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24 April 2001

The Chairman,
Senate Environment, Communications Information Technology and the Arts,
Legislation Committee
S1.57 Parliament House
Canberra ACT 2600

By email for the attention of Ms Andrea Griffiths, Secretary to the Committee.

Dear Sir,

RE: Interactive Gambling Bill 2001

I enclose a submission for consideration of the Committee following the referral by the Senate on 5 April 2001.

In doing so I wish to state International All Sports is of the view, that quite rightly, there are already very stringent licencing conditions in place for online gambling operations. In fact Australia is the most highly regulated of any country in the world.

Given that online wagering is not problematic it would indeed be unfortunate to simply drive businesses such as ours offshore. Wagering, whether it be through the Internet or not, is not interactive. Unlike internet gaming, where betting opportunities are presented every few seconds, wagering events occur at intervals from several minutes to hours or weeks and events are delivered through the radio and television that are totally independent of the internet.

Telephone wagering has been available in Australia since the 1960's. The use of the Internet provides only an added convenience and alternative method of placing a wager to what has been available for several decades. The Productivity Commission acknowledges this fact.

As reported by the Productivity Commission, wagering as a proportion of total gambling expenditure in Australia has declined in recent years. Wagering is very different to gaming and whilst we are not against regulation of the Internet, we at International All Sports contend that the prohibition of Internet for wagering purposes is not in fact addressing the real problem. We seek the removal of horse racing and sports betting from the provisions of the proposed legislation.

We would be pleased to present our views in person to the Committee or answer any questions should this be required. Thank you for the opportunity to present this submission and we wish you well with your deliberations.

Yours sincerely,

Cas Lukauskas
Chief Executive

INQUIRY INTO

INTERACTIVE GAMBLING BILL 2001

BY

**SENATE ENVIRONMENT, COMMUNICATIONS,
INFORMATION TECHNOLOGY AND THE ARTS
LEGISLATION COMMITTEE**

SUBMISSION BY

**INTERNATIONAL ALL SPORTS LTD
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24 APRIL 2001

In the event of a ban on Australian-hosted Internet gambling service providers, International All Sports (IAS) will seriously consider relocating offshore. In any regulatory arrangement that may arise in Australia's regulatory landscape, IAS would like to see the distinction between online gaming and interactive wagering maintained as provided for in the moratorium, which is set to expire on 18 May 2001.

We refer to the distinctions raised in Netbets, the report of March 2000 by the Senate Select Committee on Information technologies:

Online gambling is where gambling activities are provided through the Internet. It has two major categories – one which involves computer generated games and events, and another which involves events that occur independently. The Productivity Commission commented on the categories:

1. Virtual online gambling, which includes software-generated games such as slot machines, black-jack and roulette – the games are not played physically in a gaming room and the outcome of the event is determined by a random number generator on the operator's server; and
2. Placing a bet on a wide range of sporting events, such as horse and car racing, football and tennis – which take place on a real racetrack or playing field. Unlike virtual gaming, this form of gambling has no entertainment value of its own – it is not a new gambling product, but a new means of placing a bet. ⁽¹⁾

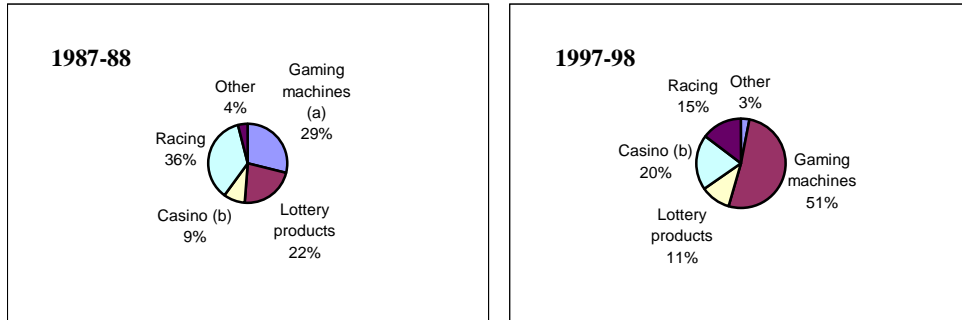
IAS is of the view that our line of business falls into the secondary classification of Interactive wagering. To this end, Mark Read's Darwin All Sports (DAS) is the bookmaking division of IAS. Bookmaking services are provided to clients in person, by phone and over the Internet. The Internet has merely provided a new mechanism for placing wagers in the established professions of bookmaking and ticket-writing.

Unlike online gaming, the regulation of interactive wagering is based on existing bookmaking legislation that has been modified to enable wagering over the Internet. In this regard, it is similar in principle to legislation that regulates telephone betting.

The Bill fails to take into account the difference between wagering and gaming and where in fact the growth of activity is occurring. The following graph taken from the Productivity Commission Report shows expenditure by type of gambling activity over the period 1987-88 to 1997-98.

(1) Productivity Commission 1999, Australia's Gambling Industries, Report No. 10.

Expenditure by type of gambling activity



(a) Outside casinos (b) includes gaming machines, which accounted for 6 percentage points in 1997-98.
 Source: Productivity Commission Report 1999.

It is obvious that the area of greatest growth is gaming machines, and wagering has been unfairly caught up in the Government's move to ban interactive gaming on the net. As well wagering has had an almost 11% decline in real turnover in the last 25 years.

Internet wagering, which has been operating in Australia since 1998, is simply an alternative to telephone wagering that has been available in Australia since the 1960's. The Productivity Commission in its report acknowledged "Internet wagering only represents a small technological step since people could already lodge bets remotely by phone".

There is no evidence to suggest that Internet wagering increases problem gambling. Further it is very similar to telephone betting which is not illegal and not subject to inclusion in the legislation. IAS contends that the legislation should be technology neutral.

In today's high tech society wagerers maintain extensive databases and in many cases do an even more comprehensive study than analysts who choose the financial markets as their wager of choice. Wagering on horse racing and sporting events is no different to investing on future shares on the stock exchange. The legislation does not suggest that it will be illegal to invest on the stock exchange online.

IAS believes Australia's current online wagering regulatory environment provides Australian-based and hosted interactive gaming providers with a high degree of credibility and trustworthiness in the international market place.

The fact that the interactive wagering operations of IAS are subject to stringent rules and regulations within an environment of vigilant probity is a selling point to our clients. It is in the best interests of IAS to maintain its bookmaking and interactive activities under such a system of vigorous checks and balances. The rules we operate under in the Northern Territory are, in fact, our competitive edge.

Indeed, in no small part of the success of Australian-based operations is that gamblers are attracted to the credibility associated with Australian regulation. Regulation is the

responsibility of the States and Territories, which have developed a world class reputation in this field.

IAS fully subscribes to the comments made by Mr Desmond McKee, Manager, Taxation Services, Department of Treasury and Infrastructure, Australian Capital Territory Government, when he said:

“Australia has a first-class reputation for regulation of gambling industries. Australia’s entrance into this arena is known worldwide, and the rest of the world is watching us to see how we perform. ... If Australia does it properly, and that is certainly the intention, then I believe we will get a fair share of that marketplace.” (2)

IAS is of the view a ban would expose Australian residents to potentially dangerous overseas gambling environments where there is limited scope for policy intervention. These overseas environments have an intrinsic attraction for people who seek an outlet for their interest in gambling. The combination of its attraction and accessibility through a medium that is almost impossible to regulate. We believe regulatory measures should provide a safe domestic environment that is subject to a high level of strict regulation.

As to the whether a ban would in fact block the intrusion of online gambling services into Australia and prevent Australian residents from gambling on overseas-based sites, IAS shares the view of Professor Jan McMillen, Executive Director, Australian Institute for Gaming Research:

“Prohibition is not a realistic option because, if we do not do it, there are already sites around the world that are doing it. Enforcement of illegal operators is impossible. Nobody is putting resources into that. ...

It really is difficult because unless we get global enforcement on this issue we are never going to ban Internet gambling. The providers will just move to a nice little liberal island somewhere, and Australians will bet there. If that happens we are going to lose those markets and regulatory opportunities that I talked about. We are going to lose control over consumer protection policies. I think what we have is a chance to actually exercise some policy initiative, and we should be taking advantage of that.” (3)

Mr. Jim Hoggett, Member, Australian Casino Association, expressed similar sentiments.

“We think that applying bans in this area will not be very effective. Obviously, if we took the same line as the American Gaming Association and the American casinos, we would go for a ban. That is what they have done and that is why the President’s commission on gambling in the USA has favoured what they call a pause, but in this area it really means a ban, and the industry was behind that.

(2) Official Committee Hansard, Canberra, 1 October 1999.

(3) Official Committee Hansard, Sydney, 15 October 1999.

We do not think that would work. In fact, we think it would be perverse because it would simply leave the field to illegal and foreign operators. So we do not think that would work. This is partly because blocking technology, although it is quite good-and you can develop technology very rapidly to block and stop things-is always behind the technologies that allow you to get around things. If a person can devise methods to stop you doing something, another person can devise something that will get you round it, usually these days within a couple of weeks.

... It costs you half a million dollars to set up an Internet site so entry costs are very low. What that means is that lots of people can do it. Prohibition does two things: firstly, it leads to loss of consumer and producer benefits and, secondly, it provides the incentive for criminal activity. We think the sensible approach for Australia is a legal, regulated industry which provides consumers with an alternative and the alternative will be a supervised regulated site.” (4)

... In principle we are not in favour of bans. Banning people from doing things is not something we would normally favour, unless there is some sound reason for it ... Look at all the bans in history that we have ever tried to put in place. They tried to ban alcohol in the United States, and they tried to ban gambling in this country. But why does a casino exist? Because they knew they could not ban illegal card games.” (4)

IAS also notes the comments provided by Dr Ralph Lattimore, Assistant Commissioner, Productivity Commission, to the Netbets Senate inquiry. He stated that a ban is a feasible policy option, though it carries a considerable cost:

“This is clearly feasible and has already been done by some states, both nationally in some jurisdictions and internationally. For example, New Zealand’s approach has been to wait and see and to otherwise not allow domestic sites. Certainly this is a technically feasible measure, but it has little advantage for consumers. The foreign sites which are unregulated are not a plane trip away; they are a mouse click away. They do not really deal with many of the prime issues that we were concerned about, like problem gambling and suspect supplier integrity. At the same time, it eliminates the domestic commercial advantages and the advantages for consumers, so it has some substantial drawbacks.” (5)

Dr Lattimore advised the Committee of the impact of a ban if it was extended to include foreign Internet gambling sites as well as domestic sites:

“The social impact of such a broad ban depends on controllability. If controllability is high, then unquestionably this reduces social costs through reducing problem gambling. If it is low, however – and bear in mind that we really do not know yet how effective any of the measures will exacerbate risks for problem gamblers and consumers by taking away access to safe sites.

(4) Official Committee Hansard, Sydney 15 October 1999.

(5) Official Committee Hansard, Sydney 15 October 1999.

It leaves you with a problem where the market is driven by the lemons rather than the lemons being driven out by the high quality sites. What the social impacts would be of such a measure depends on the degree on controllability. Like the previous option, it also loses the consumer benefits and the commercial opportunities.” (6)

International All Sports is by any definition a small to medium enterprise. IAS employs 80 people, 65 of whom are domicile in the Northern Territory. An independent study in 1999 by Peter Anderson Consulting found that IAS contributed in excess of \$10 Million (dollars of the day) to the Northern Territory economy. IAS is a publicly listed company on the Australian Stock Exchange and as such has responsibilities to its shareholders and its employees. It is not an unethical mafia.com company or big business that is purported to be promoting wide spread and unregulated Internet gambling. (7)

Essentially the proposed ban will mean that while Australians can still access overseas online sites, many of which are unregulated and offer no player protection, they will not be able to wager with an established regulated and trusted company like IAS. The proposed ban is basically discriminating against Australian companies in favor of overseas companies who do not pay taxes and employ Australians. It is prudent in our view that Internet wagering remain with Australian licenced operators who are effectively regulated, pay tax to Australian State, Territory and Federal Governments and make fair returns to their shareholders and stakeholders.

This view is supported in one of the key findings of the Productivity Commission, inter-alia.

“Internet Gambling offers the potential for consumer benefits as well as new risks for problem gambling. Managed liberalization with licensing of sites for probity, consumer protection and taxation, could meet most concerns although its effectiveness would require the assistance of the Commonwealth Government” (8)

The Racing industry in Australia is a major one employing nearly 100,000 people, many who live and work in regional Australia. The legislation as proposed would have a major impact on this industry in which no evidence has been found of any contribution to problem gambling. The ban would simply force punters to bet with offshore companies. IAS suggests the Government concentrate on regulation and harm minimization policies and allows reputable Australian businesses to continue to operate. Those involved in Horse Racing and Sports betting should not be unnecessarily caught up in and be victims of what seems to be a catch all reaction to the real issue, which is a proliferation of gaming machines.

(7) Senator Richard Alston, 3AW, 28 March 2001.

(8) Productivity Commission 1999, Gambling Industries, Report No. 10.