



Australian Racing Board

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**WHY WAGERING MUST NOT BE INCLUDED IN A  
BAN ON INTERACTIVE GAMBLING**

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## **Executive Summary**

1. The Australian Racing Industry believes that the Federal Government should redefine the scope of its proposed ban on interactive gambling, to exclude wagering.
2. Australian Racing is a major economic activity contributing to GDP, jobs and government revenue. It is also one of Australia's oldest sports.
3. Racing is particularly important in providing employment in regional Australia. The 100,000 persons employed in the racing industry, especially those employed in regional areas, are highly unlikely to find replacement employment in substitute industries.
4. Racing depends on consistent revenue from wagering turnover to meet its costs. 70 per cent of racing's total revenue is derived from TAB payments.
5. Wagering on the Internet will not open the floodgates of problem gambling.  
The maturity of telephone wagering in Australia is such that in terms of enabling “remote” gambling, Internet wagering facilities add almost nothing to what is already been available over the telephone for several decades. The Productivity Commission found in this respect that “Internet wagering only represents a small technological step since people could already lodge bets remotely by phone”
6. Furthermore, if there is a risk from interactive gambling of an exacerbation of problem gambling, then it derives from continuous forms of gaming with high frequency load payoff – like gaming machines and roulette – not from wagering on the Internet.
7. The logic that banning Australian-licensed interactive gambling sites will discourage people from gambling on-line – because of their lack of confidence in the integrity of overseas based gaming sites – has no application to wagering. Australians have confidence in the probity and integrity of Australian racing. If they cannot bet on-line with an Australian-based operator then they will do so with an overseas-based operator.

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# THE AUSTRALIAN RACING BOARD

## SUBMISSION

### Why a Ban on Interactive Gambling Must Exclude Wagering

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#### 1. INTRODUCTION

##### 1.1 The Focus of this Submission

The Federal Government has announced that it intends to prohibit Australian gambling service providers from providing online and interactive gambling and wagering services to people located in Australia. This follows the release on 27 March by the National Office for the Information Economy (“NOIE”) of its report investigating the feasibility and consequences of banning interactive gambling.

The Government has indicated that its key concern is that *“new interactive technologies have the potential to expand the availability of gambling in Australia, and to exacerbate problem gambling”*.

The primary focus of the Australian Racing Board’s submission is the appropriate compass of a ban on interactive gambling.

This submission also makes comments on the access of Australian residents to offshore-hosted gambling sites.

## **2. BACKGROUND**

### **2.1 The General Significance of the Australian Racing Industry**

Australian thoroughbred racing does not lend itself to easy or neat description. It is a major economic activity contributing to GDP, jobs and government revenue, but it is also one of Australia's oldest sports – the first organised race meeting was held in Hyde Park in 1810. Racing is closely linked with gambling, but it also has a cultural significance that poker machines and casinos will never acquire, with its champions such as Phar Lap, part of the national identity. Whilst its best known event, the Melbourne Cup, is now an international spectacle viewed by 150 million people, at the same time racing continues pretty much unchanged in picnic meetings run throughout country Australia, where every place big enough to be called a town – and even some that aren't – has its own racetrack.

### **2.2 The Economic Contribution of the Australian Racing Industry**

The Australian Racing Industry contributes substantially to economic production and employment.

#### *ACIL Report*

To date the most rigorous analysis of the contribution of the racing industry to the Australian and State economies is that carried out by ACIL Australia for the State Ministers responsible for racing. The main results of this study were that:

- The racing industry, defined according to the nine main activities of administration, breeding, owning, training, riding, veterinary, farriers, clubs and race gambling made up about ½ of one per cent of Australia's Gross Domestic Product (GDP) amounting to some \$2.4 billion. Direct

employment in the racing industry involves some 132,000 people and amounted to 40,000 full-time equivalents (FTE).

- Allowing for the successive rounds of spending in the economy which follow from expenditure by the racing industry, direct plus indirect income and employment due to the racing industry in Australia totals some \$6 billion per annum and 330,000 persons (or 100,000 FTE) respectively.

The ACIL Report also reported that “*racing’s contribution to the economy has undoubtedly been greater than the comparison with the GDP share figures first suggest*”, and went on to address the social significance of the Australian Racing Industry. The Report stated (at page 31):

*“Useful as application of the statistical conventions is for comparing industries or sectors, the answers they give on the social significance of particular industries will usually be conservative. Certainly this is the case with estimates of the size of the racing industry generated during the present study. In particular, provided that comparison with other industries are not the principal concern, it could readily be argued that the racing industry ought to be seen to include many more activities than the ‘standard’ definition we have adopted. Regularly, representatives we met during the current project stressed the significance of ancillary activities which specialise in providing goods and services to the racing industry. They were keen to point out that virtually every industry in the Australian economy – from air transport to accountancy, pharmaceuticals to tourism, and clothing to food processing – has a direct or indirect connection with racing in some way. This interdependence of racing with the rest of the economy means that, ultimately, racing touches the lives of all Australians. That is also true of most other industries, of course. But this does not alter the fact that racing’s significance in a social sense extends well beyond the boundaries established for it in exercises like the present one when its size relative to other industries is the issue at hand.”*

### *Regional Australia*

Importantly, the economic benefits of the racing industry are not limited to metropolitan areas. Approximately 40% of the industry’s contribution to production and employment levels is generated in regional Australia. In country areas in

particular racing provides employment where genuine local employment opportunities are scarce.

### *Racing jobs are real jobs*

The Productivity Commission's report *Australia's Gambling Industries* heavily discounted contributions of gambling industries generally to economic production and employment. The Commission's reasoning was that substitute industries could produce similar gains to those generated by gambling (Report para 4.3).

Whether or not the validity of equating multiplier or flow-on effects with the economic benefits generated by casinos and poker machines is open to question, this logic cannot be applied to the racing industry. Breeding and racing are labour-intensive activities providing employment in a wide range of jobs, including as jockeys, trainers, strappers, farriers, stablehands, trackwork riders, studmasters, racecourse curators, barrier attendants, stewards and many others. The people employed in these callings, particularly in regional areas, are highly unlikely to find replacement jobs in substitute industries.

### **2.3 The Wagering and Racing Nexus**

Unlike most other mainstream Australian sports, such as Rugby League, AFL and cricket, racing and wagering are inextricably linked. Racing is heavily reliant upon large and consistent revenue flows from wagering turnover, to the extent that at present some 70% of the Racing Industry's total revenue is derived from TAB payments. Without this revenue there would be a severe reduction in the income flows

to race clubs, breeders, owners and industry workers. Given the Australian Racing Industry's significant role as a provider of employment in regional areas the flow-on effect would be a marked decline in economic activity and employment in regional Australia.

### **3. WAGERING & GAMING**

#### **3.1 Essential differences between Wagering and Gaming**

Within the generic term “gambling” it is important to distinguish between two very different classes: wagering and gaming.

##### *Third party contingency*

Wagering in its pure form, is traditionally based upon a third party outcome or contingency. That is, determination of the outcome of the race is independent of the gambler and the operator. In contrast, in most forms of gaming, such as roulette or lotteries, the operator oversees the conduct of the process (or “game”) by which the outcome is determined.

##### *Skill v. pressing a button*

A further distinguishing feature is that whereas wagering requires the bettor to exercise some judgement (at varying degrees and levels of skill) the vast majority of gaming activity and turnover relate to gaming machines which do not require any judgemental or skill competencies on the part of the player.



*Wagering on the Internet does not open any floodgates*

In the current context the most important distinction that exists between the current Australian gaming and wagering environments is the maturity of telephone wagering.

Since virtually the inception of Australian TABs in the 1960s, significant proportions of turnover have been attributable to off-course punters placing bets with TABs against pre-established account funds via the telephone (telephone betting currently accounts for some 25% of total TAB turnover). Additionally, since the early to mid-1990s larger-scale punters in all jurisdictions have had access to official bookmakers' telephone betting services.

Further, the approximate dividends available about a runner in the lead up to a race are easily accessed by a punter away from official TAB outlets through Teletext-type services as well as radio transmissions. This, combined with the existence of a racing channel on pay TV means that, in terms of enabling "remote" gambling, internet wagering facilities as such add little to what has already been available over the telephone for several decades.

Indeed, the Productivity Commission's report *Australia's Gambling Industries* found in this respect that "*internet wagering only represents a small technological step since people could already lodge the bets remotely by phone*". (Para 17.14)

Wagering on the Internet is only an alternative method of placing bets, and is equivalent to the existing TAB telephone betting service. Its importance to the racing industry is that it allows the TABs to service customers at lower costs, which directly benefits the industry.

*Interactive gaming equals the introduction of remote gaming.*

This contrasts markedly with gaming.

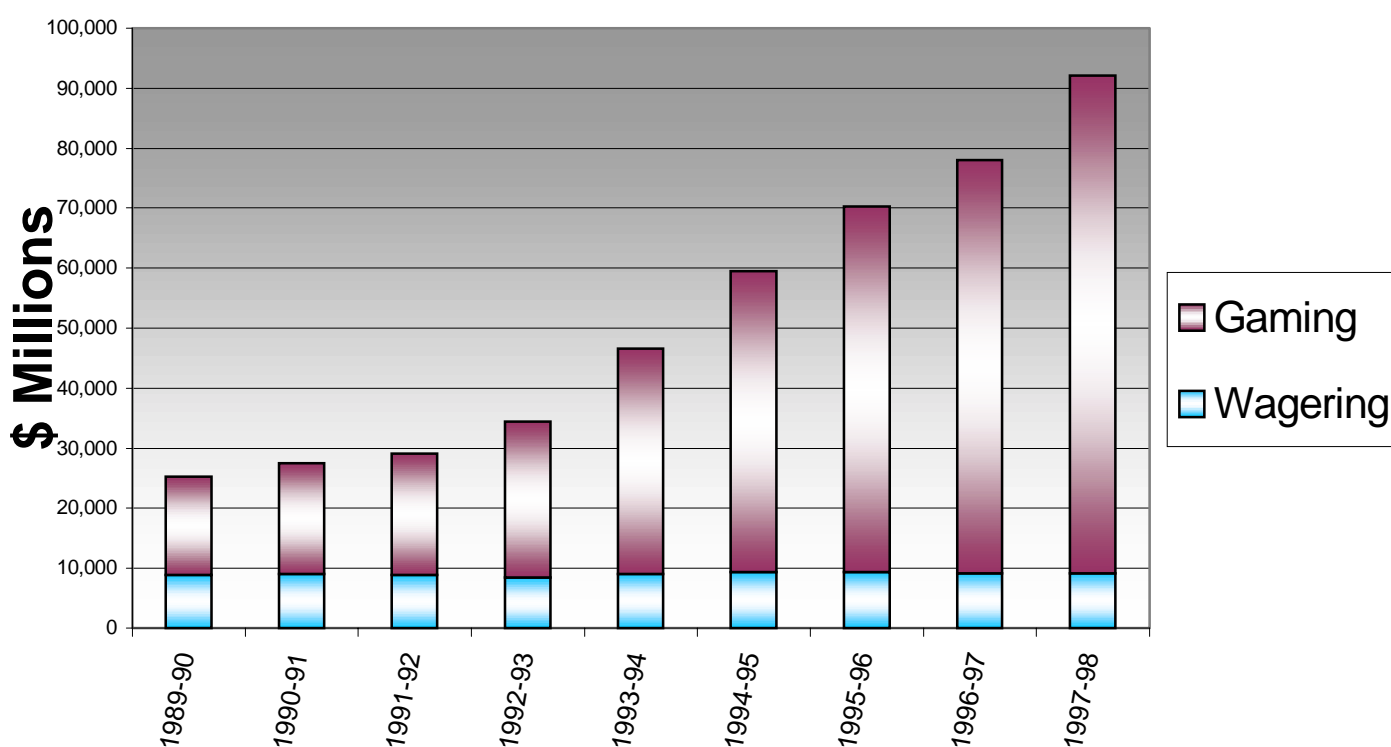
Most forms of gaming in Australia have traditionally involved person-to-person contact between punter and operator (or the operator's agent or employee) and have involved a cash transaction at the time of playing the game. Examples include casino games along with poker and card machines in registered clubs and hotels. Cash over-the-counter sales through agents with on-line links to lotteries offices have accounted for the vast bulk of lottery and lotto sales in recent years.

On-line gaming plainly adds a new dimension to this form of gambling as it enables what was previously impossible – access to gaming from the player's home.

### **3.2 Levels of Wagering and Gaming**

There has been negligible growth in wagering turnover in Australia for many years, and industry forecasts are that this will not be altered by Internet wagering. Increases in Australian expenditure on gambling has been wholly attributable to increased gaming.

Given the maturity of telephone wagering in Australia, and that internet wagering does not represent any marked change in accessibility to gambling, there is no basis for concluding that increased household expenditure on gambling will eventuate as a consequence of the availability of internet wagering. In fact Internet wagering has been operating in Australia since 1998; and its effect has merely been to transfer existing wagering transaction from voice telephone to keyboard entry.



\* Gaming here is all legal forms of gambling other than wagering (ie racing related), such as Lotteries, Lotto, Tattslotto, Pools, Gaming Machines, Casino gaming, Instant Lottery, Keno, Sports Betting and minor gaming

### **3.3 Potential of wagering and gaming respectively to exacerbate problem gambling.**

The Productivity Commission's report *Australia's Gambling Industries* found that "*Online casino games – like gaming machines and roulette – are continuous forms of gaming, with high frequency low payoff. As in their physical counterparts, such continuous forms of gambling present the greatest risks for problem gambling*".

(Para 17.14)

The Australian Racing Industry acknowledges the possible harm that Internet gaming may cause and accepts the reasons why the Government opposes the proliferation of electronic gaming machines and casino games in the home via the internet.

There is no sound basis for believing that wagering through the internet poses this same threat of exacerbating problem gambling.

## **4. AUSTRALIAN RESIDENTS' ACCESS TO OFFSHORE – HOSTED GAMBLING SITES**

The Government believes that banning Australian-licensed interactive gambling sites has the propensity to discourage people from gambling online because people will not risk gambling on "mafia.com in the Caribbean or Dodgy Brothers Bermuda".

*The Government has found compelling the argument that Australians will be less inclined to seek out and gamble in international sites of unknown and questionable*

*nature, exposing themselves to the real danger of fraud, theft or denial of winnings. Local sites, badged and targeting Australian users, would pose a considerably greater threat to the vulnerable within our society. (Prime Minister, The Australian 29<sup>th</sup> March, 2001)*

Whether or not this belief is well grounded in the case of gaming, it most certainly cannot be applied to wagering.

#### *Some economic principles of the racing industry*

There are some economic principles of the racing industry that are important to an understanding of the present vulnerability of Australian racing to commercial damage by offshore wagering operators.

A fundamental distinguishing feature of racing is that, unlike most other industries, it is possible for an outside party to garner revenues from the industry without contributing to its costs.

This was identified by the Centre for International Economics in a review it carried out for the Victorian Minister for Sport and Minister for Gaming in 1998:

*“The nature of racing events is such that it is difficult to exclude parties from utilising the primary product of the event – the outcome or result of a race. As such, it is possible that betting service providers could “free ride” on the racing industry, taking bets on races without contributing to the costs of running them. Such a situation could lead to there being too few race meetings and a smaller racing industry.” (Centre for International Economics 1998, p36).*

*Vanuatu*

The threat of offshore-based operators “free-riding” on Australian racing is not a distant or fanciful one. Already it is seen in the form of bookmakers based in the no-tax haven Vanuatu, taking bets from Australian citizens on Australian races.

One of these Vanuatu operations, that of Mr Alan Tripp, The Number One Betting Shop Ltd (“*Number One*”), has recently been sold to the UK company, Sportingbet.com. Sportingbet.com is the 7<sup>th</sup> largest bookmaker in Europe with online and telephone-based operations in the Channel Islands and the Caribbean.

The UK stock exchange report released following the acquisition of *Number One* indicates that by 31 December 2000 this operation had a data base of 25,000 clients of which 20 per cent were active and “nearly exclusively Australian nationals.”

The report also provides *Number One*’s unaudited results for the three financial years ended 31<sup>st</sup> December 2000. Turnover is described as having risen by a compound growth rate of 72 per cent per annum, reaching \$525,615,232 in 2000.

By way of comparison, total turnover of all Australian licensed bookmakers in the same year was \$1.467 billion, consisting of:

<b>STATE</b>	<b>\$ MILLION</b>
VIC	369.6
NSW	497.5
QLD	223.6
WA	59.8
SA	156.8
NT	97.0
ACT	57.1
TAS	5.9

*Australian Operators Must be allowed to Compete on the Internet*

Off-course wagering has long dominated total turnover in every major racing country – in Australia 82 per cent of all wagering is off-course money. But even off-course wagering is less and less something punters elect to do “face to face”, preferring instead to place their bets from home rather than in a TAB agency. The huge increase in Australian Internet connectivity points clearly to the conclusion that wagering by this medium will increasingly replace betting with TABs either in person or by telephone. It is vitally important that this wagering is with Australian-licensed operators who are properly regulated, pay tax to Australian governments, and make fair commercial returns to the Australian racing industry.

If Australian operators are prevented from offering this service then that wagering will go off-shore to such companies as Sportingbet.com

The economic consequences of this for stakeholders in the Australian racing industry are clear -

- Racing industries in every state and territory will see a reduction in income which will adversely affect race clubs, breeders, owners, racing professionals and supporting industries.
- State/Territory Governments will face a reduction in financial contributions as betting taxes received from the industry.

- The racing industry will be forced to rationalise and reduce its offering, in terms of geographic coverage, including country and regional participation, and the quality of racing.

## **5. Conclusion**

The Government's concern is that new interactive technologies have the potential to expand the availability of gambling in Australia, and to exacerbate problem gambling.

The provision of wagering via the internet allows some substitution in the medium by which wagering takes place. However, it will not in a real sense expand the availability of gambling in Australia. It follows that there is no basis for concluding that the availability of wagering via the internet is likely to produce any significant increase either in the level of gambling in Australia or the extent of problem gambling.

It is submitted therefore that in setting the scope of any ban on interactive gambling the following products should be excluded:

- Betting products offered by TABs under relevant state and territory legislation where players place bets by telephone, internet or direct link to a TAB; and
- Betting products offered by licensed bookmakers where players place bets by telephone or the internet.