

THE FEDERAL GROUP



Submission to the Senate Environment, Communication, Information Technology and the Arts Committee on the Interactive Gambling Bill 2001

Introduction

The Federal Group makes the following comments and observations on what it believes is a piece of misguided and inappropriate legislation that actually fails to deliver its stated objectives.

We are also of the view that the Commonwealth Government has failed to recognise the commitment of both the Interactive Gambling Industry and a number of State and Territory governments to minimise the potential for, and effect of, problem gambling in Australia.

Impact on the Federal Group

The handling of this whole issue by the Commonwealth Government has caused significant damage to the Federal Group, an Australian owned and operated company.

The Federal Group was forced to close its two Internet gaming sites, Wrestpointcasino.com and Countryclubcasino.com, (which operated through the purpose built portal Southerncrosscasinos.com) due to the Commonwealth Government's Interactive Gambling (Moratorium) Act 2000, which commenced on 22nd December 2000. These gaming sites were being operated under the authority of the State of Tasmania that was granted to the Federal Group in July 1998.

On the basis of this authority, the Federal Group invested some \$20 million dollars in developing the sites including the technology, infrastructure, validation, training, development and operational costs. The business was then forced to close down by the Commonwealth Government's legislation that had the effect of retroactively rendering a legal activity illegal.

In fact the absurdity of the whole approach by the Commonwealth Government is highlighted by the fact that before being forced to close, the Federal Group internet operations actually conformed with the requirements of the now proposed Interactive Gambling Bill 2001, including the fact that neither of our sites accepted cash play from players residing in Australia. We are of the view therefore that if the Interactive Gambling Bill 2001 becomes law the Federal Group will have been dealt a great injustice.

We have suffered considerable commercial loss, not only the cost of the sites themselves, but also the opportunity cost of forgoing many other business opportunities during this period. We were also forced

to disband a wonderfully committed group of skilled employees, many of whom have had their employment terminated.

The fact that the Commonwealth Government now intends to legislate to allow for offshore gaming services in no way mitigates against the loss suffered by the Federal Group because the time lost due to the Commonwealth Government action has put the Company back at least one generation of development, when compared with the world-wide industry. It will require significant additional capital and effort to bridge this gap both in terms of both technology and market penetration.

The reason why the Federal Group did not accept cash play from players residing in Australia was that we were awaiting dialogue between the States regarding such matters as to the State's attitude towards regulation regarding both player protection and the source of revenue and taxation options.

Comments with respect to the Interactive Gambling Bill 2001.

Our view is that the Bill is misguided and inappropriate as it is built on the blatantly wrong assumption that:

“The proposed framework contained in the Bill will limit the development of this newly emerging industry and minimise the scope for problem gambling among Australians” (Page 1 of the Explanatory Memorandum)

The Bill will not limit in any material way the development of the Internet Gambling Industry from an Australian or International perspective. The Commonwealth Government has yet to understand that Australia is part of the world economy and the Internet is just one of the technologies that facilitates this new era of world trade.

As Australian gambling operators will have access to a world market, excluding Australia, they will be providing the other citizens of the world leading player protection and harm minimisation measures whilst Australian residents, who will have access only to non-Australian operators, will not have anywhere near the same standard of player protection and harm minimisation measures. As a result of this there is a real likelihood that the scope for problem gambling in this country will be expanded, not limited as is being asserted by the Commonwealth in the following statement:

“A restriction on the range of interactive gambling services available to consumers would reduce consumer choice. However, consumers and in particular problem gamblers, would have some protection from interactive gambling services, which, in the Government's view, have the potential to exacerbate problem gambling” (Page 11 of the Explanatory Memorandum.)

Already we are seeing the presence of leading world class gambling operators (e.g. Ladbrokes) establishing an Internet gaming presence. We also understand that there is a very high level of probability that Internet Gaming will soon be legalised in Nevada, USA which would bring to Australian Internet Gaming consumers some of the most powerful and well-recognised brands in the world of gaming.

Senator Alston himself, in the second reading speech of this Bill on April 4th 2001, said “ research indicates that the number of interactive gambling sites on the Internet has doubled in the last year from about 700 to perhaps 1400”. Also in the Explanatory Memorandum to the Bill it states:

“As at early June 2000 there were approximately 15 providers operating. States and Territories had issued 25 interactive gambling licenses” (Explanatory Memorandum p 15).

Of the 25 licenses issued approximately six had been for casino style gambling.

Therefore the assertion that by denying Australians access to Australian sites reduces consumer choice is erroneous as Australian sites constitute less than 2% of the total gambling sites now available and this number will continue to reduce proportionately as the total number of gambling sites on the Internet continues to grow.

The more compelling point is the flawed rationale that denies Australian residents access to what would be Australian uniform player protection and harm minimisation standards and force them to play on sites that may not meet the same high standards that are contained in the “Uniform Standards for the Regulation of Interactive Gaming” (The Aus Model). This approach can lead only to one outcome. That is the creation of additional problem gamblers and with it the associated social and economic cost that may not have eventuated if the players concerned had access to properly regulated Australian sites.

Alternative Approach

The Federal Group acknowledges that the technology exists to firstly identify the country of origin of players and then to be able to deny access where applicable to the site. This was in fact what we were doing prior to being closed down by the enactment of the Interactive Gambling (Moratorium) Act 2000.

The Explanatory Memorandum to this Bill identifies three options in considering a ban on interactive gambling in Australia. They are:

1. maintaining the status quo by not implementing any sort of ban or restriction;
2. legislating a targeted ban designed to protect Australian consumers while limiting impact on the interactive gambling industry and ISPs; or
3. legislating a comprehensive ban on interactive gambling in Australia that completely eliminates the Australian Interactive gambling industry and includes mandatory blocking by ISPs

The Explanatory Memorandum then supports the case for option two, which as we have stated is based upon flawed rationale.

We believe that there is a fourth option which should be adopted by the Commonwealth. This option would, we believe, be supported by the State and Territory Governments as well as the relevant Industry Associations:

4. Implementation of the “Australian Uniform Standards for the Regulation of Interactive Gaming”(The AUS Model) and have the Internet Industry Association implement a code by which approved content filters would be made available to Australian Internet users.

Under this option, Australians would have access to Australian regulated sites as well as sites located in other parts of the world and would be able, if they felt it appropriate, to down-load content filters that are available under the Online Content Scheme.

This option would not require Commonwealth Government legislation and would provide consumers with the option of downloading content filtering tools, with complaints being referred to the Australian Broadcasting Association. (ABA)

This solution provides the highest level of protection to Australians and is not hypocritical, as is the Commonwealth Government's own solution. It would receive the support of the majority of State Governments, the Australian Casino Association and the Internet Industry Association, none of whom emphatically support the thrust of the Interactive Gambling Bill 2001.

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24th April 2001