



Australia Offshore Wagering Market Analysis 2023

Prepared for:
Responsible Wagering Australia

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Data driven
solutions

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Premium

Executive Summary

This report has been prepared for **Responsible Wagering Australia (RWA)** in response to a request for **H2** to refresh and update its previous analysis carried out in March 2019 into the size and depth of the current **offshore wagering market** in Australia.

H2 offshore market methodology is by far the most granular and trusted within the sector and is rooted in our own databank and knowledge of some 175+ gambling jurisdictions across circa 100 countries. For market sizing, we use a range of measures including: any player survey findings available on current offshore activity; web scan of all operators / sites proactively targeting a market; desk search of operators most commonly referenced through affiliate sites, SEO keyword search, and direct advertising / sponsorship to local citizens; testing of IP address account creation; plus if required, running of bespoke site traffic analysis to calculate implied GGR revenues and market share for the main operators offshore.

The following **headline findings** emerged from our analysis:

H2 RWA – Australia Offshore Wagering Market Analysis *Headline Findings*

Background / Current Context

The Australian interactive onshore wagering market has grown substantially over recent years, generating A\$6,585m in 2022 across racing and sports betting. Over the past five years, the onshore wagering market has grown at a 5-year (2017–22) CAGR (Compound Annual Growth Rate) of 26%, driven by racing growth of 30% CAGR, which represents 79% of the total onshore interactive wagering market.

On a per capita basis, Australia has the highest wagering spend per capita of any market, with a 2022 spend per capita of A\$389 – almost double that of Japan and over 3x that of the UK.

Our search in 2019 found over 400 offshore sites (including 45 specialist wagering sites) actively targeting Australian players. In April 2023, the equivalent number was over 440 sites (including 47 specialist wagering sites) – indicating minimal erosion of the scale of Australian offshore market activity in the time since. However, when we expand this analysis to include sites targeting the Australian market, accepting Bitcoin (rather than just A\$), the number of wagering sites increases from 47 to 84 sites – and H2 believes that wagering with cryptocurrencies has grown particularly strongly over the past few years, given the ability to fund accounts without any issues of payment blocking.

The Australian Offshore Wagering Market

The Australian regulators have been very proactive in banning 'grey market' operators since our last report, and most of these operators are now harder to find in simple SEO searches. Affiliate sites and chat boards, however, make it clear that there is still a meaningful offshore wagering market – albeit a lot of this is now accessed through 'brokers' – which offer access to a number of partner wagering sites allowing customers to compare best pricing via a single account.

The most active offer several new products including 'live' in-play wagering and 'live' dealer casino games, with enticing sign up bonuses and also the option to wager via credit and / or cryptocurrency.

The five main drivers of an offshore market are product, pricing, anonymity, lack of consumer awareness and understanding High Value Players (HVPs).

In terms of impacts, the threats of a lingering offshore wagering market remain significant and fall into three main categories: player protection, financial, criminal.

Current Australia Regulation – Offshore Implications

Over the last four years, the taxes and levies paid by RWA members has grown by 203%, since first calculated in FY19 at A\$638.7m. Based on the split of product / wagering in each State, H2 estimates the imposition of the new point of consumption taxes in particular has increased the effective tax rate for onshore licensed wagering operators to c.43% of GGR.

In terms of offshore advertising, the State-regulatory model in Australia, while effective in relation to local decision-making, is arguably restrictive when it comes to offshore market enforcement simply because no one State / Territory naturally wants to take a lead in tackling what remains effectively a national-level concern.

While the Australian Communications and Media Authority does play a central role in blocking illegal offshore wagering and affiliate advertising sites, its approach is arguably both indirect and limited in its reach currently, primarily as it relies on third party telecommunications providers to block illegal sites. In reality, we know it is common practice for offshore operators to change their website or domain addresses on a regular basis to circumvent any blocks that may be imposed.

Any prevention of advertising & marketing onshore has a number of significant drawbacks. Most importantly it prevents players from knowing which sites are legal and safe.

Estimating The Size Of The Australian Offshore Wagering Market

The offshore 'grey' market has declined at -1% over the last 5 years, whereas the 'white' onshore wagering market has grown at a 26% 5-year CAGR 2017-22. In 2022, the white onshore market for was over 10x the grey market.

We estimate the total offshore wagering market in 2022 was A\$1,131m. Taking off the grey market wagering activity of A\$560m GGR, this implies a black market wagering GGR of c.A\$571m in 2022. This suggests that the onshore market represents 85% of the total online wagering market, rather than the headline 92% figure if using just the 'grey' market. We also note that the black market has grown, given the clamp down on grey market operators over the past 5 years.

Between 2022 and 2027, H2 estimates that the current illegal grey and black market activity would equate to almost A\$3bn in lost tax / product fees revenues – with c.A\$1.6bn in lost product fees to racing / sports bodies, and c.A\$1.3bn in lost taxes.

Under the current assumed regulatory framework, we estimate the white market will continue to grow, with a five-year 2022-27e CAGR of c.6%, while we forecast the illegal market to slightly decline – albeit to remain at a stubborn c.A\$1bn of GGR per year.

H2 Credentials

H2 – a sector-specialist analyst company headquartered in the UK – is widely recognised as the leading authority regarding market data and intelligence on the gambling industry. Together, our analysts have been tracking and forecasting the value of the sector since the mid-2000s. We have strong professional credibility and impartiality, and positive track record of delivering reports which stand up to scrutiny from a variety of stakeholders. Our services are regularly used as part of operator / supplier market analysis and also for policy formulation in the sector. Our independent analyses have helped many regulators and also governments in several countries develop both improved regulation and optimum market trading conditions within their jurisdictions.

The intelligence generated by H2's proprietary tracking and forecasting model is easily the most quoted source regarding the sector in published company reports, transaction documentation and buy- and sell-side analysts' notes, as well as in the trade / business media. The H2 core model now covers 175+ jurisdictions in over 100 countries and collates and compiles data via key **primary sources** that include:

- ✓ *Actual published primary / secondary market and organisation data*
- ✓ *Knowledge / assessment of the supply side by product vertical*
- ✓ *H2's own in-house tracking of activity*
- ✓ *Ongoing contact with private organisations / investors, including subscriber feedback*
- ✓ *Knowledge / opinion of third parties – including providers and other industry analysts.*

Market forecasts are based on a number of key **secondary drivers** including:

- ✓ *Maturity of product*
- ✓ *Expected product development*
- ✓ *GDP / broadband / mobile growth*
- ✓ *Benchmarked markets*
- ✓ *Incorporating the impact of past and expected legislation.*

H2 is partnered with Clarion Gaming and *iGaming Business* in the trade media and the International Betting Integrity Association within sports betting integrity. H2's data is also regularly quoted in much of the leading media outlets worldwide including *Bloomberg, The Economist, Forbes, BBC, Thomson Reuters, The FT, The New York Times* and *ESPN*.

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H2 Terminology

Products

We note the inter-changeability of key terms within the industry to reflect the nuances of different jurisdictions. As standard, we breakdown the global gambling market as follows:

Betting	Betting / wagering on the outcome of a race or sports competition or other event or process; the likelihood of anything occurring or not occurring; or whether anything is or is not true.
Gaming	Covers all real money gaming activity that takes place with a licensed landbased or online casino – including table games (roulette, blackjack, etc), gaming (slot) machines and bingo.
Lotteries	Random number draw games or instant ticket/scratch cards offered by national or society / charity lotteries.
Landbased	Physical gambling activity processed at licensed premises, including bets made via voice over telephone.
Online	Activity that takes place via the internet (i.e. computer, mobile, iTV). May also be termed: interactive, digital, remote, iGambling or iGaming.
Mobile	Any activity using a device with a mobile operating system i.e. mobile handset or tablet.
Channelling	Percentage of the online market that is via its onshore licensed operators.

Offshore, Unlicensed or Illegal

Definitions of **offshore**, unlicensed or illegal market gambling do vary from jurisdiction to jurisdiction. H2's standard analysis normally categorises gambling spend into three main markets - activity where the operator is licensed onshore in the same jurisdiction as the player is located (aka 'white market'); activity where the operator is licensed offshore in a different market (aka 'grey market'), or activity where the operator is completely unlicensed or illegal (aka 'black market'). For this study, we have defined offshore as:

*Operators not licensed by either the Commonwealth and/or relevant State/Territory government
In Australia to provide gambling services to the Australian residential and tourist population.*

Gross Win or GGR

H2 utilises the '**gross win**' or 'gross gambling revenue' metric (i.e. turnover less prizes, but including any bonuses played) rather than the handle / turnover / sales measure to value the gambling sector. This is due to the fact that across different product verticals, geographies and market channels pay-out rates are all different. Therefore, gross win / gross gambling revenue provides a much more consistent measure for comparison across the sector. Furthermore, it also provides a much better reflection of operators' top-line revenue as opposed to handle / turnover, which can include the same money that has been recycled a number of times in many of the product verticals.

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Section 1

Background to the Study / Current Context

Headline Findings

The Australian interactive onshore wagering market has grown substantially over recent years, generating A\$6,585m in 2022 across racing and sports betting. Over the past five years, the onshore wagering market has grown at a 5-year (2017–22) CAGR (Compound Annual Growth Rate) of 26%, driven by racing growth of 30% CAGR, which represents 79% of the total onshore interactive wagering market.

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Evolution / Growth of Australian Interactive Onshore Wagering 2017-22

The Australian interactive onshore wagering market has grown substantially over recent years, generating A\$6,585m in 2022 across racing and sports betting. Over the past five years, the onshore wagering market has grown at a 5-year (2017-22) CAGR (Compound Annual Growth Rate) of 26%, driven by racing growth of 30% CAGR, which represents 79% of the total onshore interactive wagering market.

Fig 1: Australia Onshore Interactive Wagering Market 2017-22p (A\$m)

A\$m	2017	2018	2019	2020	2021	2022p	2017-22 CAGR
Land Racing	1,901	1,848	1,696	1,321	1,050	870	-18%
Land Sports	462	486	331	329	404	337	-8%
Total Land	2,363	2,334	2,027	1,650	1,454	1,206	-15%
Online Racing	1,857	2,389	2,544	3,793	4,915	5,322	30%
Online Sports	719	959	1,064	791	1,118	1,263	15%
Total Online	2,576	3,348	3,608	4,584	6,034	6,585	26%
Total Racing	3,758	4,237	4,240	5,114	5,966	6,192	13%
Total Sports	1,181	1,445	1,395	1,120	1,522	1,599	8%
Total Market	4,939	5,682	5,636	6,234	7,488	7,792	10%

Source: H2 Premium, April 2023

The strong growth of the interactive wagering market, combined with the closure of landbased wagering facilities during COVID lockdowns, means that online penetration has grown significantly over the past five years – particularly over the past couple of years. Online wagering now accounts for 85% of all onshore wagering, with the biggest increase being a shift from landbased horse race betting to online, due to COVID closures.

Fig 2: Australia Gambling Market 2017-22p (A\$m)

% Online	2017	2018	2019	2020	2021	2022p	2017-22
Racing	49%	56%	60%	74%	82%	86%	37%
Sports	61%	66%	76%	71%	73%	79%	18%
Total Market	52%	59%	64%	74%	81%	85%	32%

Source: H2 Premium, April 2023

While the reopening of landbased facilities should put some pressure on the online wagering market, the online operators have proved to be very resilient, and H2 expects this shift in online penetration to remain.

Benchmarking Australia versus Other Markets

Below, we analyse the onshore GGR only, comparing it to other advanced, regulated markets – notably the UK, US, Italy, Denmark, Sweden and Japan – in both absolute terms as well as on a relative basis using US\$ for comparative purposes.

Fig 3: Benchmarking Australia versus Other Markets (US\$m)

GGR US\$m	UK	US	Italy	Denmark	Sweden	Japan	Australia
Land Racing	766	2,403	86	9	148	1,477	583
Land Sports	698	699	1,324	86	54	1,959	226
Total Land	1,464	3,103	1,409	94	202	3,436	809
Online Racing	789	434	40	11	342	6,162	3,568
Online Sports	1,838	6,862	1,606	233	444	5,334	846
Total Onshore Online	2,626	7,296	1,646	244	786	11,495	4,414
Total Racing	1,555	2,837	126	19	490	7,639	4,151
Total Sports	2,536	7,561	2,929	319	498	7,293	1,072
Total Onshore Market	4,091	10,398	3,056	338	988	14,931	5,223

Source: H2 Premium, April 2023

On an absolute basis, the A\$7.8bn (US\$5.2bn) Australian onshore wagering market is substantially smaller than that of Japan and the US, and slightly ahead of the UK. However, when analysing the online wagering aspect, it is almost double the size of the UK, with the online horse race wagering market significantly higher than any of the other markets that have been benchmarked, with the exception of Japan.

Fig 4: Benchmarking Australia versus Other Markets (A\$m)

GGR A\$m	UK	US	Italy	Denmark	Sweden	Japan	Australia
Land Racing	1,143	3,586	128	13	221	2,204	870
Land Sports	1,042	1,043	1,975	128	81	2,923	337
Total Land	2,185	4,629	2,103	141	301	5,126	1,206
Online Racing	1,177	648	60	16	510	9,193	5,322
Online Sports	2,741	10,237	2,396	348	662	7,957	1,263
Total Onshore Online	3,918	10,885	2,456	363	1,172	17,150	6,585
Total Racing	2,320	4,233	188	29	730	11,396	6,192
Total Sports	3,783	11,280	4,371	476	743	10,880	1,599
Total Onshore Market	6,103	15,514	4,559	504	1,474	22,277	7,792

Source: H2 Premium, April 2023

Note: Translated to A\$ using 2022 average exchange rate

On a relative basis, Australian onshore wagering as a proportion of GDP is one of the highest in the world, at 0.32% – just behind Japan on 0.36%. We note that for the US, sports betting GGR as % GDP / per capita is based on those states where sports betting is legal, rather than for the country as a whole.

Fig 5: Benchmarking Australia GGR as % GDP versus Other Markets (US\$m)

GGR as % GDP	UK	US	Italy	Denmark	Sweden	Japan	Australia
Land Racing	0.02%	0.01%	0.00%	0.00%	0.03%	0.04%	0.04%
Land Sports	0.02%	0.01%	0.06%	0.02%	0.01%	0.05%	0.01%
Total Land	0.05%	0.02%	0.07%	0.02%	0.04%	0.08%	0.05%
Online Racing	0.03%	0.00%	0.00%	0.00%	0.06%	0.15%	0.22%
Online Sports	0.06%	0.06%	0.08%	0.06%	0.08%	0.13%	0.05%
Total Onshore Online	0.09%	0.07%	0.08%	0.06%	0.14%	0.28%	0.27%
Total Racing	0.05%	0.01%	0.01%	0.00%	0.09%	0.18%	0.25%
Total Sports	0.08%	0.07%	0.14%	0.08%	0.09%	0.18%	0.07%
Total Onshore Market	0.13%	0.08%	0.15%	0.08%	0.17%	0.36%	0.32%

Source: H2 Premium, April 2023

However, when looking on a per capita basis, Australia has the highest wagering spend per capita of any market, with a 2022 spend per capita of A\$389 – almost double that of Japan and over 3x that of the UK.

Fig 6: Benchmarking Australia GGR Per Adult versus Other Markets (US\$m)

A\$m	UK	US	Italy	Denmark	Sweden	Japan	Australia
Land Racing	21	15	3	3	27	21	43
Land Sports	19	10	40	27	10	27	17
Total Land	41	24	42	30	36	48	60
Online Racing	22	3	1	3	61	86	266
Online Sports	51	97	48	74	80	75	63
Total Onshore Online	73	99	50	77	141	161	329
Total Racing	43	17	4	6	88	107	309
Total Sports	71	107	88	101	90	102	80
Total Onshore Market	114	124	92	107	178	209	389

Source: H2 Premium, April 2023

Note: Translated to A\$ using 2022 average exchange rate

In terms of onshore online wagering as a percentage of total onshore gambling, Australia is now one of the highest in the world – although we do note that those figures are flattered by the closure of retail betting facilities in fiscal year 2022 (June year end) – whereas other markets have not been affected by that in their December year end figures.

Fig 7: Australia Gambling Market % Online Vs Other Markets

% Online	UK	US	Italy	Denmark	Sweden	Japan	Australia
Racing	51%	15%	32%	55%	70%	81%	86%
Sports	72%	91%	55%	73%	89%	73%	79%
Total Market	64%	80%	54%	72%	80%	77%	85%

Source: H2 Premium, April 2023

Presence of an Australian Offshore Market

H2 undertook an audit of all 'grey market' operators / sites licensed outside of Australia proactively targeting Australian players through English language websites that accept the Australian Dollar as a currency option.

Our search in 2019 found over 400 sites (including 45 specialist wagering sites) actively targeting Australian players. In April 2023, the equivalent number was over 440 sites (including 47 specialist wagering sites) – indicating minimal erosion of the scale of Australian offshore market activity in the time since. However, when we expand this analysis to include sites targeting the Australian market, accepting Bitcoin (rather than just A\$), the number of wagering sites increases from 47 to 84 sites – and H2 believes that wagering with cryptocurrencies has grown particularly strongly over the past few years, given the ability to fund accounts without any issues of payment blocking.

In H2's experience, the prevalence and availability of offshore wagering sites in a market is largely dependent on the **level of law enforcement** and / or **education of consumers** undertaken by the incumbent government / regulator. The education of consumers in particular is often underestimated, and it remains an unfortunate truism that in most markets today, recreational consumers remain **largely unaware** as to who is and isn't an onshore licensed operator.

While all licensed markets have something to protect, it is characteristic of the global gambling industry today that many jurisdictions still choose to adopt a liberal approach to grey market operator presence offshore.

A key point is that, once established, **eliminating an offshore wagering market** is that much harder to achieve. Implementing a broad and fair onshore market licensing system that favours licensed operators has historically been the more effective approach, including allowing licensed operators to service customers' demands for product innovation, technologies and promotional offers. Indeed, it is clear from the more established onshore-led wagering markets worldwide that, providing the product is competitive and the value on offer is similar, consumers in general prefer to transact within an onshore-regulated operator due to the additional player protection, legality and safety that this brings them.

Analysis of Existing Australian Offshore Wagering Research

By way of context, H2 has previously undertaken deep dive Australian offshore wagering market assessments in 2019, and also in 2015, as part of the *O'Farrell Review of the Impact of Illegal Offshore Wagering*.

In both instances, our approach - alongside our own analysis - has been to examine any other existing research at the time of the assessment, in order to sense check our findings and also indicate how they compare. In 2019 our findings were broadly in line with similar studies of the time - most significantly the September 2018 *Illegal Betting in an Asian Context* report by the Anti-Illegal Betting Taskforce of the Asian Racing Federation (2018).

In 2023, we understand there have been few other independent studies undertaken on the Australian offshore wagering market at the time of writing, however we note and have incorporated the two relevant findings below into our study as added context:

- **Asian Racing Federation (2022) *State of Illegal Betting*** report - which found that of 534 betting websites reviewed, of those categorised as 'unlicensed and unregulated' that offer racing odds, Australia was the No 1 country most commonly available to bet on, at 74% of such sites.
 -
 - **Central Queensland University for Gambling Research Australia (2021) *The Second National study of Interactive Gambling in Australia 2019-20*** report - which found that in an online survey of 5,019 interactive gamblers, 47.1% admitted using an illegal offshore gambling site in 2019 - albeit most commonly to gamble on instant scratch tickets (26.3%), EGMs (15.8%), casino games (15.7%), poker (15.0%), bingo (13.9%) and skin gambling (9.0%).
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Section 2

The Australian Offshore Wagering Market

Headline Findings

The Australian regulators have been very proactive in banning 'grey market' operators since our last report, and most of these operators are now harder to find in simple SEO searches. Affiliate sites and chat boards, however, make it clear that there is still a meaningful offshore wagering market – albeit a lot of this is now accessed through 'brokers' – which offer access to a number of partner wagering sites allowing customers to compare best pricing via a single account.

The most active offer several new products including 'live' in-play wagering and 'live' dealer casino games, with enticing sign up bonuses and also the option to wager via credit and / or cryptocurrency.

The five main drivers of an offshore market are product, pricing, anonymity, lack of consumer awareness and understanding High Value Players (HVPs).

In terms of impacts, the threats of a lingering offshore wagering market remain significant and fall into three main categories: player protection, financial, criminal.

What is an Offshore Wagering Market?

As previously, we clarify initially our terminology and understanding of an 'offshore' market for the reader, as definitions do vary from jurisdiction to jurisdiction. H2's analysis categorises total online wagering activity as follows:

- **Onshore:** betting / wagering where the operator is licensed 'onshore' in the same jurisdiction as the player is located – i.e. the operator has a licence in Australia
- **Offshore:** betting / wagering where the operator is not licensed in Australia.

Within Australian industry terminology, the onshore market is normally referred to as 'legal' wagering, while the offshore market is referred to as 'illegal'. However, H2 further splits the 'offshore' into two sub-categories:

- **Grey Market:** betting / wagering with operators that are licensed in a different jurisdiction – i.e. outside of Australia
- **Black Market:** betting / wagering with operators that are completely unregulated (by its very nature, this activity is that much harder to track / measure).

The onshore wagering market is regulated by Australian authorities, contributes both tax revenues and product fees to racing / sporting bodies, and ensures a high level of consumer protection. By contrast, the offshore market does not contribute anything to the Australian Commonwealth and State / Territory governments in terms of tax revenues or fees to racing / sporting bodies, nor does it offer the same level of consumer protection, which increases the risk to consumers.

Because offshore operators do not contribute tax revenues or product fees – nor do they have the cost of providing stringent consumer protection measures that Australian-licensed providers are required to provide – they are able to offer better pricing to customers than onshore operators.

Evidence of an Australian Offshore Wagering Market

The Australian regulators have been very proactive in banning 'grey market' operators since our last report, and most of these operators are now harder to find in simple SEO searches. Furthermore, some of the previously high profile offshore operators have stopped accepting Australian players – at least on a superficial level. Therefore, web traffic analysis is also more problematic, given that the majority of these sites are accessed through VPNs to make it look like the end user is in another market other than Australia.

Affiliate sites and chat boards, however, make it clear that there is still a meaningful offshore wagering market – albeit a lot of this is now accessed through 'brokers' – which offer access to a number of partner wagering sites allowing customers to compare best pricing via a single account.

The two main broker accounts targeting Australian markets appear to be **BetInAsia** and **SportMarket** – both of which have multiple wagering partners, the majority of which are based in Asia. These include:

- **Citibet**
- **PS3838**
- **JAbet**
- **Mollybet**
- **Penta88**
- **SBOBET**

Both of these brokers also have a significant number of payment processors, including crypto, allowing customers to effectively hide their origin from the end operator.

Other grey market operators that we have found that appear to allow Australian customers (including ones where there are sites that show how to work-around any superficial restrictions) include:

- **1xbet**
- **Stake**
- **GGbet**
- **Melbet**

Given the lack of taxation, and the lack of product restrictions, these sites all have superior pricing and product breadth than onshore licensed operators in Australia.

The above analysis serves as a useful comparator for RWA at this time. We make the following points by way of relevant commentary:

- Most are well established and / or active grey market brands operating in **multiple markets**.
- Most offer the **full range of products**, including in wagering – live in-play, and in gaming – live dealer casino.
- All lead with enticing **sign-up bonuses and promotional offers** – many up to 100% money back – plus offer better, if not very competitive, odds.
- All accept a wide variety of **payment methods** – including wagering on credit and several cryptocurrency options – that help to make it easier for Australian players (particularly high value players) to wager.
- The majority make strong use of **affiliate marketing** and also brand promotion via sports sponsorship and / or celebrity / influencer personal endorsement.
- Most **downplay the current regulations** and some do not list Australia as a prohibited jurisdiction in their site terms and conditions.

Drivers of an Offshore Market

In order to limit offshore activity and at the same time drive up onshore play, it is important to understand and track the main drivers of an offshore market. In our experience, those markets that have most limited offshore activity – evidenced by having a **high channelling rate of 90%+** – are the ones that have generally liberalised and opened out their onshore provision, invested in the ongoing education of consumers as to who the main onshore operators are, plus in place effective levels of offshore market enforcement.

That said, reducing the key drivers is still the most effective method of reducing the size of an offshore market. The five main ones in our opinion remain:

1. **Product** – probably the main reason that customers use offshore wagering sites is due to the superior range of product – and particularly for Australians, live in-play online wagering. In-play wagering in 2022 now represents 51% of all online wagering in Europe (37% globally), and for some sports this number is substantially higher – for example, in-play accounts for c.80% of all tennis wagering. Also important to players are the variety and types of wager allowed – i.e. fixed odds, pool / pari-mutuel, exchange, spread – as well as which events / markets are offered. Both are key drivers for consumer migration to offshore operators.
2. **Pricing** – in general, offshore operators are able to offer better pricing than domestic operators, due to their lower cost base – notably from the lack of tax and product fees.
3. **Anonymity** – some wagering customers choose to wager offshore due to the anonymity that it provides. This could include illicit reasons e.g. for match fixing and / or money laundering.
4. **Lack of Consumer Awareness** – within reason, onshore advertising should be maximised not restricted. Limiting onshore advertising only serves to increase player confusion as to which sites are legal and safe. Both regulators and licensed operators should instead be working in partnership to educate consumers as to which sites provide the greatest player protection in a market.
5. **Understanding High Value Players (HVPs)** – finally, arguably the most underestimated challenge is maintaining the loyalty of high value players onshore. Although HVPs are experienced gamblers who will likely have multiple accounts and more often than not actively seek out alternatives to onshore licensed provision, they are important to target in revenue terms as a general rule-of-thumb is that while they may represent only c.5-10% of an operator's customer base, they can often account for c.30-40% of total revenues.

Impact of an Offshore Market

In terms of impacts, the threats of a lingering offshore wagering market remain significant and fall into three main categories: player protection, financial, criminal.

1. **Player Protection** – because standard consumer legal protections may not be in place, there is a greater risk of players not being offered responsible gambling support and in worst case examples, not being paid winnings for which they are owed. Australia is one of the most progressive countries in terms of its approach to safe and responsible gambling onshore, with licensed operators subject to a number of controls. Most recently, the National Consumer Protection Framework has introduced a range of new required messages which must appear in all gambling advertising. In addition, RWA members themselves are committed to ensuring Australia has *“the best conducted, socially responsible, wagering industry in the world”* and are bound by their own Code of Conduct designed to maintain the highest standards of probity. By contrast, there are minimal player protections offered by offshore operators, which increases the risk of problem gambling for Australian players.

2. **Financial** – offshore operators in short:

- pay no taxes
- pay no licensing fees
- pay no product fees to sports or racing bodies
- do not have to create or sustain jobs, nor invest in technology within their targeted country
- contribute no money to society / charitable causes

Instead, they:

- *generate straight profit*
- *avoid regulatory audit and submitting transaction data to the authorities for scrutiny.*

3. **Criminal** – concerns here are generally twofold:

- **Sports / racing integrity** – offshore wagering operators pose a real threat to sports / racing integrity and match fixing, as they are not required to track or present relevant betting and transaction information on demand. This situation is the exact opposite of licensed operators that, in partnership with sports / racing authorities, offer the best hope of policing any illicit behaviour that may be suspected through their own real-time records and (for the bigger operators) increasing use of their own AI software tracking tools.
- **Organised crime / money laundering** – there have been numerous examples of links between offshore gambling and organised crime / money laundering and this threat should not go unnoticed. In short, offshore gambling can create opportunities for domestic and international criminals to utilise online bookmakers to launder the proceeds of crime, including the ability to bet large amounts of money anonymously. In addition, it remains a reality that offshore operators are harder to track if criminal or anti-money laundering proceedings are enacted.

Section 3

Current Australia Regulation – Offshore Implications

Headline Findings

Over the last four years, the taxes and levies paid by RWA members has grown by 203%, since first calculated in FY19 at A\$638.7m. Based on the split of product / wagering in each State, H2 estimates the imposition of the new point of consumption taxes in particular has increased the effective tax rate for onshore licensed wagering operators to c.43% of GGR.

In terms of offshore advertising, the State-regulatory model in Australia, while effective in relation to local decision-making, is arguably restrictive when it comes to offshore market enforcement simply because no one State / Territory naturally wants to take a lead in tackling what remains effectively a national-level concern.

While the Australian Communications and Media Authority does play a central role in blocking illegal offshore wagering and affiliate advertising sites, its approach is arguably both indirect and limited in its reach currently, primarily as it relies on third party telecommunications providers to block illegal sites. In reality, we know it is common practice for offshore operators to change their website or domain addresses on a regular basis to circumvent any blocks that may be imposed.

Any prevention of advertising & marketing onshore has a number of significant drawbacks. Most importantly it prevents players from knowing which sites are legal and safe.

Summary of Current Restrictions

In H2's experience from reviewing sector regulation across multiple markets, we would point towards eight main variables that together we believe define optimum wagering market trading conditions in the industry today:

1. Open unlimited licensing model
2. Affordable **taxation** rate(s)
3. Full range of **permissible products** (including online live in-play wagering)
4. Few onshore **marketing & advertising** restrictions
5. Strong level of **offshore market enforcement**
6. Strong level of **onshore consumer education**
7. Effective three-way **player protection** mechanisms in place (regulator, operators and specialist third party providers)
8. Effective two-way wagering **integrity system** in place (sports bodies and operators).

Australia is a mature, commercially open wagering market. It has Federal wagering legislation, but operates primarily through a State-led regulatory model.

The sports and race wagering market has been open to licensed commercial operators for over two decades, however a significant number of offshore online operators still target the Australian market, primarily because of its high adult spend per head, but also because live in-play online sports wagering is prohibited. There is no limitation on the number of licences that can be issued, however all operators need to be incorporated in Australia.

Taxation is set at the State level in the range of 8-15% on net gaming revenue, but additional local taxes also apply. In addition, sports betting operators intending to offer bets on Australian sporting activities need to have an agreement with the relevant Australian sports bodies, enter into an integrity agreement and pay a related product fee.

In terms of **advertising** controls, Australia currently only has the Australian Communications and Media Authority (ACMA) responsible for the blocking of illegal offshore wagering sites. In November 2019, the ACMA announced it would instruct internet service providers (ISPs) to block unregulated offshore gambling sites that target consumers in the country. At the same time, onshore bookmakers were also prohibited from offering lines of credit.

Taxation Analysis

Since 2017, licensed onshore wagering operators in Australia are mainly now subject to new point of consumption (POC) taxes on their net wagering revenues derived from wagers, or on facilitated wagering activity, of residents of any given State. The tax is levied based on the location of the player rather than the location of the product. The breakdown by State / Territory is as below:

- **South Australia:** the first State / Territory to announce a point of consumption tax, set at 15% and in effect since 1 July 2017
- **Victoria:** a 10% tax on net wagering revenue generated in the State – to be raised to 15% in July 2024.
- **New South Wales:** originally a 10% tax since 1 January 2019 on net wagering revenue. In May 2022, however, the New South Wales Government announced an increase its point of consumption tax from 10% to 15% effective from 1 July 2022.
- **Queensland:** a 15% tax in effect since 1 October 2018 on net wagering revenue. In May 2022, the Queensland Government also approved plans to increase its point of consumption tax from 15% to 20% – the higher rate is now effective in the State.
- **Western Australia:** a 15% tax in effect since 1 January 2019 on net wagering revenue.
- **Australian Capital Territory:** a 15% tax in effect since 1 January 2019 on net wagering revenue generated in the Territory – since now raised to 20%.
- **Tasmania** has implemented a 15% tax rate.
- The **Northern Territory** has yet to publicly commit to a point of consumption tax.

According to the recent IER (2022) report *Assessment of the Economic Contribution of RWA Members*, RWA members were responsible for paying more than A\$1.9bn in taxes and levies during FY22.

In addition to the above POC taxes, this sum includes product fees or levies paid to racing and sporting bodies by operators. While not a tax in the purest sense of the word, such fees are unusual in the sector globally, essentially representing the price paid to a product owner for the right to offer wagering opportunities on its product.

The total sum also includes operator direct taxes such as payroll tax, personal income withholding taxes and GST (Goods and Services Tax) levied on all Victorian business activity, as well as corporate income tax paid on total company earnings.

Totalling up the 2022 contribution, signals that, over the last four years, the taxes and levies paid by RWA members has grown by 203%, since first calculated in FY19 at A\$638.7m. Thoroughbred racing is estimated to be responsible for around 51.6% of the taxation footprint, with greyhound racing (23.4%), sports betting (18.1%) and harness racing (6.9%) making up the remainder.

Based on the split of product / wagering in each State, H2 estimates the imposition of the new point of consumption taxes in particular has increased the effective tax rate for onshore licensed wagering operators to **c.43% of GGR**.

Advertising Analysis

In terms of **offshore advertising**, the State-regulatory model in Australia, while effective in relation to local decision-making, is arguably restrictive when it comes to offshore market enforcement simply because no one State / Territory naturally wants to take a lead in tackling what remains effectively a national-level concern.

While the Australian Communications and Media Authority does play a central role in blocking illegal offshore wagering and affiliate advertising sites, its approach is arguably both indirect and limited in its reach currently, primarily as it relies on third party telecommunications providers to block illegal sites. In reality, we know it is common practice for offshore operators to change their website or domain addresses on a regular basis to circumvent any blocks that may be imposed.

While we note the overall wagering regulatory burden has steadily been increasing in Australia, we would guard against controls being too heavily limiting when it comes to **onshore advertising**.

Increased regulatory costs alone will impact the ability of onshore operators to freely promote and advertise their licensed services, as they will need to increase their revenues to cover the increased costs of regulation. Stricter advertising controls directly prevent this, making the economics of an onshore market less attractive.

The capacity to undertake responsible advertising and consumer education is also a fundamental advantage for onshore operators when competing against offshore operators that have a significant price and product advantage. Onerous restrictions will only benefit offshore operators more, removing one of the few operational advantages they enjoy.

We note that Australian regulators are still going through a period of enhanced onshore advertising restrictions – notably around advertising during live sports events and restrictions on sign-up bonuses and inducements to wager. In our experience, a regulatory framework that promotes responsible advertising & marketing by licensed operators, as well as bans and fines for offshore operators, is best.

Any prevention of advertising & marketing onshore has a number of significant drawbacks. Most importantly it prevents players from knowing which sites are legal and safe. In addition, restrictions on onshore advertising give unlicensed operators an unfair advantage because they already regularly advertise online via affiliate websites which are difficult to police although there are now examples – most notably in Norway, the Netherlands and Sweden – where regulators are seeking to fine offshore operators that aggressively target onshore players.

Rather than being considered in isolation, therefore, we would suggest advertising – onshore and offshore – should be viewed as **one part of the overall regulatory regime**.

Section 4 Estimating the Size of the Australian Offshore Wagering Market

Headline Findings

The offshore 'grey' market has declined at -1% over the last 5 years, whereas the 'white' onshore wagering market has grown at a 26% 5-year CAGR 2017-22. In 2022, the white onshore market for was over 10x the grey market.

We estimate the total offshore wagering market in 2022 was A\$1,131m. Taking off the grey market wagering activity of A\$560m GGR, this implies a black market wagering GGR of c.A\$571m in 2022. This suggests that the onshore market represents 85% of the total online wagering market, rather than the headline 92% figure if using just the 'grey' market. We also note that the black market has grown, given the clamp down on grey market operators over the past 5 years.

Between 2022 and 2027, H2 estimates that the current illegal grey and black market activity would equate to almost A\$3bn in lost tax / product fees revenues – with c.A\$1.6bn in lost product fees to racing / sports bodies, and c.A\$1.3bn in lost taxes.

Under the current assumed regulatory framework, we estimate the white market will continue to grow, with a five-year 2022-27e CAGR of c.6%, while we forecast the illegal market to slightly decline – albeit to remain at a stubborn c.A\$1bn of GGR per year.

Australian Offshore Market Size 2017-22

H2's analysis of the offshore market is based on the 'grey' market – i.e. those operators who are not licensed in Australia, but licensed in another jurisdiction. The offshore 'grey' market has declined at -1% over the last 5 years, whereas the 'white' onshore wagering market has grown at a 26% 5-year CAGR 2017-22. In 2022, the white onshore market for was over 10x the grey market.

Fig 6: Australian Offshore 'Grey' vs Onshore 'White' interactive Wagering Market 2017-22 (A\$m)

A\$m	2017	2018	2019	2020	2021	2022p	2017-22 CAGR
Onshore Online Racing	1,857	2,389	2,544	3,793	4,915	5,322	30%
Onshore Online Sports	719	959	1,064	791	1,118	1,263	15%
Total Onshore Online	2,576	3,348	3,608	4,584	6,034	6,585	26%
Grey Online Racing	213	193	186	170	209	207	-1%
Grey Online Sports	362	327	316	288	355	352	-1%
Total Grey Online	575	520	501	458	564	560	-1%
Total Onshore & Grey Racing	2,070	2,581	2,730	3,963	5,124	5,530	28%
Total Onshore & Grey Sports	1,082	1,287	1,380	1,079	1,473	1,615	11%
Total Onshore & Grey Market	3,152	3,868	4,110	5,042	6,597	7,145	18%

Source: H2 Premium, April 2023

'Black' Market Split

Based on the grey market figures, H2 estimates that 92% of the online market is onshore in 2022.

Fig 7: Spilt of Offshore 'Grey' Vs Onshore 'White' interactive Wagering Market 2017-22 (A\$m)

A\$m	2017	2018	2019	2020	2021	2022p	2017-22 CAGR
White	2,576	3,348	3,608	4,584	6,034	6,585	21%
Grey	575	520	501	458	564	560	-1%
Total White & Grey Market	3,152	3,868	4,110	5,042	6,597	7,145	18%
% Onshore	82%	87%	88%	91%	91%	92%	10%

Source: H2 Premium, April 2023

This is higher in racing than sports, where sports is at a product disadvantage due to the lack of a full in-play wagering product.

Fig 8: Australian % Onshore interactive Wagering Market 2017-22 (A\$m)

% Onshore	2017	2018	2019	2020	2021	2022p	2017-22
Racing	90%	93%	93%	96%	96%	96%	7%
Sports	66%	75%	77%	73%	76%	78%	12%
Total Market	82%	87%	88%	91%	91%	92%	10%

Source: H2 Premium, April 2023

However, to get a true picture of the total offshore / illegal wagering market, it is important to include an estimate for black market activity too. To do this, we have used academic studies on the use of offshore websites by Australian players, and extrapolated this to GGR figures using our industry knowledge and the size of the onshore market to get a range of the size of the total offshore market. We then subtract the grey market size, leaving us with an estimate of the current black market.

We estimate the total offshore wagering market in 2022 was A\$1,131m. Taking off the grey market wagering activity of A\$560m GGR, this implies a black market wagering GGR of c.A\$571m in 2022. This suggests that the onshore market actually represents 85% of the total online wagering market, rather than the headline 92% figure using just the 'grey' market. We also note that the black market has grown, given the clamp down on grey market operators over the past 5 years.

Fig 9: Australian Spilt of Onshore 'White' Vs Offshore 'Grey' and 'Black' interactive Wagering Market 2017-22 (A\$m)

A\$m	2017	2018	2019	2020	2021	2022	2017-22 CAGR
White	2,576	3,348	3,608	4,584	6,034	6,585	21%
Grey	575	520	501	458	564	560	-1%
Black	440	460	466	481	558	571	5%
Total Illegal	1,016	980	968	939	1,122	1,131	2%
Total Market	3,592	4,327	4,576	5,524	7,155	7,716	17%
% Onshore	72%	77%	79%	83%	84%	85%	14%

Source: H2 Premium, April 2023

Australian Offshore Benchmarking vs Other Markets

We compare this to other markets, to see the how the onshore channelisation compares to other major jurisdictions. We use the same markets that were used in the onshore analysis, but also include Norway as a market that has an online wagering monopoly, and therefore a relatively large grey market.

Australia's headline 92% onshore channelisation (white and grey only) is significantly lower than that of the UK and Italy, but ahead of the US (where a number of states do not have legal wagering) and Norway (which has a monopoly online operator). When including the landbased wagering market into this, the onshore channelisation of Australia increases to 93%, however this is still significantly lower than the UK, Italy and Japan. Sweden and Denmark have seen a decline in channelisation due to the implementation of more stringent regulations in recent years.

Fig 10: Benchmarking Australian Offshore Grey Market Channelisation – 2022 (A\$m)

GGR (A\$m)	UK	US	Italy	Norway	Spain	Sweden	Denmark	Japan	Australia
Online Onshore	3,918	10,885	2,456	213	631	1,172	363	17,150	6,585
Online Offshore	60	1,139	63	120	122	89	48	488	560
Total Online	3,978	12,024	2,518	334	752	1,262	412	17,638	7,145
<i>% Onshore</i>	<i>99%</i>	<i>91%</i>	<i>98%</i>	<i>64%</i>	<i>84%</i>	<i>93%</i>	<i>88%</i>	<i>97%</i>	<i>92%</i>
Land	2,185	4,629	2,103	55	727	301	141	5,126	1,206
Online Onshore	3,918	10,885	2,456	213	631	1,172	363	17,150	6,585
Total Onshore	6,103	15,514	4,559	268	1,358	1,474	504	22,277	7,792
Offshore	60	1,139	63	120	122	89	48	488	560
Total Market	6,163	16,653	4,621	388	1,480	1,563	553	22,764	8,351
<i>% Onshore inc. Land</i>	<i>99%</i>	<i>93%</i>	<i>99%</i>	<i>69%</i>	<i>92%</i>	<i>94%</i>	<i>91%</i>	<i>98%</i>	<i>93%</i>

Source: H2 Premium, April 2023

In general, European markets do not have a significant black market, due to the ease of access to grey market operators. However, there is a strong black market presence in the US and Asia, and therefore to properly compare channelisation, it is important to take black market estimates into account.

When doing this, the Australian online channelisation of 85% / total onshore (online and land) channelisation of 87% is higher than that of Japan (restricted sports betting product), the US (significant part of the market where sports betting is illegal) and Norway (monopoly operator), but lower than all other markets where there is an open, regulated sports betting market.

Fig 11: Benchmarking Australian Offshore Grey & Black Market Channelisation – 2022

% Onshore	UK	US	Italy	Norway	Spain	Sweden	Denmark	Japan	Australia
% Onshore	99%	49%	98%	64%	84%	93%	88%	78%	85%
% Onshore inc Land	99%	58%	99%	69%	92%	94%	91%	82%	87%

Source: H2 Premium, April 2023

Lost Tax Revenues

We use the effective tax rates of the licensed onshore operators in Australia to estimate the potential tax leakage from offshore wagering. Australian-based operators have an effective gaming tax rate / product fees of 43%. Based on this rate, we estimate potential tax leakage in 2022 of A\$490m – of which c.A\$218m is lost tax revenue, and c.A\$271m is lost product fees to racing / sporting bodies.

Fig 12: Tax Loss Due To The Existence Of An Offshore Wagering Market 2022-2027e (A\$m)

A\$m	2022p	2023e	2024e	2025e	2026e	2027e	2022-27
Grey	560	556	553	551	549	548	3,317
Black	571	559	560	556	555	554	3,355
Total Illegal	1,131	1,115	1,114	1,107	1,104	1,102	6,672
Product Fees	24.0%	24.0%	24.0%	24.0%	24.0%	24.0%	24.0%
Taxes (GST + PoC)	19.3%	19.3%	19.3%	19.3%	19.3%	19.3%	19.3%
Total Taxes & Fees	43.3%	43.3%	43.3%	43.3%	43.3%	43.3%	43.3%
Product Fees	271	268	267	266	265	264	1,601
Taxes (GST + PoC)	218	215	215	214	213	213	1,288
Total Taxes & Fees	490	483	482	479	478	477	2,889

Source: H2 Premium, April 2023

Between 2022 and 2027, H2 estimates that the current illegal grey and black market activity would equate to almost A\$3bn in lost tax / product fees revenues – with c.A\$1.6bn in lost product fees to racing / sports bodies, and c.A\$1.3bn in lost taxes.

Market Growth Estimates 2022-27e

Under the current assumed regulatory framework, we estimate the white market will continue to grow, with a five-year 2022-27e CAGR of c.6%, while we forecast the illegal market to slightly decline – albeit to remain at a stubborn c.A\$1bn of GGR per year.

Fig 13: Australian Offshore Interactive Gambling Market Forecast 2022-27e (A\$m)

GGR A\$m	2022p	2023e	2024e	2025e	2026e	2027e	2022-27e CAGR
White	6,585	6,737	7,209	7,777	8,336	8,900	6%
Grey	560	556	553	551	549	548	-0%
Black	571	559	560	556	555	554	-1%
Total Illegal	1,131	1,115	1,114	1,107	1,104	1,102	-1%
Total Market	7,716	7,852	8,322	8,883	9,440	10,001	5%
<i>% Onshore</i>	<i>85%</i>	<i>86%</i>	<i>87%</i>	<i>88%</i>	<i>88%</i>	<i>89%</i>	<i>3%</i>

Source: H2 Premium, April 2023

Channelling Rate

As a final piece of analysis, we show the evolution of the Australia market channelling rate (percentage of all online wagering that takes place onshore) over a ten-year period – split by an estimate of the white, grey and black market.

While the growth in the white market / slight decline in the illegal market will continue to increase onshore channelisation, H2 estimates that the onshore channelisation will remain just below 90% by 2027.

Fig 14: Australian Interactive Wagering Market Ten-Year Channelling Rate 2017-27e (A\$m)

GGR A\$m	2017	2018	2019	2020	2021	2022p	2023e	2024e	2025e	2026e	2027e
White	2,576	3,348	3,608	4,584	6,034	6,585	6,737	7,209	7,777	8,336	8,900
Grey	575	520	501	458	564	560	556	553	551	549	548
Black	440	460	466	481	558	571	559	560	556	555	554
Total Illegal	1,016	980	968	939	1,122	1,131	1,115	1,114	1,107	1,104	1,102
Total Market	3,592	4,327	4,576	5,524	7,155	7,716	7,852	8,322	8,883	9,440	10,001
<i>% Onshore</i>	<i>72%</i>	<i>77%</i>	<i>79%</i>	<i>83%</i>	<i>84%</i>	<i>85%</i>	<i>86%</i>	<i>87%</i>	<i>88%</i>	<i>88%</i>	<i>89%</i>

Source: H2 Premium, April 2023

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