

GAMBLING
PRODUCTIVITY COMMISSION INQUIRY

Submission of

AUSTRALIAN RACING BOARD

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i Introduction and approach

The following submission has been prepared by the Australian Racing Board Limited (**ARB**), a public company limited by guarantee, which is the national body formed by and representing the thoroughbred racing Controlling Bodies in each State and Territory of the Commonwealth (**Controlling Bodies**). The Controlling Bodies are all either established or recognised by State or Territory legislation, and each is responsible for doing all that is reasonably within its power to develop, encourage and manage the thoroughbred racing industry in its territory.

This response considers each of the following topics from within the Terms of Reference established by the Assistant Treasurer:

- The nature and definition of gambling and the range of activities incorporated within this definition; (TOR 1)
- The economic impacts of the gambling industries, including industry size, growth, employment, organisation and interrelationships with other industries, such as tourism, leisure, other entertainment and retailing; (TOR 3)
- The social impacts of the gambling industries, the incidence of gambling abuse, the cost and nature of welfare support services of government and non-government organisations necessary to address it; (TOR 4)
- The contribution of gambling revenue on community development activity and employment; (TOR 5)
- The effects of regulatory structures – including licensing arrangements, entry and advertising restrictions, application of the mutuality principle and differing taxation arrangements – governing the gambling industries, including the implications of differing approaches for industry development and consumers; (TOR 6)
- The implications of new technologies (such as the internet), including the effect on traditional government controls on the gambling industries; (TOR 7)
- The impact of gambling on Commonwealth, State and Territory Budgets; (TOR 8)
- The impact that the introduction of harm minimisation measures at gambling venues has had on the prevalence of problem gambling and on those at risk; (TOR 9)
- Evaluate the effectiveness and success of these harm minimisation measures used by the State and Territory Governments. (TOR 10).

The ARB welcomes the opportunity to contribute to the Commission's Inquiry into gambling in Australia. Our approach responds to the topics raised by the Terms of Reference, but goes into most detail on the changing wagering landscape and consequential challenges to the future of the racing sector. We first address the scope and current contribution of the Australian Thoroughbred Racing Industry (ATRI), using a broad industry definition. We then analyse the forces shaping the wagering market today, both internal and external. We analyse the most significant factors that could affect the future of the ATRI and point to several attempts that have been made to measure their probable impact. Finally we propose several policies concerning Australia's gambling industries and their influence on the future growth and sustainability of the ATRI.

Our submission is made on behalf of the ATRI because the ARB is the industry body for that racing code, though most of the issues also affect the harness and greyhound racing codes.

ii Executive Summary

The thoroughbred racing industry makes important economic and social contributions to Australia. Through direct and indirect effects, thoroughbred racing and wagering on that racing account for 0.58 percent of Gross Domestic Product, provides 48,680 full-time equivalent (FTE) jobs, and contributes over \$1.2 billion in State and Federal tax revenue (FY06). Racing is also an important part of Australia's culture and history, especially in provincial and country areas where racing is a corner stone of community life.

Australian Racing and the Australian wagering market are financially interdependent, interrelated, and structurally linked. Today wagering inflows account for 65 to 70 percent of total Australian thoroughbred racing funding. The future sustainability of racing therefore requires continued strong inflows from wagering, and any changes to the wagering market are likely to affect racing's sustainability.

The wagering landscape in Australia is currently undergoing seismic change. In particular, the rapid growth of new types of Australian wagering operators – corporate bookmakers and betting exchanges has rendered the market virtually unrecognisable from the market which existed when the Productivity Commission carried out its 1999 Inquiry. These changes pose both opportunities and threats for the Australian Thoroughbred Racing Industry.

An issue that had emerged when the 1999 Inquiry was conducted and has subsequently grown exponentially in scale is that of wagering providers 'free riding' on the resources, time, effort and money invested to conduct and promote racing events.

Telephone and later online wagering made free riding physically possible and differences in regulatory requirements, taxes and racing industry payments across jurisdictions facilitated its growth. The emergence of new technologies for the distribution of wagering products—most obviously the rapid advances in the internet, the impact of which is now being extended with the growth in wireless services, have weakened each jurisdiction's control over wagering within its borders.

Given the future funding demands on the thoroughbred racing industry and the evolution of the wagering market toward what is observed internationally (such as the growing popularity of online wagering), it is expected funding for racing will remain under pressure. While racing industry payments from wagering experienced a relatively steady period of nominal growth from 1999 to 2005, future growth is projected to at best stagnate in real dollars in the absence of positive changes to wagering's current competitive and regulatory environment, and in the worst case decline.

The race fields model has been developed as a response to free riding requiring all wagering operators to provide a fair and reasonable payment back to the racing industry for the use of its product. A race fields regime is also important for integrity reasons to guarantee the Controlling Bodies of racing timely access to betting information which may be required to fulfil their responsibilities for the integrity of racing. To succeed, however, the new race fields legislation must allow the jurisdiction's Controlling Body to independently determine the structure and levels of fees with the wagering providers and take action to promote full compliance and enforcement action by the relevant government regulator.

Responsible gambling issues that are raised by the current changes in the wagering market include the proliferation of inducements and rebates.

It is submitted that a regulatory '*laissez faire*' approach to the current changes is not in the public interest. Gambling markets are, and have always been, a creature of regulation. The current scale and nature of the ATRI is not accidental: it is the product of a set of regulatory arrangements that have existed for some 40 years. It being accepted that a viable Australian Thoroughbred Racing Industry delivers a net public benefit, then the future regulatory framework for the wagering market must be such that enables not only the consumer benefits from competition between operators but also industry sustainability to be achieved.

This regulatory framework must also be national in nature, whether that takes the form of cohesive, complementary regulation by States or Territories working together collectively, or a nationally-administered framework. The current changes represent an irreversible disintegration of the capacity of State and Territory governments to individually regulate wagering.

The elements of a national policy approach should include:

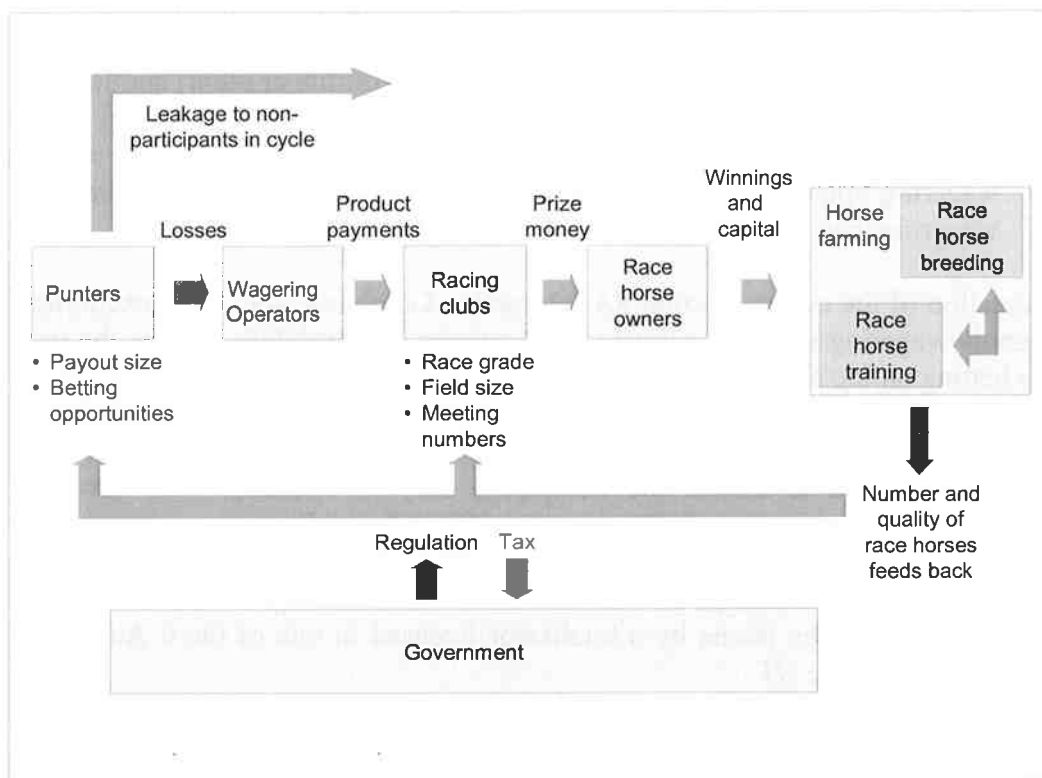
- a. National endorsement of, and if needed, supporting legislation directed to the following:
 - Strong and enforceable race fields legislation that receives recognition and enforcement across State and Territory borders and which gives the ATRI the clear power to set the basis (turnover, gross profits or other) and level of the fees payable for use of race fields.
 - An appropriate licensing regime to promote integrity and probity of the wagering operator and to enable the Controlling Bodies of racing to access wagering data to fulfil industry integrity functions
- b. Continuation of the current section 8A Interactive Gambling Act (IGA) exemption for remote wagering services maintained. Moreover, the prohibition of 'in the run' sports betting online should be maintained.
- c. Offshore bookmakers should not be permitted to free ride on the ATRI. The IGA should be amended to extend the exceptions only to operators who have the requisite approvals to use race fields, so as to prevent free riding.
- d. The IGA should be amended so that totalisator odds betting is only able to be conducted online or by phone by a totalisator licensed in one of the 6 Australian States, the ACT or the NT.
- e. The power provided by section 69A of the IGA to make regulations creating financial transactions controls to enforce compliance with the IGA should be used.
- f. All forms of wagering must ensure responsible gambling by their customers. The ATRI registers it support for:
 - A national ban on any wagering operator from providing credit to their clients.
 - A national ban on the offering of inducements and rebates.
 - A national set of advertising regulations that minimise the risk of problem gambling being exacerbated.

1 Relevance of the Australian Thoroughbred Racing Industry to the Commission’s Inquiry into Australia’s Gambling Industries

The Productivity Commission has been asked to undertake a 12 month public inquiry into Australia’s gambling industries. We submit that, notwithstanding that the Australian Thoroughbred Racing Industry (ATRI) has some facets that if taken in isolation do not consist of “organisations that provide gambling services”¹, the ATRI, taken as a whole, has all of the characteristics that qualify it as an industry that should be examined by the Commission in the course of this Inquiry.

Put another way, the Australian Racing Industry is ‘first cousin’ to several families: the agricultural sector, the entertainment sector, and the sports sector, but its closest relationship is inarguably its connection with gambling. As was identified in the course of the National Competition Policy review process, these interrelationships consist of both structural links, through legislation, and financial interdependence². Exhibit 1, which describes income cycles between racing and wagering, illustrates the point.

Exhibit 1: Income flows in the wagering cycle



The importance to the ATRI of the Commission including us within its Inquiry is that many of the issues that are the focus of the Inquiry’s terms of reference are matters which are of vital concern to the future of Australian Racing.

¹. Definition of gambling industries [Issues Paper](#) page 10

² NSW OLGR. 2001 [National Competition Policy Review of NSW Racing Betting Legislation](#). Sydney, NSW

Here we refer specifically to:

- The economic impacts of the gambling industries (TOR3)
- The social impacts of the gambling industries (TOR4)
- The contribution of gambling revenue on community development activity and employment (TOR5)
- The effects of regulatory structures governing the gambling industries (TOR6)
- The implication of new technologies (TOR7)
- The impact of gambling on government budgets. (TOR8)

We believe that examination of those issues as they affect the ATRI will also be of more general utility to the Commission's Inquiry: Australian Racing was the nation's first gambling industry and for the much of its history Australia's largest gambling industry, so that the ATRI's circumstances are a prism that yields significant insights into gambling in Australia.

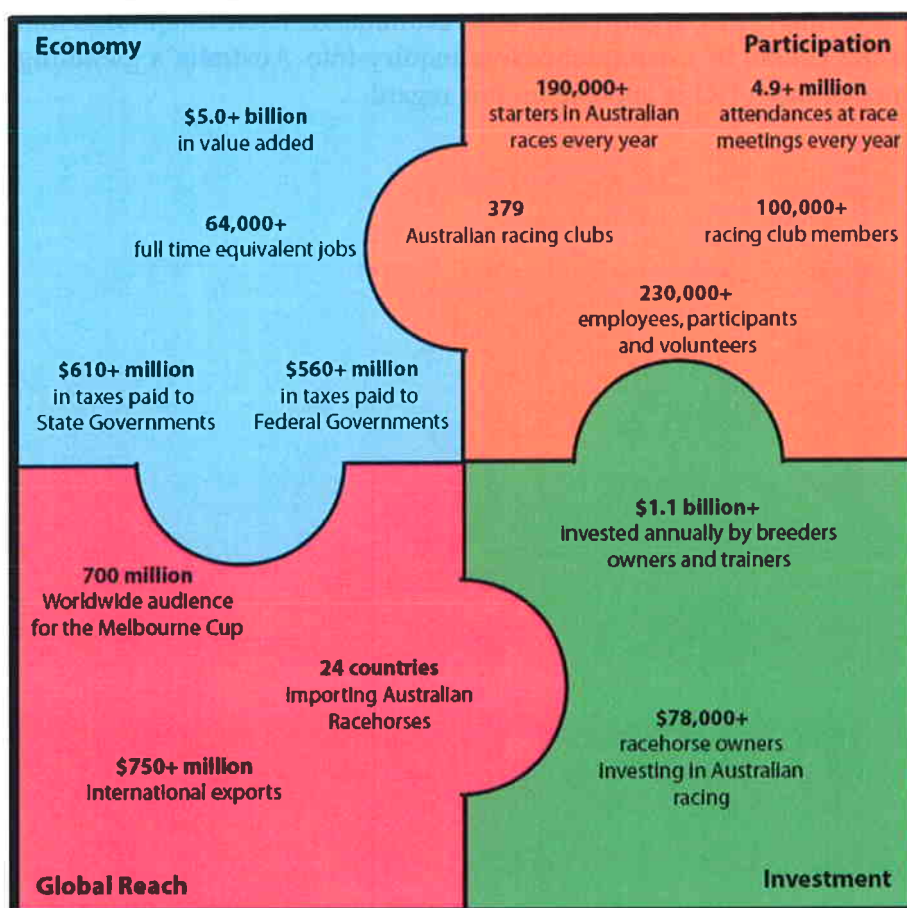
Finally, the interrelationship of gambling with sport, whilst not specifically identified in the terms of reference, is of increasing significance and recommends itself as an issue that should be examined in the course of a comprehensive inquiry into Australia's gambling industries. The experience of the ATRI is apposite in this regard.

2 Scope and contribution of Australian Thoroughbred Racing

2.1 Overview

The impact of the ATRI extends far beyond ‘declaration of correct weight’. The ATRI fills an integral place in the sporting life, cultural traditions and everyday economy of Australia. From the first official race meeting staged by Governor Macquarie at Hyde Park Sydney in 1810, Australian Racing has grown to a scale that would have been difficult to imagine two centuries ago, and has few equals anywhere in the world. Today, Australian Racing spans both the calendar and continent: over 17,000 thoroughbred races are held each year, staged in almost every part of Australia. On any given day there are between 40 and 300 races run, which as George Johnston observed “*is a pretty deafening thunder of hooves by any standard*”³. Here we provide a snapshot of the size and scope of the ATRI, illustrating the remarkable extent of its influence on Australia’s economic and social life.

Exhibit 2: An impact extending for beyond ‘declaration of correct weight’



Source: Australian Racing Fact Book; ABS attendance at sport

2.2 Definition of the Australian Thoroughbred Racing Industry

For the purposes of this submission, we have defined the Australian thoroughbred racing industry as comprising three integrated parts:

1. The production of thoroughbred horses - this includes horse breeding, bloodstock sales, horse ownership, and the training and upkeep of horses

³ George Johnston, *The Australians*