HLT Advisory based it on an estimate of the scope of illegal sports gambling in the US:

The size of the illegal United States sports wagering market is thought to be significant. The US National Gambling Impact Study Commission (1999) stated that “estimates of the scope of illegal sports betting in the United States range anywhere from \$80 billion to \$380 billion annually.” While the size of the illegal bookmaking market in Canada is unknown, it is also thought to be significant. If the range of illegal sports betting in the United States is accurate, it would not be unreasonable to assume that the range in Canada is between \$10.0 billion and \$40.0 billion.¹⁰

The Canadian Gaming Association’s only source, then, is a twenty-five-year-old US government report whose own estimate is a very wide range. Nor does the US report’s estimate appear to be supported by solid research. The illegal-bookmaking market estimate of \$80 to \$380 billion appears only once in the National Gambling Impact Study Commission’s final report and is supported by a single footnote.¹¹ This footnote cites an Associated Press article about the Commission’s own proceedings, which ran in the *Las Vegas Review-Journal* in May 1999.¹² In that article too, the estimate gets one sentence: “Commissioners were told that while legal sports betting in Nevada draws \$2.3 billion a year, illegal sports betting runs anywhere from \$80 billion to \$380 billion annually.”

Cardus looked at transcripts of the National Gambling Impact Study Commission proceedings.¹³ A Commission staffer cited “at least one study” placing the size of the illegal sports betting market

⁸ Canadian Gaming Association, “Single-Event Sports Wagering in Canada—A Case Study: Border Commercial Casinos in Ontario, Key Findings Report,” prepared by HLT Advisory, 2010–2011, 16, https://canadiangaming.ca/wp-content/uploads/cga_research_and_studies/CGA_Single_Event_Sports_Wagering_Case_Study_Sept_2011.pdf.

⁹ Canadian Gaming Association, “Single-Event Sports Wagering in Canada,” 16.

¹⁰ Canadian Gaming Association, “Single-Event Sports Wagering in Canada,” 5.

¹¹ United States, National Gambling Impact Study Commission, *Final Report* (1999) <https://govinfo.library.unt.edu/ngisc/reports/2.pdf> at p 14.

¹² R. Macy, “Ban on College Sports Betting Could Cost State Books Millions,” *Las Vegas Review-Journal*, May 18, 1999.

¹³ National Gambling Impact Study Commission, *Transcript Contents: November 10, 1998* (1999) <https://govinfo.library.unt.edu/ngisc/meetings/10nov98/nov10con.html>.

at “approximately \$88 billion,” though the study in question is not identified in the transcripts.¹⁴ A Vegas sportsbook executive gave three estimates to the Commission: \$50 billion, from the Council on Compulsive Gambling of New Jersey; \$100 billion, from *Sports Illustrated*; and \$250 billion, from a medical centre. Even these figures, he suggested, “might be too low,” but he offered little rationale for what he called his “guess.”¹⁵ These two speakers were the only participants to offer concrete estimates of the size of the illegal sports-betting market. They offered no information about how the sources they cited came up with the numbers they did.

How, then, did the National Gambling Impact Study Commission in the US get from a range of \$50 to \$250 billion—the spread of the studies cited by the two participants above—to the \$80 to \$380 billion range that it stated in its final report? The only time that the latter figures appear in the Commission’s proceedings is in these remarks by one of the commissioners:

I normally very much agree with Commissioner McCarthy’s view that the gambling industry or industries would be well advised to step up to the plate and take responsibility for dealing with compulsive gambling problems in this country . . . but I’m puzzled, Commissioner McCarthy, by your application of that concept to today’s panel. Because according to the testimony and the staff briefings, there’s about two and a half billion dollars worth of legal sports gambling in this country and there’s somewhere, depending on whose guesstimate you take, within \$80 to \$380 billion worth of illegal sports gambling.¹⁶

The \$80 billion floor may be loosely connected to the Commission staffer’s \$88 billion estimate; the \$380 billion ceiling appears to have no basis beyond the rhetorical effect of a round number.¹⁷

¹⁴ United States, Statement of J. Shosky, Proceedings of the National Gambling Impact Study Commission (November 10, 1998) <https://govinfo.library.unt.edu/ngisc/meetings/10nov98/p041110.pdf> at p 21.

¹⁵ Statement of V. Salerno, *Proceedings of the National Gambling Impact Study Commission* (November 10, 1998) <https://govinfo.library.unt.edu/ngisc/meetings/10nov98/p081110.pdf> at p 41.

¹⁶ Comment by Commissioner J. Wilhelm, *Proceedings of the National Gambling Impact Study Commission* (November 10, 1998) <https://govinfo.library.unt.edu/ngisc/meetings/10nov98/p121110.pdf> at p 83-84.

¹⁷ The unreliability of the Commission’s estimates is no secret: skeptical journalists and economists in the United States have been aware of the shaky basis for years. See, for example, J. Weissmann, “Big Bucks or Bogus Betting Baloney?,” *Slate*, November 21, 2014, <https://slate.com/business/2014/11/adam-silver-says-theres-400-billion-per-year-of-illegal-sports-betting-in-the-u-s-alone-seriously.html>; J. Zagorsky, “Market for Illegal Sports Betting in US Is Not Really a \$150 Billion Business,” *The Conversation*, May 14, 2018, <https://theconversation.com/market-for-illegal-sports-betting-in-us-is-not-really-a-150-billion-business-96618>. More recent estimates are noticeably smaller. In 2022—four years after single-game sports betting was legalized in the United States—the American Gaming Association (AGA) used survey data to estimate that the American illegal sports-betting market was worth around \$63.8 billion (\$35.4 billion in 1998 dollars). American Gaming Association, “Sizing the Illegal and Unregulated Gaming Markets in the United States,” November 2022, <https://www.americangaming.org/wp-content/uploads/2022/11/Sizing-the-Illegal-and-Unregulated-Gaming-Markets-in-the-US.pdf>. There are significant problems with using survey (that is, self-reported) data to measure the scope of an illegal activity. Gamblers’ self-reports are notoriously unreliable: as noted in previous Cardus research, what Ontarians said they spent on gambling turned out to be only 12 percent of OLG’s revenue (B. Dijkema and J. Lewis, “Pressing Its Luck: How Ontario Lottery and Gaming Can Work For, Not Against, Low-Income Households,” Cardus, 2020, pp. 14–15, <https://www.cardus.ca/research/work-economics/reports/pressing-its-luck/>). AGA compensates for this bias in its study by comparing how much participants reported wagering in legal channels with the financial data of the legal sports-betting industry, using the difference to adjust self-reports of both legal and illegal/unregulated gambling. (They do not disclose the size of this adjustment factor.) Thus AGA’s calculations for the size of the illegal gambling market also appear to rely on the assumption that respondents underestimate their gambling spending by the same margin for both regulated and unregulated channels—in other words, that self-report bias is the same for both legal and illegal activities. Compare R. Wood and R. Williams, “How Much Money Do You Spend on Gambling? The Comparative Validity of Question Wordings Used to Assess Gambling Expenditure,” *International Journal of Social Research Methodology* 10, no. 1 (2007): 63–77, <https://www.tandfonline.com/doi/abs/10.1080/13645570701211209/>.

In short: the Canadian Gambling Association's \$10 billion black-market figure comes from another country's twenty-five-year-old "guesstimate" range, whose lower end is connected only distantly to four sources, about which we have no information, and whose upper end is entirely speculative. This guess was then extrapolated to Canada, where it has become ingrained and accepted as accurate in the sports-betting debates of the last decade—even though its foundation, it turns out, is little more than a house of cards.

We don't know how much money people were or are wagering with unregulated bookies—measuring illegal activity is difficult, for obvious reasons. We don't know how many gamblers enjoy better protections now that the gambling sites they use are subject to regulatory oversight. One recent survey commissioned by the Alcohol and Gaming Commission of Ontario found that just over two-thirds of Ontarians who gamble online report doing so on regulated sites.¹⁸ But how many of them only started gambling online when the regulated market opened, as opposed to those who had been gambling illegally and then switched to the newly regulated sites?

The same challenges apply when we seek to answer the question of whether Canadians are getting "our share of \$14 billion." We have data from Ontario only; based on Ontario's population size relative to the rest of the country, Ontario's share would be about \$5.46 billion.¹⁹ In the 2022–23 fiscal year, iGO processed \$6.97 billion in wagers.²⁰ Does this mean that the black and grey markets are comparable to the \$14 billion estimate of the Canadian Gaming Association? We don't know. Some of these wagers may have been made on unregulated sites before legalization, but as noted above, other wagers may be by newcomers who entered the market when it became legal. While proponents of expanded legal gambling may argue that demand for gambling is relatively inelastic, their marketing efforts belie this stance. It seems safe to assume that the sports-betting ads that flooded Ontario when the market opened are responsible for some portion of the nearly \$7 billion wagered on iGO-regulated sites the following year. But we have no way of knowing how much.

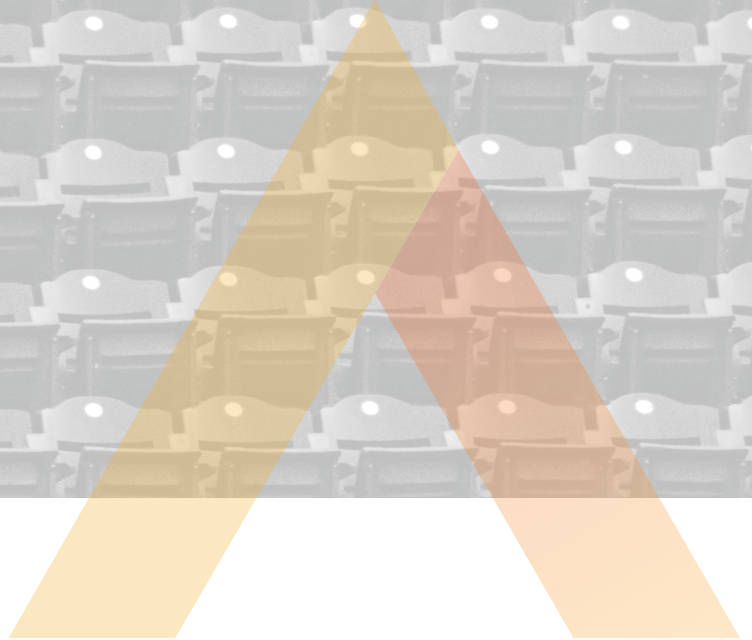
Moreover, to speak of the public purse getting a "share of \$14 billion" is misleading if what's meant is the amount earned by gambling companies. The \$14 billion was an estimate of the amount wagered on the black and grey markets, not the amount bookies earned after paying out player winnings. In the 2022–23 fiscal year, the \$7 billion wagered on sports betting brought in \$368 million in revenue, 80 percent of which went to private companies. Publicly owned iGO got just under \$74 million in revenue from sports betting—around 1 percent of what was wagered.

¹⁸ Another 16.6 percent report that they gamble on both regulated and unregulated sites, and the remainder report that they gamble only on unregulated sites. AGCO and iGO, "Report: Ontario iGaming Market Channelization," prepared by Ipsos, April 3, 2023, https://www.agco.ca/sites/default/files/igo_channelization_report_ipsos_-_apr_3.pdf.

¹⁹ As of the third quarter of 2023, Ontario represented 39 percent of Canada's population. Statistics Canada, "Table 17-10-0009-01: Population Estimates, Quarterly," <https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1710000901>.

²⁰ iGO, "Financial Statements of iGaming Ontario: Year ended March 31, 2023 and for the Period from July 6, 2021 (Date of Incorporation) to March 31, 2022." August 17, 2023. <https://igamingontario.ca/en/igo-financial-statements-2022-2023>.

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