

Coalition members' dissenting report

Introduction

1.1 Coalition committee members were deeply affected by the personal stories of gambling addiction shared with the committee and do not deny the need to provide proper help, support and resources for people with a gambling problem and those close to them who are also affected. However, the evidence presented to this inquiry left the Coalition members of the committee concerned about a number of issues which raise questions over the effectiveness of a mandatory pre-commitment system.

1.2 It should be noted that the gambling industry provides significant employment, is a major contributor to the economy, and provides substantial contributions and services to the community. The committee heard that the implementation of mandatory pre-commitment will result in the loss of jobs and salaries, reduce contributions and services to communities and will threaten the viability of some venues. The way forward in any policy to help problem gamblers should be based on the best available evidence, including trials held over an appropriate timeframe. Proposals around mandatory pre-commitment in the committee majority report are not evidence-based, are too rushed and will result in a less than optimum response to assist problem gamblers—an outcome we all want to achieve.

1.3 Gambling is a legitimate and legal recreational activity enjoyed by many. Mandatory pre-commitment will negatively affect the vast majority of recreational gamblers who do not have a gambling problem by creating inconvenience and complexity to sign up to play and by intrusive recording of personal information.

1.4 This dissenting report will outline issues of concern in a number of areas. These include the lack of evidence that a mandatory scheme will assist those with a gambling problem; evidence from those in the industry that it will inconvenience the vast majority of recreational gamblers who do not have a gambling problem and push problem gamblers to other less regulated forms of gambling; the cost of implementation; the timelines and the consequences for venues. For these reasons the Coalition members support a well-designed, voluntary pre-commitment scheme, which is supported by appropriate evidence, including trials, and where there has been appropriate consultation with industry. We also believe that given the substantial cost of a mandatory scheme, particularly for smaller venues, a full cost-benefit analysis should be undertaken.

1.5 Mandatory pre-commitment is not the 'silver bullet' to eliminate problem gambling. Before taking industry down this expensive, technologically complex and personally intrusive path we must be sure that these negative aspects and others highlighted above are outweighed by positive outcomes.

Response to the recommendations in the committee majority report

1.6 The recommendations made by the committee majority do nothing to assuage the concerns of Coalition committee members which are outlined in detail below. The design features of the system are complex. As expected problem gamblers will be able to set their own spend limits and there will be nothing to stop them setting unaffordable limits. In addition, they will be able to set limits in the venue despite witnesses, particularly former problem gamblers, telling the committee that limits need to be set away from the machines. No resolution to the technological challenges has been provided and we are no clearer on the cost. Some proposals to reduce costs are made but the harmonisation of machine standards is a longer term issue which will provide no assistance for the up-front costs. Coalition committee members are pleased to see recognition of the needs of small venues, requiring more time and assistance with costs, but reiterate the urgent need for a full cost-benefit analysis and further trials to be undertaken to ensure the future of the industry and its contribution to the community is not needlessly threatened by these proposed reforms.

1.7 Coalition members of the committee note the majority report recommendation which provides an exemption for 'low intensity' EGMs. The inclusion of this recommendation is surprising as the committee essentially took minimal evidence on so-called 'low intensity' EGMs. Low intensity machines, their definition, player usage, effect on recreational and problem gamblers all remained unexamined and untested. Indeed, there was little discussion on 'low intensity' machines among committee members and witnesses, and they were not a focus for the committee at all in submissions or testimony in preparation of this first report. The apparent 'compromise' of high and low intensity machines is confusing for gamblers and is not evidence based. Furthermore, no evidence was presented to the committee of international experience supporting low intensity machines having an impact of problem gambling. In fact, it appears to Coalition committee members to be little more than a 'political fix' that has only received attention from early April (after all public hearings were completed).

1.8 Coalition committee members note:

- No one has precisely defined what constitutes a 'low intensity' machine and we are unaware of their existence in any venues in Australia. The majority report suggests a 'low intensity' machine have a maximum bet limit of \$1, with a maximum hourly loss of \$120;
- We note an earlier proposal from the Productivity Commission to introduce a national \$1 maximum bet was estimated to lead to a reduction of 50 percent in casino industry non-VIP gaming machine revenue. This was estimated to equate to around \$500 million for the casino sector. Similar reductions could, therefore, be expected to occur in club and hotel revenues with obvious major consequences for employment, state government revenues, and funding of sport and community contributions;
- In the absence of conclusive evidence, Coalition committee members believe 'low intensity' machines are unlikely to have any appeal for problem gamblers

who will be able to continue to play existing machines using self selected high loss limits on their pre-commitment card. As such, 'low intensity' machines are unlikely to be in any way effective in reducing problem gambling, but will lead to a significant revenue loss for industry and government; and consequently lead to the loss of many jobs;

- Given 'low intensity' machines are not currently in Australia, the concept requires a 'start from scratch' design, development, production and regulatory approval of an entire range of new games and existing games presumably would not comply with the majority report definition of 'low intensity'. As such, this can be reasonably expected to take a long period of time and to be quite costly. The complete absence of any evidence from games providers or state and territory based regulators regarding the impact of introducing low intensity machines means the recommendation contained in the majority report is wholly without foundation and requires detailed further review.

1.9 This report will cover the following areas: questioning the evidence that mandatory pre-commitment will assist problem gamblers; issues with implementation including technology challenges and unrealistic timelines; the involvement of the industry; and the negative consequences mandatory pre-commitment will have.

Questioning the evidence

1.10 Witnesses argued against implementing full mandatory pre-commitment by underlining the lack of evidence that such a measure will actually work. Clubs Australia highlighted this lack of evidence:

Given the costs associated with implementing a nationally-networked, uniform mandatory pre-commitment scheme, it would be reasonable to assume that there would be significant evidence to show that the scheme has successfully worked in reducing the prevalence of problem gambling in research and trials, both in Australia and overseas.

No such evidence exists.¹

1.11 Clubs Australia pointed to a study conducted by Professor Alex Blaszczynski which showed that problem gamblers are least likely to benefit from pre-commitment and most likely to circumvent the system.²

1.12 It was pointed out to the committee that the pre-commitment trials to date have been inconclusive and limited. Clubs Australia asserted:

Advocates for pre-commitment point to the trials in South Australia, Queensland and Nova Scotia as evidence that pre-commitment can be

1 Clubs Australia, *Submission 47*, p. 21.

2 Alex Blaszczynski, 'Gambling Motivations, Money-Limiting Strategies, and Pre-Commitment Preferences of Problem Gamblers Versus Non-Problem Gamblers', *Journal of Gambling Studies*, (2010) 26, pp 361–372.

implemented, and works. They also point to Norway as a country which has implemented mandatory pre-commitment successfully.

Clubs Australia does not agree with these assertions.

- Australia's trials have been for voluntary, venue-based pre-commitment.
- Nova Scotia's extensive trials had a requirement for participants to have a card, but it was voluntary to use the pre-commitment features on the cards, such as spending or time limits, or enforced breaks in play. Nova Scotia's trials were explicitly not intended to redress problem gambling.
- Norway has had no reduction in problem gambling since implementing mandatory pre-commitment.³

1.13 Industry does support an evidence-based approach. As Mr Trevor Croker, Aristocrat, stated:

It is critical that a robust evidence base be established and that any measures implemented in the interim be subject to review, evaluation and, if necessary, amendment to ensure gaming policy is constructed on the basis of firm evidence.⁴

1.14 Academic Dr Sally Gainsbury agreed on the importance of building an evidence base before introducing a new policy:

We very much think that the responsible gambling and harm minimisation measures are very important to address problem gambling in Australia but any strategies should be evidence based as much as possible so that money is spent in a manner that is going to make a difference and be an effective policy for the people and achieve the aims it is really trying to address. So before any policy is put in place there should be evidence behind it to support its effectiveness.⁵

Problem gamblers won't set low limits

1.15 Several witnesses pointed to the irrational beliefs held by problem gamblers and how this inhibits their ability to act rationally. Associate Professor Paul Delfabbro described these:

I have had mathematicians who are pathological gamblers. They will tell me how to calculate the odds of the machine—they will say it is one over 25 to the fifth, based on the five reels—and then they will turn around and tell me how they beat the machine, which is entirely irrational.

3 Clubs Australia, *Submission 47*, p. 25.

4 Mr Trevor Croker, *Committee Hansard*, 4 February 2011, pp 2–3.

5 Dr Sally Gainsbury, *Committee Hansard*, 4 February 2011, p. 37.

It is recognised in cognitive psychology that you have what is called knowledge partitioning. It is the neuroscientist who believes in astrology. People's emotions will often override their rational thought.⁶

1.16 The committee heard evidence from Professor Malcolm Battersby that for problem gamblers, the compulsion to gamble distorts their thinking:

That compulsion about what they describe as an uncontrollable urge, which I tried to describe in my submission, actually means that their thinking processes become totally distorted.⁷

1.17 Given these uncontrollable urges override rational behaviours, it is hard to see how addicted gamblers will be able to set responsible limits on their gambling. Clubs Australia pointed out this contradiction in their submission:

Problem gamblers are addicts, so how will they make rational choices one minute, and then bad choices the next?⁸

1.18 As the setting of high limits is to be permitted, we are extremely worried that problem gamblers will simply set excessive limits in order to be able to play. The committee heard evidence from Associate Professor Paul Delfabbro that this is precisely what happened in Sweden:

...the findings from Sweden suggest that people will set limits which pretty much circumvent the whole system. In Sweden there is a gambling provider called Svenska Spel, which provides internet gambling and also lotteries—and lottery terminals are also a form of poker machine. They have a system called Play Scan, which is a voluntary system you can activate, and you can ask it to track your gambling. You can set limits, too, when you play with their products. They found that people will often set 24 hours a day on time limits, or they will set limits very much higher than what they would otherwise spend. This was also found in the Worldsmart trial in South Australia, too—people will set limits higher than what they would otherwise spend, just in case.⁹

1.19 Professor Alex Blaszczynski expressed his concern that problem gamblers will set excessive limits, and gamble to those limits:

My concern essentially is that after initial experiences they are going to set limits which are in excess of what they can really afford and that may lead to some negative consequences where, having set higher limits, they are more likely to gamble to those limits.¹⁰

6 Associate Professor Paul Delfabbro, *Committee Hansard*, 1 February 2011, pp 71–72.

7 Professor Malcolm Battersby, *Committee Hansard*, 14 February 2011, p. 55.

8 Clubs Australia, *Submission 47*, p. 43.

9 Associate Professor Paul Delfabbro, *Committee Hansard*, 1 February 2011, pp 69–70.

10 Professor Alex Blaszczynski, *Committee Hansard*, 4 February 2011, p. 37.

1.20 Another academic, Dr Sally Gainsbury agreed that problem gamblers would be likely to set high limits in order to build-in a 'buffer zone':

Another that we highlighted that is quite important is that there is some evidence that precommitment levels will actually increase gambling for problem gamblers, who will set higher limits to give themselves a buffer zone and then end up actually spending more because they are changing their own mindsets of how much they have to spend. So another potential consequence is actually increasing gambling amongst certain problem gamblers.¹¹

1.21 The possibility of this perverse outcome has been noted in a report from the Responsible Gambling Council, Canada. A participant in a gambling forum in Nova Scotia observed:

I might think I didn't go this week. I better go and spend all my money on gambling because I've still got all this money left.¹²

1.22 The Coalition members of the committee express their grave concern that problem gamblers will indeed set high limits and play to those. Experts have highlighted that this is a real risk.¹³ Relying on the assumption that problem gamblers will have moments of lucidity where they will be able to set affordable and rational limits, ignores the fact that multiple moments of lucidity will be required, at the venue in order for problem gamblers to review and re-set their limits on a regular basis. Coalition committee members believe that multiple moments of lucidity falling at the times when limits are reviewed are unlikely to occur. In addition, these moments of clarity will need to occur in the venue where a problem gambler is at most risk of losing control. Rather than reducing harm, the Coalition members are extremely worried that mandatory pre-commitment will cause even greater harm, by encouraging addicts to spend even more than they currently do by setting higher limits. In order for these dangers to be addressed, it seems evident to Coalition committee members that a third party would need to make decisions about limits for an individual who is in the throes of a gambling addiction—an extreme policy response we would not support.

Black market, card-swapping and lost cards

1.23 Witnesses warned the committee that mandatory pre-commitment would have other unintended and damaging consequences. These include fuelling a black market in pre-commitment cards and fraud. Mr Trevor Croker, Aristocrat, described card swapping activity in Norway:

11 Dr Sally Gainsbury, *Committee Hansard*, 4 February 2011, p. 40.

12 Professor Jan McMillan, *Submission 66*, Attachment A, p. 22.

13 For example, Dr Sally Gainsbury's evidence that problem gamblers would set high limits and play to those. Dr Sally Gainsbury, *Committee Hansard*, 4 February 2011, p. 40.

Even in Norway and other jurisdictions where we have seen card based solutions, people are still buying and trading cards.¹⁴

1.24 He described how it even happens in Australia where people swap loyalty cards:

We have had reports that people in this situation, even domestically, will swap cards to redeem points. But largely the feedback we have had is that it is not a bulletproof solution. People will swap and trade cards and have been known to use multiple cards to continue to game.¹⁵

1.25 The evaluation of the Nova Scotia trials found card swapping was rife among players, with 37 per cent of players engaging in card swapping at least sometimes.¹⁶

1.26 Ms Sarah Hare, Schottler Consulting, agreed that a mandatory scheme could encourage a black market in cards:

In a mandatory model we have still got the issue that, firstly, as you mentioned, people could swap cards with other players, leading to a black market of cards.¹⁷

1.27 This danger was also highlighted by Professor Alex Blaszczyński and Dr Sally Gainsbury in their joint submission:

A further potential unintended negative consequence of introducing pre-commitment devices is the development of a black market in player cards, whereby player cards be sold or hired to players who have exceeded their personal limits, or devices invented to circumvent pre-commitment measures.¹⁸

1.28 Lifeline Australia agreed, fearing that individuals would face greater risks:

A major concern is the likelihood of problem gamblers finding a way to beat the system through a 'black market' of pre-commitment cards – being sold or given away or access codes shared, leading to increased legal and personal risks for individuals.¹⁹

1.29 It was argued by Mr Ralph Lattimore, Productivity Commission, that a gambler would be required to show ID in order to collect a jackpot prize which would ensure against player fraud.²⁰ The arguments that this would provide an adequate safeguard against card swapping are illogical, as they assume that the problem gambler's only motivation for gambling is to win the jackpot, which rarely occurs.

14 Mr Trevor Croker, *Committee Hansard*, 4 February 2011, p. 14.

15 Mr Trevor Croker, *Committee Hansard*, 4 February 2011, p. 14.

16 Associate Professor Paul Delfabbro, *Committee Hansard*, 1 February 2011, p. 74.

17 Ms Sarah Hare, *Proof Committee Hansard*, 3 February 2011, p. 20.

18 Professor Alex Blaszczyński, Dr Sally Gainsbury, *Submission 13*, p. 9.

19 Lifeline Australia, *Submission 97*, p. 5.

20 Mr Ralph Lattimore, *Proof Committee Hansard*, 15 February 2011, p. 49.

Problem gamblers are also seeking the thrill of a win, not necessarily a large jackpot prize. Presumably, ID would not be required for smaller wins, which raises the question of where the threshold should be set in order to prove identity to collect winnings.

1.30 It was submitted to the committee by Professor Alex Blaszczynski and Dr Sally Gainsbury²¹ that a mandatory system may fuel illicit activities such as a black market in cards, which as noted by Lifeline Australia,²² will place all players at greater risk. These concerns are shared by Coalition committee members.

1.31 The committee heard the only way to prevent such disastrous consequences would be to implement strict and onerous identity procedures, including compulsory registration of all players, biometrics to record personal data and a nationally managed database.²³

1.32 The issue of how to replace lost or malfunctioning pre-commitment cards was discussed. For example, managing the administrative processes around lost cards or cards that fail to work for some reason would require venues to commit significant resources. The committee was advised by the Productivity Commission that larger venues, such as casinos, already have in place the capacity for developing specialised responses to these issues.²⁴ But it was not clear where the ultimate responsibility for addressing such issues would lie if the venue was unable to deal with problems, as the following exchange shows:

Dr Lattimore—I can make a few comments. Firstly, a large venue has some advantages, in a way, over a small venue, because a large venue has the capacity for specialisation. In fact, if you go to these large casinos, they have dedicated counselling staff available 24 hours a day, in their own offices. They have been able to do that because they have so many patrons. So a large venue has the capacity for developing specialised responses to just the issues, and they have to for reasons too. There are all sorts of problems that beset gaming machines or other aspects of any venue that they have to fix, and for that reason they have a capacity to do that. On some of the issues you have raised, for example, a malfunctioning card, at least issuing a new card is not a substantial difficulty because there is a process you would have for issuing one in the first place, and the whole idea of any precommitment system is not to make it customer unfriendly. We did not examine complaint mechanisms, but I imagine that you would have a multilevel capacity for complaints, which is usual in any context like that.

Senator BACK—You would expect management to take responsibility for these matters.

21 Professor Alex Blaszczynski, Dr Sally Gainsbury, *Submission 13*, p. 9.

22 Lifeline Australia, *Submission 97*, p. 5.

23 St Marys Rugby League Club, *Submission 82*, p. 9.

24 Mr Ralph Lattimore, *Proof Committee Hansard*, 25 February 2011, p. 32.

Dr Lattimore—In many of the instances you have described, that is a foreseeable aspect of machine play and so you would want to have an answer to it before it occurred. The greater difficulty is when something occurs that was not foreseen, and management would be the first party to be alerted to it. If it were something they could do, they would deal with it. If it were a systemic issue, a reflection of the design of the arrangements, they would make a representation to government.²⁵

1.33 Clearly, in the view of Coalition committee members, there will be increased compliance costs for venues which will be expected to devote additional resources to processing lost or stolen cards, not to mention the costs involved in monitoring gamblers for illegal activities. We accept that some of the much larger venues such as casinos may have the capacity to deal with increased compliance, but many other large venues without such existing infrastructure will not without dedicating significant additional resources. As Twin Towns Club noted in its submission, inevitably 'there will be increased monitoring costs, compliance costs' as well as the costs of smart cards or USBs.²⁶ For many, the additional costs of compliance could be 'the straw that breaks the camel's back'.²⁷

1.34 In addition to the increased compliance burden is the lack of clarity around processes for lost or stolen cards. For example, a customer has a pre-commitment card from Crown Casino and travels to the Gold Coast for a holiday and wants to gamble at Twin Towns Services Club but forgets their card. Under the model proposed in the committee majority report, unless there is a national network in place, Coalition committee members do not see how this situation could be easily resolved and would likely result in another card being issued.

Impact on recreational gamblers and tourists

1.35 A number of witnesses were concerned that the 'one-size' fits all approach that a mandatory scheme would impose, will be a hardship and imposition on occasional gamblers, as well as overseas tourists. Mr Chris Downy, Australasian Casino Association, argued:

An occasional customer will be wary about giving their personal details to a casino business and even more wary about disclosing details about their gambling and having them stored on a government regulated database. We see that as being a big issue.²⁸

1.36 Mr Downy went on to express concern that casinos could lose valuable business if a mandatory scheme were imposed on occasional gamblers who are at no risk of becoming problem gamblers:

25 Dr Ralph Lattimore, Senator Chris Back, *Proof Committee Hansard*, 25 March 2011, p. 32.

26 Twin Towns Services Club, *Submission 41*, p. 9.

27 RSL (Victoria Branch), *Submission 103*, p. 4.

28 Mr Chris Downy, *Proof Committee Hansard*, 18 February 2011, p. 29.

So you do not have a precommitment card, you do not particularly want one and if you come back to the casino again the chances are you will leave it behind. You just want to put a few dollars into a machine, you have no intention of filling out the forms and divulging your personal details and gambling records to any business and certainly not to the government. So you turn around and say, 'I've had enough of this. I'm going to leave.' You are not a problem gambler and you are not at risk of becoming a problem gambler. That would be the story with a lot of our recreational customers. They might go to a casino three, four or five times a year. They are really our occasional customers. That is our business. That is where we have concerns, that that is the business we will lose.²⁹

1.37 He was also particularly concerned about the impact on tourism, as shown in the following exchange:

Senator BACK—Is it your understanding that if we move to this compulsory precommitment system that international visitors would also have to sign up to—

Mr Downy—That is a big concern of ours. We are not talking about our high rollers. We are talking about tourists who come in off the street. They are no different to occasional customers.

Senator BACK—They might be on the cruise vessels arriving here.

Mr Downy—They might be—or whatever. Basically they want to come to the casino for a night out and some thought has to be given as to how you would manage that situation. We put the figures there for you and it is a very important part of our business, not only for us but also for Australia.³⁰

1.38 Mr Downy outlined the value of casinos to the tourism sector:

It is worth noting that in financial year 2008, of the 5.2 million international tourists who visited Australia, 1.1 million visited a casino. Total expenditure by international tourists visiting Australia in that financial year was \$16 billion. Of that, \$4.9 billion was spent by international tourists who visited a casino. Those international tourists who visited a casino spent approximately \$4,941 per head, as opposed to the \$2,628 per head spent by those international tourists who did not visit a casino.³¹

1.39 Clubs in tourist areas also expressed concern. Mr Colan Ryan, Secretary Manager, Crescent Head Country Club, highlighted the loss of business if a mandatory scheme was compulsory for domestic tourists:

But we have a floating tourist population. We have people who might save up all year and then, once a year, they will go away and they do not mind spending a few dollars. January is one of the few months of the year we

29 Mr Chris Downy, *Proof Committee Hansard*, 18 February 2011, p. 32.

30 Senator Chris Back, Mr Chris Downy, *Proof Committee Hansard*, 18 February 2011, p. 35.

31 Mr Chris Downy, *Proof Committee Hansard*, 18 February 2011, p. 27.

actually make a profit. We rely on the money that we make in that one month to get us through the rest of the year.³²

1.40 Mr David Curry, General Manager Government and Corporate Relations, ALH group, argued that recreational gamblers should be free to play without hindrance:

I do not think a recreational gambler should have to engage in any other transaction other than being to play the machine. A person who wants to engage in voluntary precommitment can sign up and use a device or whatever else to set appropriate time and/or spend limits to assist them.³³

1.41 Coalition members of the committee strongly agree with the view expressed by Mr Chris Downy, ACA, that requiring occasional players to sign up to a 'one-size-fits-all' mandatory system is 'unnecessarily bureaucratic'.³⁴

Players will migrate to other forms of harmful gambling

1.42 The committee heard evidence that problem gamblers who become frustrated with the strictures imposed under a mandatory scheme may migrate their gambling to other less regulated environments, such as the internet. Associate Professor Paul Delfabbro observed:

Younger males who are very heavy poker machine users might be tempted to then transfer their gambling expenditure more to the internet or other forms...³⁵

1.43 Mr Peter Newell, President, Clubs Australia, pointed out that after the introduction of mandatory pre-commitment in Norway players migrated to the internet:

Norway introduced mandatory precommitment and the result was that players moved to Internet gambling.³⁶

1.44 Mr David Curry, General Manager, Government and Corporate Relations, ALH Group, agreed and pointed to evidence from Norway which saw increased numbers of calls to gambling helpline services from gamblers with internet gambling problems:

The evidence that I have was from a senior adviser to the Norwegian government. In terms of iGaming 22 percent of calls through the national helpline were related to iGaming in 2006. In 2007 it was 41 per cent and 15 per cent sports betting on top of that. In 2008 it was 70 per cent of the calls and 23 percent of sports betting on top of that. In 2009 the first quarter was

32 Mr Colan Ryan, *Proof Committee Hansard*, 14 February, 2011, p. 94.

33 Mr David Curry, *Proof Committee Hansard*, 14 February 2011, p. 77.

34 Mr Chris Downy, *Proof Committee Hansard*, 18 February 2011, p. 29.

35 Associate Professor Paul Delfabbro, *Proof Committee Hansard*, 1 February 2011, p. 75.

36 Mr Peter Newell, *Proof Committee Hansard*, 4 February 2011, p. 45.

54 per cent of calls and 17 per cent sports betting, remembering that from 1 July 2007 slot machines were banned in that jurisdiction.³⁷

1.45 The dangers of internet or online gambling were highlighted to the committee. Mr Colan Ryan, Secretary Manager Crescent Head Country Club, expressed concerns about the levels of advertising of internet gambling products:

I just get worried when I see on TV the ads for internet gambling. When you watch sports games, betting on games is advertised continually through the cricket and rugby league to children. It is poured down our throats. I do not know about your local TV stations, but where I live you continually see ads for playing poker machines online. There are lots of different sports betting agencies around, and some of their operations in trying to make money to me seem very unscrupulous, I suppose, in some ways.³⁸

1.46 Associate Professor Linda Hancock noted the problems in the UK where people can buy lottery tickets online:

One model here is the UK National Lottery. You can buy in the UK National Lottery by telephone or online, and they started to see some anomalous spending which they thought was very harmful to those consumers—people spending £1,500 a week on lottery tickets.³⁹

1.47 Many were rightly concerned about the rapid emergence of internet gambling and the risks and negative effects, particularly for young people:

In terms of internet gambling I suspect—and this is the evidence from our gambling treatment clinic—that there is now a rapid rise in young males presenting with sports betting problems. That is reflected in some other clinicians that I have discussed. My prediction would be that there will be a shift of problem gambling from the traditional electronic gaming machines; it will still persist, but I think the internet gambling will start to expand...⁴⁰

1.48 Mr David Curry, ALH Group, described discussions he had about concerns over internet gambling with former AFL player, problem gambler and now ambassador for responsible gambling programs, David Schwarz:

In addition, in my discussions at length with David Schwarz, a reformed problem gambler—and run a responsible gambling program with him—says categorically that if the internet were available to the level it is now, it would have been a disaster for him because he said that if one avenue chops off or becomes all too hard he would move somewhere else.⁴¹

1.49 Clearly, more research into internet gambling is needed:

37 Mr David Curry, *Proof Committee Hansard*, 14 February 2011, p. 78.

38 Mr Colan Ryan, *Proof Committee Hansard*, 14 February 2011, p. 97.

39 Associate Professor Linda Hancock. *Proof Committee Hansard*, 2 February 2011, p. 8.

40 Professor Alex Blaszczyński, *Proof Committee Hansard*, 4 February 2011, p. 43.

41 Mr David Curry, *Proof Committee Hansard*, 14 February 2011, p. 72.

No, we do not have that evidence; we have not done that research. But I would have to agree with you that we need to learn much more about the patterns of online and internet gambling and sports betting to understand the whole equation.⁴²

1.50 In conclusion, the Coalition members of the committee share the deep concerns of those who fear that forcing a mandatory scheme on everyone will result in migration of gamblers to the less regulated, less protected and fast-growing internet gambling environment. Mr Anthony Ball, Executive Director, Clubs Australia, summarised the view we support, that gamblers should not be driven to an online environment where they can gamble unfettered and unprotected, but instead be given treatment:

The strategy must not be to drive them online; the strategy must be to find people with a problem, get them the right treatment and turn their lives around. That is the essence of public health policy, and I think it needs to be how we address this as well. That is why we say that mandatory precommitment will not help such a person—because they will find a way around the system. They will subvert it. They will jump online or go to the TAB or somewhere else where they can bet unfettered.⁴³

Prevalence of problem gambling

1.51 The Productivity Commission noted in its report a fall in prevalence rates:

...on balance, the Commission's assessment of the evidence suggests that prevalence rates have fallen.⁴⁴

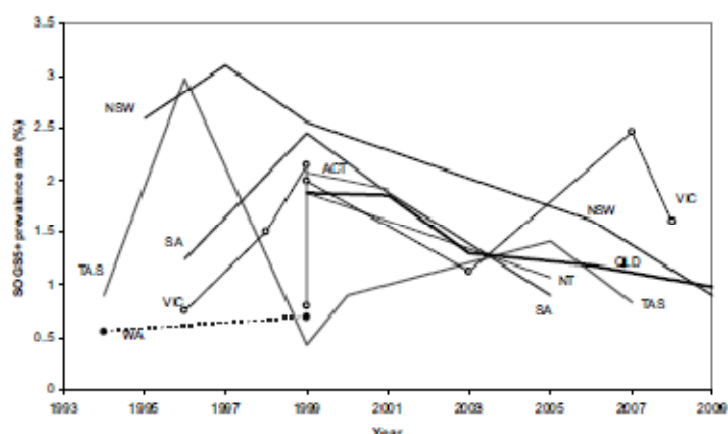
1.52 This figure⁴⁵ from the Commission's report, graphically illustrates these declines have occurred across all jurisdictions:

42 Ms Penny Wilson, *Proof Committee Hansard*, 2 February 2011, p. 72.

43 Mr Anthony Ball, *Proof Committee Hansard*, 4 February 2011, p. 62.

44 Productivity Commission, *Gambling*, vol. 1, Commonwealth of Australia, Canberra, 2010, p. 5.39.

45 Productivity Commission, *Gambling*, vol. 1, Commonwealth of Australia, Canberra, 2010, p. 5.40.

Figure 5.5 Problem gambling prevalence rates^a

^a Problem gambling was measured using the SOGS 5+ criterion. There was only limited data where both CPGI and SOGS were used (three studies in Australia and seven in Canada, and so only a simple adjustment was feasible. The Australian SOGS 5+ prevalence rate was estimated as $CPGI\ 8+ \cdot 0.394\ CPGI\ 3-7$ (reflecting the fact that all people categorised as CPGI 8+ will be categorised as SOGS 5+, while only a share of those rated as CPGI 3-7 (a looser categorisation of problems) would be rated as SOGS 5+).
Data source: Commission estimates based on prevalence estimates from table 5.2.

1.53 The Productivity Commission agrees that the range of harm reduction measures has contributed to reducing risks for problem gamblers, stating that:

...governments and venues have introduced some harm prevention and harm minimisation measures, which are likely to have reduced risks of problems for gamblers...⁴⁶

1.54 Clubs Australia also presented data which showed that prevalence rates of problem gambling have been falling. For example, Queensland has seen a decline in prevalence from 0.83 per cent in 2001 down to 0.37 per cent in 2008–09. In New South Wales the prevalence rate has fallen from 0.8 per cent in 2006 to 0.4 per cent in 2008. In the ACT, the 2010 figure was 0.5 per cent.⁴⁷

1.55 Witnesses argued that falling prevalence rates point to the success of existing state and territory initiatives to reduce problem gambling harms:

Can I run through a few things that have happened. It is not an accident that the rate of problem gambling is falling. It is not spiralling out of control. The states and territories under their own steam, long before this came onto the federal agenda, have introduced self-exclusion schemes; problem gambling counselling services; responsible gambling training; 24-hour help lines; restrictions on ATM facilities, as far as credit goes; player activity statements; restrictions on advertising; machine shutdowns; bans on complementary alcohol; responsible gambling signage; and gambling warning notices. These have been developed by state governments, in consultation with the industry. No-one can tell you whether or not they

46 Productivity Commission, *Gambling*, vol. 1, Commonwealth of Australia, Canberra, 2010, p. 5.39.

47 Clubs Australia, *Submission 47*, p. 8.

have directly led to the rate of problem gambling falling, but it suggests that it has had an impact, because we know the rates are falling.⁴⁸

1.56 Industry initiatives such as Club Safe have also played a significant role.⁴⁹ Clubs are committed to doing the right thing and supporting problem gambling initiatives. For example, more than 90 per cent of clubs in Queensland believe that responsible gambling codes of practice are 'good for business'.⁵⁰

Technology issues

Shortcomings with current technologies

1.57 The committee was presented with a range of technical devices that it was claimed could facilitate pre-commitment. It became clear that all these technologies exhibit some weakness which problem gamblers would be likely to exploit—none are foolproof or complete on their own. Some technologies might even inadvertently encourage problem gambling or criminal behaviour.

Magnetic stripe cards

1.58 Magnetic stripe cards are cheap and familiar to users, but these cards are less secure and can be easily swapped with other players, even with the added security of a PIN. Associate Professor Paul Delfabbro noted:

Such cards are, however, less secure, can be easily damaged and can be swapped between players without easy detection.⁵¹

1.59 Magnetic stripe cards do not have a large storage capacity and can be easily swapped. Mr Ian Donald, Regis Controls, argued:

Mag stripe really will not do the job. It is very difficult to change the limits on mag stripe. It acts as an ID card, and all the smarts of the system are at the back end. That, by definition, is a more expensive system. I think you can rule out mag stripe as a long-term solution.⁵²

Smartcards

1.60 Smartcards are cards that contain an embedded digital chip which store more data than a magnetic stripe card and are programmable. Their greater storage capacity means that more personal identification data can be stored on the card, which it is

48 Mr Anthony Ball, *Proof Committee Hansard*, 4 February 2011, p. 67.

49 ClubSAFE and its sister programs are a comprehensive resource that includes induction information and interactive, face-to-face training and online training for new gaming employees, refresher training every two years, counselling services, a self-exclusion program and other information resources. Clubs Australia, *Submission 47*, p. 9.

50 Clubs Australia, *Submission 47*, p. 9.

51 Associate Professor Paul Delfabbro, *Submission 9*, p. 4.

52 Mr Ian Donald, *Proof Committee Hansard*, 2 February 2011, p. 54.

claimed will negate the need for a central database to hold this information.⁵³ As observed by Robert Chappell, Independent Gambling Authority, SA:

If privacy is a huge concern, then that points you more in the direction of a smart chip type card where the data is kept on the card. That would reduce the need for aggregation in a centralised database.⁵⁴

1.61 Smartcards are also considered more tamper proof.⁵⁵ But even smartcards with their additional features could be swapped by a problem gambler determined to circumvent the system. Global Gaming Industries observed:

In general smartcards can be very secure devices. An individual's identity can be imprinted securely on such a device and defy all but the most strident attempts to break into it. There is no argument that terminals can be placed on or by a Gaming Machine and values can be set on a card or device to be transposed to a Gaming Machine, in some Australian states. It can tell a security terminal the identity of the person carrying it but, without some form of bio-metric it cannot tell if the person presenting the card/device is the person whose identity is contained within it. Even then there is no perfect bio-metric.⁵⁶

USBs

1.62 Like smartcards, USBs or memory sticks can store a lot of personal data and are programmable for a range of functions. However, the committee heard criticisms on this technology:

USB basically is overkill for purpose. It is a more expensive solution.⁵⁷

1.63 The committee also heard that USBs would require software modifications to all EGMs, in order for the machine to be able to 'read' the device.⁵⁸

1.64 Concerns regarding privacy and security of personal data on USB devices were raised as well as the ease with which they can be tampered with undetected.⁵⁹

Tags

1.65 Radio frequency tags incorporate an embedded transmitter that sends a secure signal to a tag reader located next to the machine. This signal can contain encrypted

53 However, the serial number of the card may need to be recorded in a central database. Regis Controls *Submission 29*, p. 26.

54 Mr Robert Chappell, *Proof Committee Hansard*, 1 February 2011, p. 34.

55 Associate Professor Paul Delfabbro, *Submission 9*, p. 4.

56 Global Gaming Industries, *Submission 78*, p. 2.

57 Mr Ian Donald, *Proof Committee Hansard*, p. 54.

58 Clubs Australia, *Submission 47*, p. 16.

59 Mr Ian Donald, *Proof Committee Hansard*, 2 February 2011, p. 65.

data, such as player pre-set limits.⁶⁰ No PIN is required to initiate play. Whilst tags are already used in a voluntary pre-commitment trial in SA, the committee heard they have weaknesses. Regis Controls noted that a tag could be used by someone who is not the owner of the tag because sign-on and play is anonymous.⁶¹ This calls into question the capacity of this device to prevent player fraud or tag swapping.

1.66 The provider of one of these tags, Global Gaming Industries, explained that their tag also requires the player interface on the machine to be linked to a centralised database allowing for the logging of all player activity.⁶² As noted elsewhere, a centralised database raises issues around privacy.⁶³

Cashless gambling

1.67 Smartcards and other programmable devices also facilitate cashless gambling, whereby a player's account is linked to the card allowing funds on the card to be used for gambling. The committee heard that cashless gambling is already available in some jurisdictions, such as Queensland.⁶⁴ While some might find cashless gambling an attractive feature because cash does not need to be carried, others argued it could encourage problem gambling. In her PhD project on problem gamblers Ms Sharon Nisbet surveyed gamblers about their attitudes to cashless gambling. Worryingly, she found that some players perceived it would allow them to spend more, faster:

These players thought it 'easier' to spend more when playing with the card, as 'you see an amount on there and you just keep pressing it and putting money in.' Likewise, another player said 'we spend our money faster sometimes with the cashless card', as a consequence of not having to 'wait for someone to come and attend to you and then go to the cashier.'⁶⁵

1.68 The double-edged sword of cashless gambling that would be facilitated by a smartcard has also been noted by the Responsible Gambling Council, Canada:

On the other hand, the integration of a player account could present an ethical dilemma, in that it could make it easier for a gambler with problems to access funds. This problem, however, is a two-edged sword.⁶⁶

Biometrics required

1.69 The committee heard that the only effective way to prevent card-swapping is the use of biometric identifiers embedded on programmable devices, such as USBs or

60 Associate Professor Paul Delfabbro, *Submission 9*, p. 4.

61 Regis Controls, *Submission 29*, p. 13.

62 Global Gaming Industries, *Submission 78*, p. 6.

63 For example, concerns raised by Dr Livingstone and Dr Woolley, *Submission 26*, p. 10.

64 The Simplay system provided by Maxgaming and operating in Queensland features a cashless card. Maxgaming, *Submission 19*, p. 1.

65 Ms Sharon Nisbet, *Submission 77*, p. 5.

66 Professor Jan McMillan, *Submission 66*, Attachment A, p. 40.

smartcards enabling the player's identity to be verified before play commences. Dr Robert Williams, University of Lethbridge, Canada, has argued that:

It is also important that this identity system be biometric, otherwise some people (particularly problem gamblers) will endeavour to use other identities/cards when their own limits have been met. Smart cards with PINs are an improvement over regular cards, but still do not prevent card swapping, borrowing, or selling.⁶⁷

1.70 Responsible Gaming Networks pointed out that 50 per cent of problem gamblers who participated in a pre-commitment trial swapped their PIN-based cards.⁶⁸ This highlights the weakness in the arguments of those who assert that only basic player identification will be sufficient to prevent misuse. Clearly, problem gamblers will seek to circumvent the processes around less robust identification protocols, as the experts recognise. The only way to prevent this occurring, according to the experts, is to implement biometrics otherwise the benefits of pre-commitment will not extend to those who desperately need it the most—problem gamblers.

1.71 Coalition committee members, however, have serious reservations about the use of biometrics. To begin with, a technology that requires the scanning of fingerprints or retinas smacks of 'Big Brother' and is overly intrusive. Secondly, even biometrics has technical shortcomings. Regis Controls pointed out there are 'significant challenges inherent in the use of fingerprint technology'. These include:

Age, injury, illness, medication, occupations, medical treatments and chemical exposure causes alterations to “fingerprints,” people such as bricklayers, concreters, labourers and other occupations have poor ridge or whorl structure because the ridges are being sanded smooth every day; the biometric pattern of their fingerprints are often unreadable.⁶⁹

1.72 Senior citizens in particular are not considered good candidates for biometric scanning, due to the decline in skin elasticity and higher rates of arthritis as people age making scanning of fingerprints uncomfortable or painful.⁷⁰

1.73 Biometrics is one of the more expensive solutions; significantly higher in cost than magnetic or smart cards. Biometric data can be stored on a USB stick or smartcard, but the cost of the scanning equipment would add further to the cost of the device.⁷¹ Lastly, if a device with stored biometric data was stolen or lost, there could be a greater risk of identity theft.

67 Responsible Gaming Networks, *Submission 39*, Attachment 1, p. 8.

68 Responsible Gaming Networks, *Submission 39*, p. 3.

69 Regis Controls, *Submission 29*, p. 27.

70 Regis Controls, *Submission 29*, p. 27, 29.

71 Biometrics costs will vary with the type of scan, but is likely to add around \$30–\$100 to the cost of a device.

1.74 Coalition members agree with the experts who argue that if identification processes are not robust, problem gamblers will simply circumvent the system by swapping cards fuelling a black market in lost/stolen cards.

Player registration and centralised database

1.75 If biometrics is not an option, then we are really only left with the option of a national player database with compulsory registration.

1.76 A central database to securely store personal data would be needed if a non-programmable device (such as a magnetic stripe card) is used, as the device itself cannot perform this function:

Mr Martschinke—I think it is important to tell you that there is no information stored on a mag stripe card other than the card number.

Senator BACK—I am aware of that. It is stored on a central database.

Mr Martschinke—And it is all PIN operated.

Senator BACK—From a privacy point of view, that is probably worse. To a sceptic it is worse that there is some big database somewhere.⁷²

1.77 Problem gamblers wanting to circumvent the system might possess multiple devices, allowing them to effectively jump from machine to machine, underlining the need for a central database:

Mr CIOBO—Just to pick up on the point the chair raised, the concern that I have—correct me if I am wrong—with that system as outlined by the chair is that if you have a problem gambler with multiple USB sticks, they could effectively jump from machine to machine using multiple systems and it would be useless, wouldn't it?

Mr Ferrar—That is the way I understand it, yes.⁷³

1.78 The need for a national database to address cross border issues was also highlighted to the committee. Relationships Australia (SA) noted:

However, there are numerous examples of towns/cities edging state borders where a gambler would have minimal difficulty crossing the border to gamble once selected limits have been reached. This may provide a basis for extending the reach of networked machines to nationwide over time.

A pre-commitment system that extends across all machines nationwide would enable the limits that people set to apply when they travel interstate for holidays or business meetings.⁷⁴

72 Mr Declan Martschinke, Senator Chris Back, *Proof Committee Hansard*, 3 February 2011, pp 12–13.

73 Mr Steven Ciobo, Mr Ross Ferrar, *Proof Committee Hansard*, 14 February 2011, pp 40–41.

74 Relationships Australia (SA), *Submission 67*, p. 2.

1.79 Coalition committee members note examples of clubs such as Twin Towns Services Club on the border of Queensland and New South Wales⁷⁵ and Club Mulwala on the border of Victoria and New South Wales⁷⁶ which cater to high numbers of tourists. Unless there was a national database tourists could end up with a card from each jurisdiction, possibly even with different limits.

1.80 The need for a central database to verify identity was also highlighted by Mr Ian Donald, Regis Controls, in the event of the need to re-issue a lost device which still had credits attached.⁷⁷

1.81 Concerns that players would be required to register in order to play a perfectly legal product were expressed. ALH group's concern also extended to privacy issues:

The requirement of players to register before playing a legal product is not warranted and also raises a significant number of issues relating to the Privacy Act.⁷⁸

1.82 The establishment of a central database, however, raises a number of questions relating to player privacy, as noted by Dr Charles Livingstone and Dr Richard Woolley:

Thus the principal advantage of a networked solution would be real time data collection and all associated benefits of this, including capability for player tracking software to be utilised. A fully networked solution could also operate without the need for smart devices, relying instead on a less sophisticated access card (e.g., a mag-stripe card only). However central data storage would be required in this case with associated privacy concerns arising.⁷⁹

1.83 A central database would need to demonstrate the highest integrity and due diligence. Mr Justin Brown, Aristocrat, explained:

The precommitment system that requires identification and therefore storage of data jurisdictionally or across Australia would need to be of the highest integrity and design. The redundancy and protection mechanisms around it would need to be of the highest order. That is a standing concern. Subject to the scope, details and mechanism of the design, we do not really have a position on how that would be achieved. But certainly going to an identification system requires due diligence upfront to ensure that the system has the necessary support, privacy protection and credibility.⁸⁰

75 Twin Towns Services Club, *Submission 41*, p. 1.

76 Club Mulwala, *Submission 22*, p. 1.

77 Mr Ian Donald, *Proof Committee Hansard*, 2 February 2011, p. 63.

78 Mr David Curry, *Proof Committee Hansard*, 14 February 2011, p. 70.

79 Dr Charles Livingstone and Dr Richard Woolley, *Submission 26*, p. 10.

80 Mr Justin Brown, *Proof Committee Hansard*, 3 February 2011, p. 13.

1.84 Recreational gamblers will object to having their personal data stored on a central database, where it is not clear who owns the data, who has access to the data and how secure it is. Mr Chris Downy, Australasian Casino Association, argued:

An occasional customer will be wary about giving their personal details to a casino business and even more wary about disclosing details about their gambling and having them stored on a government regulated database. We see that as being a big issue.⁸¹

1.85 Mr Tony Toohey, eBet, warned a national database could end up undermining player trust:

If you told the player that that information is now going to be freely available to other venues in a national database, I think there is a level of trust about privacy information that would lead people to stop using their cards.⁸²

1.86 The National Welfare Rights Network (NWRN) also raised a concern around the potential for Centrelink to gain access to personal financial information, if a national database were implemented:

The NWRN is, however, concerned about the potential for Centrelink to have access to data in the event that it is collected and stored, and the use to which Centrelink may put the data.⁸³

1.87 The NWRN gave an example of where this already occurs:

Members of the NWRN have had a number of cases where people receiving income support such as the Age Pension or the Disability Support Pension have had large debts raised against them by Centrelink on the basis that their alleged gambling “turnover” at a casino, can by the process of applying a forensic accounting formula, be said to amount to evidence of income for the purpose of assessing income under Social Security Law...⁸⁴

1.88 The committee heard many reasons why nothing less than a national database would be required were a mandatory pre-commitment system established. Such a database would raise many concerns particularly in relation to privacy.

Cost and technical barriers

Technical differences across jurisdictions

1.89 The committee heard that multiple communication protocols and different technical standards apply across jurisdictions, creating difficulties for the industry. It

81 Mr Chris Downy, *Proof Committee Hansard*, 18 February 2011, p. 29.

82 Mr Tony Toohey, *Proof Committee Hansard*, 14 February 2011, p. 45.

83 National Welfare Rights Network, *Submission 37*, p. 3.

84 National Welfare Rights Network, *Submission 37*, p. 12.

was argued that these differences should be addressed and standardised prior to the introduction of mandatory pre-commitment.

1.90 Mr Josh Landis, Clubs Australia, noted how these jurisdictional differences could impede a national solution:

It is also important to say though that each of the jurisdictions is quite different—different numbers of machines, different levels of play, different rates in terms of pay and revenue and all that kind of thing—so to try to impose a national so-called solution over the top can be fraught. If you have half the machines in New South Wales and very few, for example, in Tasmania, the outcomes will not necessarily be the same if you look to impose a one-size-fits-all solution.⁸⁵

1.91 Mr Ross Ferrar, Gaming Technologies Association, agreed that a lack of harmony across jurisdictions impedes change:

...the lack of harmony between jurisdictions is an impediment to change.⁸⁶

1.92 Mr Trevor Croker, Aristocrat, outlined the advantages to industry in addressing jurisdictional differences *before* implementing national mandatory pre-commitment:

From our perspective, there are costs because of the number of jurisdictions and the unique standards we have to make for each machine in each jurisdiction, driven by protocol and driven by various national standards. We think that a national standard that is appropriate across all jurisdictions is an appropriate enabler for a national standard for gaming machine operation...I think we would see, as we said in our submission, that a national standard and the development of national standards would facilitate and expedite the ability to create a solution in a precommitment network.

Otherwise the promised benefits to industry will not materialise, as multiple solutions will still need to be implemented by industry, at greater cost.⁸⁷

1.93 He added that:

Multiple jurisdictions means multiple compliance costs. If that were to be removed then it is absolutely a cost base that could be aggregated.⁸⁸

1.94 Notably, the Productivity Commission recognised the need to address standards:

So we see the biggest priority as being that of upgrading the technology to provide a platform and enabling technology for harm minimisation measures both now and into the future. Because that is the biggest priority,

85 Mr Josh Landis, *Proof Committee Hansard*, 4 February 2011, p. 56.

86 Mr Ross Ferrar, *Proof Committee Hansard*, 14 February 2011, p. 42.

87 Mr Trevor Croker, *Proof Committee Hansard*, 4 February 2011, pp 3–4.

88 Mr Trevor Croker, *Proof Committee Hansard*, 4 February 2011, pp 15–16.

we have also stressed the importance of developing new standards and protocols as soon as possible. How that technology is introduced can make a big difference to the industry's initial cost...⁸⁹

1.95 The current situation with differing standards prevents new measures being introduced:

The current system almost precludes new measures being introduced or, if they are, they are inordinately expensive.⁹⁰

1.96 Dr Ralph Lattimore, Productivity Commission, emphasised that addressing standards is really the starting point for implementing pre-commitment:

The most important thing I would say about the implementation strategy is that it itself involves precommitment to precommitment and by that I mean really the technology platform. So the starting point for the implementation plan is to put in place the standards and the technology across the states that would allow precommitment.⁹¹

1.97 Coalition committee members agree that in order to provide certainty to industry and ensure the full benefit of a standardised technology is delivered, the current multiplicity in standards and communication protocols needs to be addressed urgently and prior to the introduction of mandatory pre-commitment. This will be a major task for the jurisdictions.

Recommendation 1

1.98 Coalition committee members recommend that the differences in technical standards and communication protocols be harmonised by jurisdictions.

Cost of individual technologies remain uncertain

1.99 The committee heard a range of estimates on the costs of individual technologies, but is none the wiser on what the final cost of these is likely to be, even though these costs could be substantial. The committee heard a range of estimates on hardware and other related costs, making it extremely difficult to assess the final likely cost. This uncertainty over cost estimates surely underlines the urgent need for a full cost-benefit analysis to be undertaken prior to implementation, in order to provide some certainty to industry.

1.100 Whether all EGMs would need replacing or just a proportion, is also unclear. Gaming Technologies Australia estimated that:

Our association's technical committee has estimated that the youngest 25 per cent of Australia's gaming machines would require a software upgrade

89 Mr Gary Banks, *Proof Committee Hansard*, 15 February 2011, p. 43.

90 Mr Robert Fitzgerald, *Proof Committee Hansard*, 15 February 2011, p. 45.

91 Dr Ralph Lattimore, *Proof Committee Hansard*, 15 February 2011, p. 44.

to provide the necessary resources for new functionality associated with measures recommended last year by the Productivity Commission. The middle-aged 25 per cent would most likely require a significant hardware upgrade. The oldest 50 per cent are not capable of being upgraded and would need to be replaced. In December 2009 we said in our submission to the Productivity Commission that this could cost \$1.55 billion for software set redevelopments, replacements, retrofits and significant updates. We are now concerned that this figure is conservative.⁹²

1.101 Clubs Australia estimated that 197,000 machines (that is, the entire fleet of current machines) will need to be fitted with readers or be replaced in order to implement mandatory pre-commitment.⁹³

1.102 The Coalition committee members are concerned that what is currently being proposed in the majority report will result in a poorer quality, more costly pre-commitment technology being adopted, which will ultimately fail to help those who most need assistance, problem gamblers. Furthermore, the continuation of differences in standards and communication protocols will impose additional and unnecessary costs on industry. It also seems likely that more stringent security and identification features, such as compulsory registration of all players through a centralised database will be required to prevent player fraud and device swapping. This will create intrusive and unacceptable burdens on the vast majority of players who simply want the opportunity to enjoy a bit of harmless fun without being made to feel they are criminals.

Consequences for the industry

1.103 It is important to note the contributions the gambling industry provides through employment, business activity and community contributions. The following section details these.

The club movement

1.104 Clubs Australia informed the committee of the long history of the club movement, their role in providing a range of services to the community as well as contributions in cash and kind:

There are more than 4,000 registered and licensed clubs in Australia. Clubs are not-for-profit organisations whose central activity is to provide services and infrastructure for their members and the community. Clubs have been an important part of the development of Australia since the 1800s. Most were created to provide a community with a social meeting place or to provide sporting facilities. Others were established to support migrant communities or to provide support to veterans. Clubs contribute through employment, direct cash and in-kind contributions to local groups and charities, and through the formation of social capital by mobilising

92 Mr Ross Ferrar, *Proof Committee Hansard*, 14 February 2011, p. 29.

93 Clubs Australia, *Submission 47*, p. 17.

volunteers and providing a diverse and affordable range of services, goods and facilities. Clubs are an established element of Australian culture, especially in rural and regional areas, where they are a bedrock of social inclusion.⁹⁴

Membership

1.105 The numbers of people who are club members across Australia was highlighted:

Club membership is notable in terms of its size and diversity. In New South Wales there were 5.5 million club memberships held in 2007. In Victoria, clubs account for 2.7 million memberships – covering approximately 50 per cent of the population. ACT clubs have a total 510,000 memberships, with 80 per cent of residents being a club member. There are approximately 400,000 club memberships in Western Australia and 3.2 million memberships in Queensland. New South Wales accounts for 49 per cent of registered clubs nationwide, with strong club movements in Queensland (22%) and Victoria (14%). Western Australia (5%), South Australia (4%), Tasmania (2%) and the Northern Territory (2%) have less established industries.⁹⁵

Contribution to the economy

1.106 Clubs Australia outlined the contribution made by clubs to the economy:

...In 2005, the total club industry value was over \$4 billion or 0.5 per cent of national Gross Domestic Product. These figures are conservative, with the Australian Bureau of Statistics accepting it underrepresented as much as 30 per cent of clubs. Total income for the industry that year was \$7.3 billion. The main source of this income was from gambling (\$4.3 billion or 58 per cent of total income). Other major income items were sales of liquor and other beverages, which accounted for 21.7 per cent (\$1.6 billion) of total income, and takings from sales of meals and food, which accounted for 9.9 per cent (\$726 million).⁹⁶

Employment and volunteers

1.107 Clubs provide extensive employment and volunteering opportunities:

Labour costs represent the largest expense item at \$2.1 billion or 31.4 per cent of the club movement's expenditure of \$6.7 billion in 2005.⁴ Clubs provide employment to approximately 80,000 full-time, part-time, casual and apprentice/trainee employees. In addition to paid employees, there are more than 65,000 volunteers in clubs, who are estimated to work around 7 million hours per year as club.⁹⁷

94 Clubs Australia, *Submission 47*, p. 3.

95 Clubs Australia, *Submission 47*, p. 3.

96 Clubs Australia, *Submission 47*, p. 3.

97 Clubs Australia, *Submission 47*, p. 4.

Social contribution

1.108 The significant social contribution of clubs was pointed out by Clubs Australia:

The annual social contribution of clubs, including the provision of activities, community donations and the maintenance of community facilities has been estimated at over \$1 billion. ClubsNSW pledged \$50,000 to launch its 2011 Queensland Flood appeal with more than \$600,000 raised in that state to date, and clubs in ACT have so far raised \$74,000. Clubs have previously displayed their generosity by raising \$3.4 million for the victims of the South East Asia Tsunami in late 2004, \$760,000 for the victims of Cyclone Larry in Far North Queensland in 2006 and \$1.8 million for the Victorian Bushfire Recovery in 2009.

Over 90 per cent of Australian clubs provide sports facilities to members, including 1621 bowling greens, 338 golf courses, 102 gyms and 325 sporting fields in New South Wales alone. In 2007, club expenditure on professional sport in New South Wales was more than \$28 million.⁹⁸

1.109 This includes playing an important role in social inclusion:

Academic research has shown that clubs have an important role in helping older people maintain social connections at a time of decreasing social participation for many. Such interaction has vital health and well-being benefits to this important and growing segment of our society. Clubs allow older people to meet and talk on a regular basis and “thus help to foster a sense of connectedness and may reduce the loneliness that older people often experience as a result of retirement, bereavement, and children moving away.”⁹⁹

Hotels

Size of the hotel industry

1.110 Mr Des Crowe, National Chief Executive Officer, Australian Hotels Association (AHA) outlined the size of the industry and the contribution of gaming machines:

In Australia, there are currently around 5,500 hotels, with approximately 3,400 of these hotels operating gaming machines. While gambling and gaming machines are important to the profitability and survival of the hotel industry, there is certainly more to the Australian hotels than gambling, with the Australian Bureau of Statistics reporting that, in hotels operating gambling facilities, around 70 per cent of income was generated by food and beverage sales— sales unrelated to gambling.¹⁰⁰

98 Clubs Australia, *Submission 47*, p. 5.

99 Clubs Australia, *Submission 47*, p. 6.

100 Mr Des Crowe, *Proof Committee Hansard*, 15 February 2011, p. 2.

Employment and contribution to the economy

1.111 The AHA reported on the major contribution hotels make to the economy:

According to the 2009 PricewaterhouseCoopers report into the industry, hotels make a significant contribution to the Australian economy and Australian society. Key findings of the report are:

Hotels in Australia employ 188,862 people

Hotels support the community to the extent of \$75 million each year

Hotels spend \$72 million each year training staff

In the absence of the hotel sector, Australian household consumption would contract by an estimated \$3.5 billion.¹⁰¹

Social contribution

1.112 The value of social and community contributions provided by hotels was also outlined:

In terms of support, each year Australian hotels give \$75 million to community and sporting organisations. Each year, Australian hotels provide support to 20,000 sporting teams and 32,000 community, health and education organisations. We also host 123,000 local sporting and community meetings in our hotels annually.¹⁰²

Casinos

Size of the Casino industry

1.113 The Australasian Casino Association (ACA) reported on the size of the casino industry and contribution of gaming machines:

There are 13 casinos in Australia. All but Casino Canberra provide electronic gaming machines (poker machines) for play by customers. The Australian casino industry accounts for only 6% of the total number of poker machines in Australia, and just 6.9% of all gambling expenditure.¹⁰³

1.114 The ACA also highlighted that casinos are destination venues as they are integrated resorts that offer a wide range of recreational facilities including dining, accommodation and entertainment as well as conference and convention centres. The ACA also emphasised that the majority of their customers do not tend to gamble in community venues such as hotels and clubs.¹⁰⁴

101 Australian Hotels Association, *Submission 86*, p. 1.

102 Mr Des Crowe, *Proof Committee Hansard*, 15 February 2011, p. 2.

103 Australasian Casino Association, *Submission 93*, p. 1.

104 Australasian Casino Association, *Submission 93*, p. 1.

Employment

1.115 The casino industry employs around 20,000 Australians and is a major training provider.¹⁰⁵

Contribution to the economy

1.116 The casino industry contributes \$1.2 billion or 30 per cent of its revenue in taxes at all levels of government. It also invests heavily in tourism infrastructure.¹⁰⁶

The position of the industry on pre-commitment

1.117 The industry supports a well-designed voluntary pre-commitment system as part of a multi-faceted approach and subject to a number of caveats. Mr Anthony Ball, Executive Director, Clubs Australia, provided detail on the system Clubs Australia would support:

We support a system that is worked properly through, is subject to full consultation, does not cost the earth and is effective. It has to be one where the player has the opportunity to use or not use the functionality. We think that will be a useful strategy, along with a whole lot of other things that can be done to help problem gamblers. Do not think that mandatory precommitment is the silver bullet solution to problem gambling—it is not...¹⁰⁷

1.118 The Australian Hotels Association (AHA) also supported a well-designed voluntary pre-commitment system:

The Australian Hotels Association supports a well designed, effective and evidenced based form of voluntary pre-commitment that protects the privacy of players.¹⁰⁸

1.119 Mr Chris Downy, Executive Director, ACA, stated ACA's view:

The ACA supports a system that is mandatory for operators to provide but optional for customers to use. It should be a system that is simple to use, that protects the player's privacy and that is actively promoted for use within a venue...¹⁰⁹

Existing harm minimisation measures

1.120 Clubs Australia reported on its work reducing the harms from poker machines:

105 Australasian Casino Association, *Submission 93*, p. 1.

106 Australasian Casino Association, *Submission 93*, p. 1.

107 Mr Anthony Ball, *Proof Committee Hansard*, 4 February 2011, p. 66.

108 Australian Hotels Association, *Submission 86*, p. 3.

109 Mr Chris Downy, *Proof Committee Hansard*, 18 February 2011, p. 27.

The Club Movement has a history of working to reduce the harms experienced by a minority of poker machine players. Clubs work with state and territory regulators to design and implement effective harm minimisation measures that seek ultimately to ensure that the people most in need of treatment and counselling receive it. This approach is working: problem gambling prevalence rates in every state and territory are decreasing. However, the anti-gambling lobby's ultimate goal is the complete removal of all poker machines in Australia. To do so would destroy the Australian Club Movement.¹¹⁰

1.121 Clubs Australia expressed its willingness to work with all levels of government to ensure adequate protection is available for problem gamblers. It stressed that:

No one in the Club Movement profits from the damage resulting from problem gambling.¹¹¹

1.122 Clubs Australia noted that the challenge is to identify appropriate harm minimisation measures that will target those in need but which do not negatively affect the majority of recreational players or undermine the financial viability of clubs.¹¹²

1.123 The Australian Hotels Association argued the government's focus should be on education, information and prevention rather than on a mechanism that will still allow problem gamblers to play gaming machines.¹¹³

1.124 ALH Group's Mr David Curry, argued in favour of supporting evidence-based measures that were not at the expense of recreational gamblers:

The things that our group thinks are particularly important include education, and early education, so people understand the cost of gambling, as they do with other things that could potentially have some addictive nature. It is also important in addition to early education that people take a level of individual responsibility as well. We are happy to support robust, evidence-based measures in reducing the prevalence of problem gambling not at the expense of the utility of the recreational gambler.¹¹⁴

Measures available

1.125 Individual clubs outlined the specific measures they offer patrons and the extensive training that is provided to staff. For example, North Sydney Leagues Club consists of three premises employing 192 full-time, part-time and casual employees. It operates a self exclusion scheme and an associated counselling service which it

110 Clubs Australia, *Submission 47*, p. 2.

111 Clubs Australia, *Submission 47*, p. 2.

112 Clubs Australia, *Submission 47*, p. 2.

113 Mr Des Crowe, *Proof Committee Hansard*, 15 February 2011, p. 3.

114 Mr David Curry, *Proof Committee Hansard*, 14 February 2011, p. 79.

believes 'has proven to work quite well'.¹¹⁵ The Merimbula RSL Club informed the committee that since 2002 it has offered a self exclusion scheme which 31 patrons have used and five patrons have self excluded from the poker machine area.¹¹⁶

1.126 Club Central Menai reported that club staff are required to complete the accredited Conduct of Gaming course and the gaming staff undertake an annual refresher course. In addition, any patron who enquires about self exclusion is provided with information on this and professional help available.¹¹⁷

1.127 Crescent Head Country Club advised that it operates a self exclusion scheme where people can exclude themselves from the venue or the poker machine room. All employees undertake certified training to provide gambling services.¹¹⁸

1.128 City Diggers Wollongong and four other clubs in the area fund an onsite gaming counselling service which provides face to face counselling. This is in addition to ensuring all staff attend the responsible Conduct of Gaming course and being a member of the Club Safe initiative which includes a self-exclusion process linked to a counselling service¹¹⁹

1.129 A number of venues have voluntarily introduced systems to facilitate pre-commitment. The Blacktown Workers Club Group advised the committee that they have recently introduced voluntary pre-commitment which allows members to set spending limits. Players are notified via the console when they have reached these limits. It added that all employees working in gaming related areas undertake the Responsible Conduct of Gaming course and regular refresher courses are conducted.¹²⁰ The committee also heard from and visited a number of venues where pre-commitment is being offered.¹²¹

1.130 The ACA highlighted the measures and training in place in casinos:

The casino industry is a leader in the provision of responsible gambling. Over the last ten years more than two hundred initiatives have been implemented to promote responsible gambling and to assist those gamblers who need assistance with their gambling behaviour. All casinos provide dedicated staff to assist those who need assistance as well as training for all front line staff.¹²²

115 North Sydney Leagues Club, *Submission 17*, p. 1.

116 Merimbula RSL Club, *Submission 7*, p. 1.

117 Illawarra Catholic Club Group, Club Central Menai, *Submission 8*, p. 2.

118 Crescent Head Country Club, *Submission 20*, p.1.

119 City Diggers Wollongong, *Submission 12*, p. 2.

120 Blacktown Workers Club Group, *Submission 11*, p. 4.

121 For example the Sandgate RSL, Qld, which operates the Ebet pre-commitment system, Club Pine Rivers, Qld, which operated the Maxgaming Simplay, pre-commitment system, Sussex Hotel, SA, which operates the Maxetag system.

122 Australasian Casino Association, *Submission 93*, p. 2.

1.131 These initiatives demonstrate the extensive efforts made by clubs and other gambling venues, to assist problem gamblers. These efforts should be recognised as making a significant contribution to reducing the harms of gambling and the genuine concerns in the industry to ensure they provide a safe and enjoyable gambling environment. The effectiveness of these measures can be seen in the decreasing rates of problem gambling in Australia.

Need is for targeted counselling and services

1.132 A number of witnesses emphasised that what problem gamblers really need are better counselling and treatment services. Such services have been proven to work. Professor Alex Blaszczynski described the treatment interventions that best treat gambling addiction:

The empirical evidence base indicates that what works, essentially, is cognitive behavioural treatment—that is, effectively, identifying irrational beliefs and correcting them; reducing the arousal associated with gaming machines; providing information regarding things like the features and what they do; pointing out features such as losses disguised as wins, where the person wins but the return is less than the person has initially staked; providing information regarding those things; and then supplementing all that with understanding the reasons. If they are suffering from emotional vulnerabilities, then quite often the gambling is reflective of associated psychopathology—depression, anxiety and so forth. So those elements need to be identified.¹²³

1.133 He added:

I think that there are other elements to look at which could be highly effective—eliminating features that tend to drive or attract problem gamblers, reducing the number of gaming machines throughout the community and possibly eliminating them from the hotels and limiting them to clubs. There are a whole range of initiatives that could be undertaken.¹²⁴

1.134 Ms Cheryl Vardon, Australasian Gaming Council, pointed out there were other measures that can assist problem gamblers:

As an aside, from our perspective, some of the range of measures to assist with responsible gambling and problem gambling are actually nontechnological, to do with education, money management issues and self-exclusion. There is a bit of a tendency, I think, to always default to a gadget, to a technological solution, when we need to be looking at a range of ways of assisting gamblers to gamble responsibly or to deal with their problem gambling.¹²⁵

123 Professor Alex Blaszczynski, *Proof Committee Hansard*, 4 February 2011, p. 48.

124 Professor Alex Blaszczynski, *Proof Committee Hansard*, 4 February 2011, p. 48.

125 Ms Cheryl Vardon, *Proof Committee Hansard*, 15 February 2011, p. 30.

1.135 The need for greater education and awareness was also emphasised by Ms Kate Roberts, Gambling Impact Society, NSW:

From my perspective, there needs to be a lot more education in the community just about general awareness of it as an issue. I really do feel quite strongly—and I have a significant bias in this and I work under another hat as a health professional and have done for 30-odd years—that, while de-stigmatising and normalising it and helping people accept that it is a health issue like any other issue, it needs to be looked at as to the protective and preventive measures that we can take. We know that gambling is a risk-taking behaviour. Certainly people who have gambled problematically have talked to me at length about the general lack of understanding of how a poker machine works and that it is purported to be a leisure activity. I hear Ross regularly say, ‘It is like buying a movie ticket.’ But it actually is not. It is a product that we know can do significant harm.

I think we have done a really fantastic job with tobacco and smoking. It has taken a long time for the public to really come to grips with some of the healthier choices around that. Simon Chapman will tell you it has taken 40 years of looking at tobacco control to really start making a dent in the take-up rate. But we are making a dent and, from my perspective, because of the lack of those public health models and the lack of that experience and skills—because it lies outside of the health models often and certainly outside the expertise of staff that work there—basically we are denying the opportunity for a whole range of levels.¹²⁶

1.136 Problem gamblers also indicated how important counselling was for their recovery. Mr Ralph Bristow observed:

Recovery is not all that easy. It would be the same for alcohol, drugs or cigarettes. I have been to three agencies for one-on-one counselling. I also belong to a self-help group. That is for all types of addiction. I find that balance between the personal, one-on-one counselling and the group therapy side of it a big advantage.¹²⁷

1.137 These treatment and counselling services may even yield a cure for some problem gamblers. Professor Malcolm Battersby told the committee of the success of the program he runs:

The positive side of it is that the treatments we have been developing actually result in what some of our clients call a cure. They really believe they have been cured of their gambling addiction because they have found a way of extinguishing the urge to gamble. We are just about to start a randomised controlled trial with Professor Robert Ladouceur, a Canadian professor who has developed a cognitive program. We are going to compare our behavioural program versus the cognitive program, and that is being funded by the Victorian government.¹²⁸

126 Ms Kate Roberts, *Proof Committee Hansard*, 4 February, p. 75.

127 Mr Ralph Bristow, *Proof Committee Hansard*, 4 February 2011, p. 80.

128 Professor Malcolm Battersby, *Proof Committee Hansard*, 14 February 2011, p. 58.

1.138 The importance of addressing co-morbidities was also raised:

Mr FRYDENBERG—We have heard plenty of evidence that in problem gamblers there is a characteristic of co-morbidities—so it is not just a problem gambling issue, it can also be a mental health or a depression issue, alcoholism or some other issue. Is that your experience?

Mr Rowell—Yes, that is definitely our experience.

Mr FRYDENBERG—To take that a step further, if someone has a problem gambling issue, in your experience what has been the most successful way of treating problem gamblers?

Mr Rowell—From our Gamblers Help program we have seen great success and a lot of people manage their gambling and get it under control so it does not have an impact on their lives moving forward. As I said before, some people do come back to us if things do not go well in their lives. But if there is some co-morbidity or there are a number of pressures being experienced in different areas then we need to work on those at the same time.

We have a mental health program to which people are referred by GPs. We work with them using psychotherapy to deal with their depression or whatever they presented for and sometimes, during that process, people will acknowledge that there is some tendency towards problem gambling. Rather than referring them to our gambling program, the therapist will continue to work with them on the underlying issues or their mental health problem. We may refer them to a financial counsellor for support around how to deal with their budgetary issues or the trouble that they are in financially. It is not just mental health it is also alcohol, drug and a range of other issues.¹²⁹

Implementation issues

1.139 The industry outlined a number of issues of concern around implementation of mandatory pre-commitment including cost, the negative consequences for venues and the community and the unachievable timeline.

Cost of implementation

1.140 The committee heard that the cost of mandatory pre-commitment will be substantial and is likely to run into billions of dollars.¹³⁰ Clubs Australia questioned figures that pre-commitment would cost as little as \$1.50 per day as the costs of a venue based voluntary system do not reflect the costs associated with a nationally networked mandatory scheme.¹³¹ The company associated with the \$1.50 estimate,

129 Mr Mathew Rowell, *Proof Committee Hansard*, 18 February 2011, p. 22.

130 Clubs Australia, *Submission 47*, p. 19; Mr Peter Newell, *Proof Committee Hansard*, 4 February 2011, p. 54.

131 Clubs Australia, *Submission 47*, p. 16.

Maxgaming, later provided the following information to the committee which indicated that the costs would indeed be higher:

...Maxgaming would like to clarify a few points in relation to what is provided for \$1.50 per machine per day. This system supplied is a voluntary pre-commitment system developed in accordance with the specific commercial, regulatory and technical requirements existing in Queensland.

If Simplay was to be supplied to other jurisdictions the price would obviously need to be reviewed to reflect the unique functional, technical and regulatory requirements within each jurisdiction, the changes required to existing Simplay functionality and the broader commercial contract/supply terms in that jurisdiction.¹³²

1.141 The committee was told about a briefing provided to the Ministerial Expert Advisory Group on Gambling by a member, Mr John Duffy, General Manager of product development and compliance at IGT which is the world's largest poker machine manufacturer. This briefing confirmed that the cost to the industry will be substantial:

In a December 2010 presentation to the Ministerial Expert Advisory Group, industry expert John Duffy advised to that meet the Prime Minister's commitment to Mr Wilkie, 100,000 older gaming machines (predominantly located in country & regional areas) will need to be replaced at a cost of around \$25,000 per machine – or \$2.5 billion across Australia.

Mr Duffy added that the remaining 100,000 EGMs will require some degree of expensive modification.¹³³

1.142 Based on the information provided in this briefing, Mr Des Crowe, AHA, provided the following cost calculations:

...the full precommitment solution signed off in the Wilkie-Gillard agreement will require 25 per cent of Australia's electronic gaming machines to have a software upgrade costing around \$3,000 to \$4,000 per machine, 25 per cent of Australia's electronic gaming machines to have a software and hardware upgrade costing around \$9,000 to \$12,000 per machine and 50 per cent of Australia's electronic gaming machines to be replaced at a cost between \$18,000 to \$25,000 per electronic gaming machine. Therefore the AHA strongly believes it is not appropriate to rush through this new technology without extensive research and trialling, particularly when implementation cost estimates range from \$2.5 billion to \$5 billion.¹³⁴

1.143 Other witnesses outlined the crippling costs they believed they would be facing. Mr Robert Smith Manager, Twin Towns Services Club, outlined their estimate of costs associated with a smart card based pre-commitment solution:

132 Maxgaming, *Supplementary submission*, p. 1.

133 Australian Hotels Association, *Submission 86*, p. 4.

134 Mr Des Crowe, *Proof Committee Hansard*, 15 February 2011, p. 3.

We also assume that there will be increased monitoring costs, compliance costs and the costs of smart cards or USB's. Issuing a smart card to every member alone would cost our club between \$450,000 and \$630,000.¹³⁵

1.144 The cost of a mandatory pre-commitment system will hit smaller venues particularly hard. A number of them told the committee that they expected the cost to be so significant that it would threaten their financial viability. For example the Merimbula RSL Club estimated the cost of upgrading each machine for their club would be \$6,000, which it argued would be unaffordable.¹³⁶ The Moruya Golf Club pointed to the significant financial problems it would face:

While specific details of the proposed pre-commitment system are unavailable, the Club does not have the cash reserves to install a system at the cost which has been suggested (\$5000 per machine). Whilst debt free, the club has no notable cash reserves. Given the grave potential impacts on revenue and hence the clubs ability to maintain payments on any such finance the club will not be able to source external funding for the implementation of a pre-commitment system.¹³⁷

1.145 The capacity of these smaller venues to meet these expected costs is limited. The General Manager of Crescent Head Club Mr Colan Ryan told the committee that last year their club made just \$12,000 in profits.¹³⁸ Clubs Australia noted the financial effect for smaller clubs:

Obviously the smallest venues will be impacted the most. Gaming is often a useful revenue earner, but rarely the focus of the facility. Poker machines are replaced on 10 to 15 year cycles. Small clubs earn less than \$25 per day per machine – less than \$10,000 per machine a year. Even with a two year extension to make the necessary changes, mandatory pre-commitment will not be affordable for small clubs. The issue for small clubs is not the amount of time they are granted to make the change, or even the impact it will have on gaming revenue (although this is significant); it is the sheer scale and cost of implementing the proposed model that makes it unviable.¹³⁹

1.146 The financial difficulties for smaller venues, many in regional areas, were confirmed by the AHA:¹⁴⁰

In fact, 32% of all Australian hotels with gaming machines are located in country & regional NSW.

135 Twin Towns Services Club, *Submission 41*, p. 9.

136 Merimbula RSL Club, *Submission 7*, p. 1.

137 Moruya Golf Club, *Submission 69*, p. 2.

138 Mr Colan Ryan, *Proof Committee Hansard*, 14 February 2011, p. 92.

139 Clubs Australia, *Submission 47*, p. 19.

140 Australian Hotels Association, *Submission 86*, p. 4.

These smaller country hotels operate throughout Australia and are generally not in a position financially to adapt to any major regulatory change, such as mandatory pre-commitment.¹⁴¹

1.147 The AHA added:

These smaller venues typically have older gaming machines, of which the bottom 50 per cent will need to be replaced at up to \$25,000 per machine. We would say they simply do not have a spare \$300,000 to replace their 12 electronic gaming machines.¹⁴²

1.148 Mr John Whelan, Director of Responsible Gambling, AHA emphasised:

I think it is important to recognise that what is being asked of the industry this time around will involve a multibillion dollar capital cost, and it is very unlikely that most venues around Australia have the cash to do that. It is equally unlikely that the banks will lend them the money to fund that capital cost.¹⁴³

1.149 The ACA pointed out:

The Gaming Technologies Association, in a submission to the Productivity Commission, estimates that the cost of implementing such a system across all jurisdictions will cost an estimated \$2 billion. Industry estimates put the impact of the introduction of a mandatory pre-commitment system on industry revenue at approximately 40% of the revenue. This will have a flow-on effect on State government taxation revenue.¹⁴⁴

1.150 Coalition committee members note with concern that the evidence provided to the committee indicated that the cost of implementing a mandatory pre-commitment scheme will be significant for the industry, particularly for small venues and those in regional areas. Estimates range from hundreds of millions to billions of dollars. The likely negative consequences of these costs on the industry and the wider community are outlined below.

Consequences

1.151 The significant negative consequences of introducing mandatory pre-commitment have been given scant attention in the committee majority report. There are a number of downsides for the industry and the community. It will result in a loss of employment for venues of all sizes and will put at risk significant community support which will have flow on effects for important areas such as junior sport.

141 Australian Hotels Association, *Submission 86*, p. 5.

142 Mr Des Crowe, *Proof Committee Hansard*, 15 February 2011, pp 3–4.

143 Mr John Whelan, *Proof Committee Hansard*, 15 February 2011, p. 15.

144 Australasian Casino Association, *Submission 93*, p. 2.

Loss of jobs and support to the community and questions over viability

1.152 The introduction of mandatory pre-commitment will result in a loss of jobs. The AHA advised:

...PricewaterhouseCoopers found that, if mandatory precommitment is introduced, 89 per cent of hotels will be forced to cut staff while 81 per cent will be forced to reduce community support.¹⁴⁵

1.153 It added:

Many country hotels operate gaming machines close to, or past retirement. With only a handful of gaming machines, these hotels do not have the financial strength or economies of scale to implement substantial gaming related regulatory change without threatening the ongoing operation of their businesses, the thousands of staff they employ throughout Australia and the communities they support.¹⁴⁶

1.154 Clubs Australia warned that:

Based on a conservative presumption of a drop of 30 per cent revenue, KPMG assessed the impact to New South Wales registered clubs. Extrapolated nationally, it is estimated that there would be a loss in the short term of around 23,000 jobs and a reduction in Gross National Product in the short term of around \$1.6 billion.¹⁴⁷

1.155 A number of clubs outlined the likely financial and other negative flow-on effects for them and their communities. Just a few of these are covered below. Club Central Menai outlined the consequences for their club:

Based on 2009 – 2010 financial year results and taking into account statements made by proponents of pre-commitment (see attached financial comparisons) the effects of pre-commitment would be a serious risk to the sustainability of the club. Our forecasts predict a drop in overall club revenue of 36.2%. We also predict the business could not provide employment for the current level of staff and cuts would number upwards of 30 employees. State taxation would be reduced by \$1,049,000 per year. There would be a 20% reduction in the cost of goods which would have an adverse affect on supporting business (mostly local). CDSE donations for the local community would also be reduced by \$76,674.¹⁴⁸

1.156 It added:

145 Mr Des Crowe, *Proof Committee Hansard*, 15 February 2011, p. 4.

146 Australian Hotels Association, *Submission 86*, p. 5.

147 Clubs Australia, *Submission 47*, p. 37.

148 Club Central Menai, *Submission 8*, p. 2.

Any capacity for re-investment and improvements is removed as a result of pre-commitment rendering the facility unable to survive in the medium to long term.¹⁴⁹

1.157 The RSL & Services Clubs Association Queensland Inc, commissioned Lawler Partners, an independent research and consulting firm, to conduct a survey of RSL & Services Club in Queensland over the period December 2010 and January 2011. It received a 37 per cent response rate to the survey by clubs which represented 48 per cent of gaming machines in RSL & Services Clubs in Queensland. Answers were based on projections of 10, 20 or 30 per cent reductions in revenue. In relation to job losses the association concluded:

As a result should a worst case scenario occur (ie a reduction in revenue of 30%) it is not unrealistic to expect that the number of employees that would lose their jobs in Queensland RSL clubs would be significant and if added to the remainder of the club & hotel industry in the state and the suppliers to the industry the outcome is of grave concern.¹⁵⁰

1.158 Many smaller venues told the committee that implementation costs would threaten their viability. The Para Hills Community Club, SA, advised that according to their estimates the predicted drop in revenue would force them to eventually close:

Armed with that knowledge and seeking advice from the both Clubs SA and Clubs Australia we estimate that our gaming revenue would drop by 60% should a mandatory system be forced upon our patrons. Applying a 60% reduction in gambling revenue to our 2009-2010 financials illustrates the Club would become insolvent and be forced to close in the second year of such regulatory reform.¹⁵¹

1.159 Pittwater RSL Club described the effect on their club:

A drop in revenue of between 30 to 50% (Mr Wilkie anticipates a drop of approximately 40%) would directly impact on the Club's viability. The contribution that the Club makes to the local community would also drop correspondingly by 30 to 50%.¹⁵²

1.160 The Richmond Club also told the committee mandatory pre-commitment would affect their viability:

Based on the 2010 financial year results for the Club (excluding the aged care facility) and factoring in an estimated decline in gaming revenue of between 30% to 40% as a result of the proposed introduction of the mandatory pre-commitment and assuming there was no other adverse impact on other revenue areas of the Club, the Club would not be viable unless annual cost savings in the order of \$1.7m to \$2.4m were achieved

149 Club Central Menai, *Submission 8*, p. 3.

150 RSL & Services Clubs Association Queensland Inc, *Submission 108*, p. 9.

151 Para Hills Community Clubs, *Submission 21*, p. 2.

152 Pittwater RSL Club, *Submission 53*, p. 5.

based on the elimination of all donations (currently approximately \$80,000) other than the CDSE requirements and a significant reduction of between \$785,000 and \$1,040,000 in State gaming duty .¹⁵³

1.161 The negative effects on the casino and tourism industry in terms of investment and jobs were outlined by the ACA:

Implementation of a mandatory pre-commitment scheme will have a significant impact on the casino industry's capacity to continue to provide world-class gaming and non-gaming facilities as well as jobs. The casino industry is leading the way in Australia in reinvesting in and building new tourism infrastructure. The \$4 billion investment being made by the industry currently will be put at risk at a time when the Australian tourism industry needs investment in tourism infrastructure. New hotel accommodation and property refurbishments that have been recently announced by a number of casino operators will be jeopardized by the implementation of a mandatory pre-commitment scheme.¹⁵⁴

1.162 Coalition committee members note the following view offered by the Productivity Commission:

Many people are employed in the gambling industry. However, most are highly employable and would be in demand in other parts of the service sector were the gambling industry to contract. In that sense, the gambling industries do not create net employment benefits, because they divert employment from one part of the economy to another.¹⁵⁵

1.163 Even the Productivity Commission concedes that should mandatory pre-commitment result in the contraction of employment in the gambling industry, it will result in job losses in that sector. Coalition members of the committee are concerned that this will be cold comfort to someone who has lost their job to be told they can get a job elsewhere. This ignores the human impact of job losses. Job losses anywhere create difficulties for individuals and their families, but the ability to simply transfer jobs is made even harder for those in regional and remote parts of Australia where other employment options are limited.

1.164 The effect on support for junior sport was highlighted to the committee. For example the Twin Towns Services Club:

Home to the local junior rugby league, junior soccer and junior cricket the most prolific sport is touch football attracting 1100 children each season. All juniors sports are financially supported by the club...¹⁵⁶

1.165 The South Australian National Football League advised that it:

153 The Richmond Club, *Submission 87*, p. 4.

154 Australasian Casino Association, *Submission 93*, pp 2–3.

155 Productivity Commission, *Gambling*, vol. 1, Commonwealth of Australia, Canberra, 2010, p. 6.1.

156 Twin Town Services Club, *Submission 41*, p. 5.

...currently engages 100,000 South Australians in football participation and injects at least \$4m into junior development programs annually. Many of the programs are based in regional areas of the State. The capacity to deliver these positive results for the South Australian community would be significantly reduced if the gaming reforms were to occur.¹⁵⁷

1.166 A letter from the Peninsula & District Football & Sporting Club to the Redcliffe Leagues Club detailed their concerns and likely consequences:

As you are aware the financial support that we receive from the Redcliffe Leagues Club allows our club to provide affordable sporting activities for our 500 community members. These funds provide the sporting equipment purchased every year for the children to play football on a weekly basis. Without this valuable funding parent's of the children participating in these football activities will bear the significant cost on an annual basis and fees will increase dramatically if the Redcliffe Leagues financial support is withdrawn.¹⁵⁸

1.167 Coalition committee members are deeply concerned that the effects of introducing a mandatory pre-commitment system are not well understood and have not been worked through. Not only will jobs be lost but there will be a loss of services and donations to the community. In addition, Coalition committee members accept the arguments that the introduction of mandatory pre-commitment will threaten the very existence of some smaller venues, and are worried that this will affect the fabric of those local communities.

Recommendation 2

1.168 Coalition committee members recommend that further research is required to understand the effect of mandatory pre-commitment on employment, tourism, and contributions to the community.

Need for a cost-benefit analysis

1.169 Given the far-reaching consequences for the industry, Coalition committee members are of the view that a full cost-benefit analysis should be undertaken. It must be clear that this policy response, affecting everyone but assisting only a small percentage of the population, will result in a net benefit rather than a net negative. A cost benefit analysis was supported by those in the industry. For example the ACA stated:

The PC recognised that its proposal represented a “far reaching change in the gaming environment” but undertook no cost benefit analysis of its proposal. It said that full precommitment was not a “silver bullet” and that while a pre-commitment facility would clearly help problem gamblers its target was primarily the regular player.¹⁵⁹

157 South Australian National Football League, *Submission 31*, p. 2.

158 Redcliffe Leagues Club, *Submission 83*, p. 91.

159 Australasian Casino Association, *Submission 93*, p. 2.

1.170 Clubs Australia agreed with this view:

Professor Blaszczynski's submission to this inquiry again labels the effectiveness of mandatory pre-commitment as being "of limited benefit" to the majority of problem and pathological gamblers, and notes that no cost benefit analysis has been undertaken.¹⁶⁰

1.171 It added:

The Productivity Commission did not undertake a cost assessment in its report. There was no preliminary examination of estimated costs for the implementation of mandatory precommitment, nor any detailed assessment on the likely impact on revenue for industry or government. There has been no regulatory impact statement. Nor did the Productivity Commission determine how many problem gamblers would be assisted by the policy to determine if the costs could be justified.¹⁶¹

1.172 The AHA expressed its view on the need for a cost-benefit analysis:

It is extremely concerning Mr Wilkie & the Prime Minister have agreed to a form of mandatory pre-commitment without knowing the cost of such a policy or undertaking any form of cost-benefit analysis.¹⁶²

1.173 The RSL & Services Clubs Association Queensland Inc also believes that:

...in the absence of any cost/benefit analysis or evidence based research into mandatory pre-commitment, there has been no consideration given to what the economic and social ramifications will be if mandatory pre-commitment is introduced in the proposed form and within the proposed time frame.¹⁶³

1.174 Data provided to the committee and the consequences outlined above show that it is essential for a full cost-benefit analysis to be undertaken urgently to see whether the possible benefits of a mandatory pre-commitment system outweigh the significant costs.

Recommendation 3

1.175 Coalition committee members recommend that a full cost-benefit analysis of the final mandatory pre-commitment scheme be undertaken before any decision is made on implementation.

Timelines are unrealistic

1.176 The issue of cost is further complicated by a timeframe that the industry believes simply cannot be met. Coalition committee members wish to highlight that

160 Clubs Australia, *Submission 47*, p. 21.

161 Clubs Australia, *Submission 47*, p. 37.

162 Australian Hotels Association, *Submission 86*, p. 4; Mr John Whelan, Director of Responsible Gaming, Australian Hotels Association, *Proof Committee Hansard*, 15 February 2011, p. 26.

163 RSL & Services Clubs Association Queensland Inc, *Submission 108*, p. 3.

the mandatory pre-commitment scheme put forward in the Gillard-Wilkie agreement is not what was recommended by the Productivity Commission in its 2010 report. The Productivity Commission recommended a full pre-commitment system commence in 2016 with smaller venues given a further two years for implementation. This start date was subject to much further work which included development, trials and ensuring compatible monitoring systems.¹⁶⁴ The Gillard-Wilkie agreement has implementation of pre-commitment arrangements commencing in 2012 with full pre-commitment by 2014.¹⁶⁵

1.177 Industry was very clear that this revised timeframe is unachievable and has been agreed without consultation with industry. Mr Peter Newell, President, Clubs Australia, explained what in his view needs to occur:

There are a number of prerequisites to mandatory precommitment that must be undertaken that are technologically and administratively complex as well as being prohibitively expensive for venues. These include: compulsory registration for all five million electronic gaming-machine players with smart cards or USB sticks for all players, possibly with biometric identifiers; a national database of registered players to ensure people do not register more than once and to authorise or replace lost or stolen devices; software to be designed that allows the machines to read devices and transmit information between a central monitoring system and machines about play; all 197,000 machines to have the hardware retrofitted or replaced to accept smartcards or USB sticks and the ability to shut down when limits are reached; all machines to have software upgrades to make the devices compatible with the playing software, with the older machines to be replaced at a minimum cost of \$2.5 billion; integration of nine different protocol developments and possible replacement of the X-series protocol, used for more than 50 per cent of machines, as it does not permit two-way communication; new uniform technical standards, including allowing communication ports on machines; and recertification of every machine in Australia, which means an inspection of 197,000 machines, one at a time.

Each of these steps will take extensive amounts of time and money, as each is complex and unprecedented in Australia. The two biggest machine manufacturers, Aristocrat and IGT, which collectively capture around 80 per cent of the Australian market, estimate the timeframe to be at least 14 years, with many billions of dollars in implementation costs. Existing voluntary precommitment schemes that currently operate in venues in some states will need to be replaced. They are not compatible with each other and they are not transferable to a national scheme.¹⁶⁶

1.178 The ACA also expressed concern over the timeframe:

164 Mr Des Crowe, *Proof Committee Hansard*, 15 February 2011, p. 3.

165 The Hon. Julia Gillard MP & Mr Andrew Wilkie, Member-elect for Denison, *Agreement*, 2 September 2010, p. 7.

166 Mr Peter Newell, *Proof Committee Hansard*, 4 February, 2011, pp 53–54.

The ACA believes the government's timeline is unachievable and ignores the realities of implementation of any pre-commitment system. Leading manufacturers have indicated that it will take at least 10 years to implement.¹⁶⁷

1.179 The inability to meet the deadlines was confirmed by venues including the RSL and Services Clubs Association Queensland Inc:

By all measures, the proposed timeframe for the introduction of a national pre-commitment scheme is completely unrealistic and the Government should follow the Productivity Commission's recommendations in regard to timeframe and the actual implementation (ie a voluntary pre-commitment scheme should be trialled to determine whether a mandatory pre-commitment scheme is justified.)¹⁶⁸

1.180 The industry warned the committee that the timelines in the Gillard-Wilkie agreement are unachievable. Coalition committee members believe that the concerns expressed over the proposed timeline should be heeded and that the additional work recommended by the Productivity Commission, including trials, should be undertaken in parallel with the cost-benefit analysis. Delaying implementation in order for this necessary work to be undertaken and evidence to be gathered is the only way forward to ensure any system helps the people it is intended to help and that it has integrity as well as being cost-effective.

1.181 The committee notes the following contribution from Clubs Australia:

The Government has sought to impose a solution for a problem that is already being addressed effectively in collaboration with state regulators, has failed to undertake transparent and meaningful consultation with affected parties to understand the technological challenges of the proposed solution, has failed to consider adequately more cost effective alternatives, and has failed to make a detailed cost benefit analysis of the proposed solution.¹⁶⁹

Conclusion

1.182 Coalition committee members believe there are a number of outstanding issues to be resolved and further work to be undertaken before any conclusion can be reached that mandatory pre-commitment would be an effective policy. In order for a mandatory pre-commitment policy to be effective it would need to be shown that it would lead to a reduction in problem gambling; that recreational gamblers will not be unduly inconvenienced; that player privacy will be protected; that the technology options are fully considered; that the viability of the industry and its valuable contribution to the Australian community is not threatened; and that jobs and

167 Australasian Casino Association, *Submission 93*, p. 2.

168 RSL and Services Clubs Association Qld Inc, *Submission 108*, p. 17.

169 Clubs Australia, *Submission 47*, p. 37.

investment are not put at risk. These issues would need to be resolved before a mandatory pre-commitment system could be considered an effective policy response.

Mr Josh Frydenberg MP

Mr Steven Ciobo MP

Senator Chris Back