
Changes in Wagering Within the Racing Industry

FINAL REPORT

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Prepared by:

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Authors Note

During the period this report was undertaken, two significant events were unfolding. The first was that TABCORP (Vic) and UniTAB (Qld) were competing to purchase TabLimited (NSW). Ultimately TABCORP (Vic) was the successful party. Throughout the report the NSW TAB entity is referred to separately as TabLimited (NSW).

The second event was the announcement by the Minister for Communications that the Commonwealth would not intervene to prohibit betting exchanges operating in Australia. This discussion coincided with the finalisation of this report. We have endeavoured to incorporate responses to this decision; however the full ramifications of the decision and the response of State Governments, of the racing industry, of existing wagering operators have yet to be played out. In reporting some of the responses and updating parts of the text, we have been careful not to speculate about the future.

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Executive Summary

This inquiry into the changing face of wagering in the Victorian racing industry was commissioned by the Victorian Gambling Research Panel (GRP) as part of ongoing research into the dimensions of gambling and problem gambling. The critical objective of this research is to identify the principal changes and those 'key drivers' of change in order to inform government policy and programs.

The study was not concerned with other changes in the racing industry, *inter alia*, reforms to the structure of industry and possible mergers/acquisitions¹ except where such developments may contain implications for wagering and gambling. New products and potential new entrants into the wagering market are considered, because they offer scope to expand or alter wagering opportunities. New wagering platforms emerging from applications of technology are considered in this report.

Ultimately, the researchers were required to consider any matters across the racing and wagering industries 'in order to minimise the risk of increasing problem gambling behaviours or of attracting vulnerable people to gamble when gambling would not otherwise be of interest to them'.²

Wagering and Gambling

Gambling is an all-inclusive term for wagering, betting, gaming and lottery, as each has developed a more exact definition through decisions of the courts. For our purposes wagering involves a contract between various parties where the contract is enforceable by law and the parties stand to win or lose depending on the outcome of an uncertain event. The element of chance is the dominating element in lotteries of which the playing of electronic gaming machines (EGMs) is a sub-set; lotteries and EGMs are open gambling opportunities (i.e., non-customised, non-contractual and open to all), they are dominated by pure chance and they operate on an extensive scale. It is precisely because of these characteristics and the potential scale of social and economic harm that may arise from open and more continuous play forms of gambling opportunities that these forms of gambling were restricted. Wagering however, is distinguished from EGMs and lotteries by the customisation of the wager to a specific event, a specific outcome and between two contracting parties.

Understanding Changes in Wagering

The observed changes across the racing industry and changes in wagering are the logical result of the interplay of three key drivers — enabling technology, deepening access and widening of the wagering product.

Enabling-technology platforms such as radio, television, telephone and computer have led to a separation of the event (and actual attendance) and the opportunity to wager. They have enabled an expansion of venues for wagering (predominantly off-course) and provided new channels for wagering. Advances in technology — principally the mobile telephone, interactive television and the internet — continue this path of expanding opportunities for wagering products. The cashless

¹ TABCORP (Vic) purchased TabLimited (NSW) while this study was being undertaken. Throughout the report TABCORP (Vic) and TabLimited (NSW) are treated as separate entities. There were other possible mergers/acquisitions being considered such as Woolworths and ALH.

² Key research outcome identified by the Gambling Research Panel.

transaction and ease of funds transfer support the new channels for wagering. The licensed betting operators and access to international operators have been facilitated by these enabling technologies.

The televising of the interstate event, and now global racing and other sporting events, can be understood as deepening access to the traditional wagering product. A whole raft of changes including the co-ordinated scheduling of events is designed to support television coverage. The televising of racing and other events extends coverage and deepens access to a greater array of traditional wagering products.

The third key driver involves a widening of the wagering product with the potential to accelerate the trend towards a convergence of wagering and gaming. The widening of the wagering market encompasses an appeal to the mass market (i.e., many people wager often rather than a relatively few people wager regularly), the development of sports betting, point-to-point wagering and new products. Product innovations such as 'the mystery spinner' and specific combinations based on number or colour represent a drift towards the convergence of wagering and gaming products facilitated by random number generation. New products, such as the casino-based random number generated horse racing events rely on computer, micro-electronic technology.

Where wagering takes the form of continuous play and/or choice is reduced to selecting the form of the wagering product (e.g., 'one-click, random selection'), without the requirement for any exercise of skill or customisation of a wager, then the distinction between wagering and gaming is diminished.

The following summarises the significant changes occurring in wagering, including *inter alia*:

- Advances in technology platforms including mobile telephone and the internet;
- Increasing digitalisation of the wagering medium utilising home-based interactive television;
- Local, state, national and international coverage of racing and special events;
- 'Events-based wagering' including sports-betting;
- Decline in traditional agents such as bookmakers;
- Introduction of licensed betting operators, international betting operators;
- New products and ways of customising a wager;
- Technology enabling ease of funds transfer while separating the event from the place of the wager ('technology conquers distance'); and
- Computerised racing products for wagering.

Overview of the Racing Industry

The popularity of racing can be seen in the following cross-country comparisons, that:

- Australia is ranked the fifth-highest wagering country exceeded only by Japan, USA, Great Britain and Hong Kong;
- Australia is ranked the fourth-highest wagering country on a per capita basis;
- Australia hosts the third-highest number of horse races annually and is the third-highest ranked in prize money after USA and Japan; and

- In Victoria, attendances at horse racing events (15.8 per cent) ranks second to Australian football (33.4 per cent). For Australia, attendances at horse racing also ranks second (12.9 per cent). In ranking of attendances in Victoria, harness racing is sixth, and dog racing is ninth (refer Table 4).

The Victorian thoroughbred racing industry provides almost one-fifth of all race meetings in Australia and one-third of total prize money on offer.

Scale and Scope of the Industry

There are different approaches to measuring the size and scale of the industry. Estimates of full-time employment (FTE) are an important measure, because of the high level of casual and part-time employment across the industry. The Australian Bureau of Statistics (ABS) estimates³ that 66.5 per cent of all employees in the horse and dog racing industry are employed on a casual basis, compared to 27 per cent of all wage and salary earners in the broader economy.

The racing industry estimates that 77,755 full-time jobs were due to the Australian thoroughbred racing industry, and of these 22,300 FTE were in Victoria. However, these estimates include all employment in all industries, throughout the economy, that result from spending in the thoroughbred racing industry. More conservative estimates are provided by calculating full time employment based on salary and wage costs. However, even these estimates vary based on the classification of the industry.

The ABS, using a survey approach based on the Business Register (Class 9311 Horse and Dog Racing) estimate that total employment (FTE) in the national horse and dog racing industry in 2002 was 15,900 persons. The Centre for Economic Studies indicative estimate is between 12,500 and 15,000 persons in the national horse racing industry. Both are likely to err on the conservative side, but are still well below that claimed for the Victorian industry alone. ACIL⁴ estimated total direct FTE in the Victorian racing industry at 12,500 (adjusted to 2003).⁵ The ABS, ACIL and Centre for Economic Studies estimates are below those of the racing industry.

Trends in Wagering

- In 1989–90 wagering on thoroughbred racing represented 30.4 per cent of national wagering and gaming turnover, but had declined to 7.7 per cent by 2002; harness and greyhound racing was 9.8 per cent declining to 2.6 per cent; gaming was 59.8 per cent rising to 88.6 per cent by 2002;⁶
- The respective growth rates were thoroughbred races 1.2 per cent, harness and greyhounds 1.4 per cent and gaming 17.2 per cent over the period 1989–90 to 2002;
- Victorian wagering per adult (\$928.62) exceeded the national average (\$870.91) in 2002;
- Telephone betting in particular has increased significantly for bookmakers and the tab; sports betting has increased rapidly in the five years to 2001–02 in a component of the industry which is dominated by bookmaking firms located in the NT and ACT;

³ Australian Bureau of Statistics (2002) Sports Industries, Australia 2000-01.

⁴ ACIL Australia Pty Ltd (1992) "The Contribution of the Racing Industry to the Economy of Australia".

⁵ ACIL estimate was 10,334 for 1990-91, adjusted by all industry growth rates for Victoria 1991-96 = 8 per cent, 1996-2001 = 10.8 per cent.

⁶ Respective growth rates: thoroughbred races 1.2 percent, harness and grey hounds 1.4 per cent, gaming 17.2 per cent over this period.

- For Australia, the share of household disposable income spent on racing has fallen from 0.71 per cent (1976–77) to 0.43 per cent (2001–02), while the share of household disposable income spent on EGMS is up from 0.69 per cent to 2.03 per cent in the same period;
- In Victoria, the share of household disposable income spent on racing has declined from 0.8 per cent to 0.46 per cent and for EGMS, increased from 0 to 2.24 in the period 1976–77 to 2001–02;
- Participation in wagering is estimated to involve approximately 16 per cent of the adult population in Victoria and is predominantly a male activity;
- Some five per cent of the adult population are regular gamblers wagering at least once a week (approximately 180,000 adults); and
- This five per cent of the total Victorian adult population (18 years+) equates to 15 per cent of only those who wager (again approximately 180,000 adults) who contribute 78 per cent of industry turnover, similar in scale to the six per cent of Victorian adults who account for 57 per cent of EGM losses.

Trends in Gambling

A key finding is that large changes in gaming produce relatively smaller changes in wagering. That is to say, the fall in real wagering expenditure represents a small transfer away from wagering and contributes only a tiny fraction of the current level of expenditure on EGMS in Victoria and at the Crown Casino.

- For Australia the share of household disposable income spent on all gambling was 3.41 per cent (2001–02) up from 1.7 per cent in 1976–77, with all growth in the past 15 years;
- In Victoria, the share of household disposable income spent on all gambling was 3.81 per cent (2001–02) up from 1.28 per cent in 1976–77, again with dramatic growth in the last 15 years;
- The explosive rate of growth in expenditure is due entirely to the expansion of expenditure on EGMS and casino gaming;
- The researchers find some support for the hypothesis that the growing popularity of EGMS and casino gambling did contribute to a decline in the popularity of wagering;
- In Victoria the growing popularity of other gambling forms accounts for half of the \$21.24 per adult fall in real wagering expenditure per adult since 1989–90;
- The introduction of EGMS in most jurisdictions has preceded a larger than normal fall in real wagering expenditure. In Victoria for 2001–02, the researchers estimate the level of wagering expenditure would have been \$21 million higher without EGMS;
- The introduction of casinos preceded a larger than normal fall in real wagering expenditure, so that wagering expenditure in 2001–02 would have been \$33 million higher without the Crown Casino.

An examination of industry customer profile data, a review of literature, analysis of those who participate in wagering and sports betting via the internet, the views of social researchers and informed industry participants indicates that:

- Those who wager and those who attend race meetings are predominantly male, the recreational punter tends to be younger (aged 20–35) than the professional punter (aged 45–64); both groups often have some prior association with racing; both are likely to attend race meetings and maintain an account with a licensed bookmaker and/or the TAB;

- The regular TAB punter is also male; internet users for wagering were overwhelmingly male, were employed and generally earned high incomes in professional, management and trade occupations;
- Sports betting attracts a younger clientele; and
- There are large, well organised and sophisticated syndicates operating in the wagering market that are not participants in EGM or casino gambling.

In contrast to those who wager (and participate at the casino) the EGM player is:

- Middle aged (36 to 65 years) with heavy play by those aged 46–55 years (contribute 32 percent of turnover);
- They spend on average 1.5 hours playing per visit;
- People in the 18–25 age range contribute less than 1.4 per cent of industry turnover; and
- EGM participation involves more females (53.3 per cent) concentrated in the 50–64 age range.

It is estimated:

- Among problem gamblers, 84 per cent experience problems with EGMs, less than nine per cent report problems with wagering;
- Participation rates for EGMs are estimated at 33–35 per cent of all adults while participation in wagering is estimated at 16–19 per cent. (Note: Industry estimates suggest participation in wagering is slightly higher than this); and
- 15 per cent of EGM players who are members of loyalty card programs are estimated to contribute 57 per cent of net gaming revenue (losses) while five per cent of those who regularly wager contribute 78 per cent of wagering turnover.

Trends in the Racing Industry

The Joint Venture Agreement provides strong financial support to the three racing codes and has contributed to improved facilities and management of the events. The popularity of thoroughbred racing and its 'people aspect' is reinforced by attendance figures. It is important to acknowledge the social/community content of racing meetings, particularly major metropolitan meetings, marquee events and some rural/regional race days. These observations are drawn out in the first two summary points below:

- Racing attendances have continued to increase, confirming the popularity of thoroughbred racing. Attendances at greyhound meetings have stabilised in recent times but average attendances fell from 832 people (1994) to 175 people in 2002–03;
- Attendance figures for thoroughbred racing for the October and November period are around half a million with no discernible increase in total turnover (\$'s) per patron over the last four years; and
- The three codes have received significant financial distributions from the Joint Venture Agreement with TABCORP (Vic) — some \$244 million in 2002–03 — with Racing Victoria receiving the major share (72 per cent).

However, it should also be recognised that most race meetings are run for, and are essentially justified by, televising for the off-course wagering industry. This observation is considered in the following:

- The wagering market continues to shift decisively off-course with 93.8 per cent of turnover for horse racing and 96.6 per cent for greyhounds coming from retail outlets and telephone and internet betting;
- Changes in the industry include 'events management' focused around a high-profile meeting and twilight meetings, that have helped stabilise attendances; other changes include expanded television coverage and the emergence of the social punter (the 'convenience wager'), and simplified betting such as on a colour or 'mystery bet'; and
- Continued expansion and improvement in facilities for off-course wagering, in large part reflecting changes in the target audience and changing consumer preferences.

Technology, Wagering and the Future

- Overall, telephone betting with TABCORP (Vic) accounted for 22.2 per cent of total TAB wagering turnover while wagering via the internet accounts for 0.8 per cent of total TAB wagering;
- Off-shore wagering and 'betting exchanges' (involve peer-to-peer [P2P] matching of individual client bets and is thus not reliant on the off-course pool wagering model) are considered by the racing industry to pose potential threats, principally in terms of lost revenue;
- Enabling technology platforms, based on digital media such as telephones, computer and interactive television will increasingly drive and shape future wagering business;
- New wagering products will continue to blur the distinction between gaming and wagering (e.g., 'mystery spinner product, random number generated simulated race products: see Section 4.2).
- An important implication of the above is the appropriateness of the differential regulatory regimes governing wagering and gaming in Australian States and Territories.

Future Directions

Future directions in wagering:

- Will be reliant on new products that possess a potential to blur the distinction between wagering and gaming (i.e., the convergence of wagering and gaming products);
- The utilisation of new technological platforms for delivering wagering opportunities;
- Access to the 'globalisation of racing and sporting events'; and
- Increase in competition from betting exchanges, which is likely to immediately impact for sports betting and then the 'large stakes, high volume punter'.

The three key sites for accessing new wagering products will be the home (internet and interactive television), mobile devices and leisure gambling venues. Traditional wagering (and lottery) products over the internet or telephone represent lower risk than interactive gaming products, because wagering events are controlled by an external agent and are subject to time delays. Online internet wagering is a close substitute for other platforms for wagering.

The profile of wagering participants, still significantly influenced by the 'old social structure of racing', is dominated by male participants who increasingly access off-course betting facilities;⁷ this group is usually in employment in the professions or trades, earns above average incomes, while many have lifelong but indirect association with racing.

Another group of punters are the well-organised semi-professional syndicates. The recreational punter tends to be younger and is attracted to the sport by the special events, television coverage and newer forms of wagering which involve less skill and knowledge. A significant number of this group maintain an account with a licensed bookmaker and/or the TAB.

Relative to wagering, participants in gambling particularly via the highly accessible EGMs have a more diverse profile; they comprise more women players who are concentrated in the 46–55 age range but more broadly involve many aged 36–65 years. Young people appear to be less attracted to EGM play in part because it involves no skill level at all.

Protections for minors are in place in regard to telephone and internet wagering principally through the requirements to establish accounts, transfer funds and verify identity before a pay-out is provided. These protections are far more substantive than any that exist for EGM play. We note that the AHA (Vic) continues to oppose the 'self-exclusion program for wagering' which was intended to be implemented in hotel venues.⁸ All account holders can self-exclude from retail outlets and from using their account.

Conclusions

Responsibility for racing and wagering will remain with the States and Territories. The National Guidelines for Responsible Wagering Practices should be agreed by all new entrants in the wagering and sports betting market.

Internet wagering is already a part of the service provided by existing TAB operators and is an extension of telephone betting where bets can be remotely lodged. However, prohibitions should remain on interactive gaming and casino type games as they differ from online wagering, in that interaction implies choices and decisions to affect the outcome of the game/activity. The other major difference is that the punter does not control or initiate the actual event in online wagering.

Regulators will shape the future wagering market through the types of bets allowed rather than through determining the media by which wagering and gaming opportunities are provided.

Sports betting provides for new wagering opportunities some of which are volatile and high risk. Spread betting is one example where the punter must be highly informed. Harm minimisation measures such as stop/loss or stop/win options should always be incorporated in these betting products. This illustrates how regulators will shape the market through the types of bets and protections available to punters.

Regulators will also be required to incorporate wagering through betting exchanges into State and Commonwealth spheres of taxation, plus require that a contribution is made via the payment of product fees or access fees to those who administer racing.

Regulators will also require credit wagering audit trails as the use of mobile, internet and interactive television platforms gain in popularity. Operators of wagering and betting exchanges will

⁷ Turnover for racing off-course: 93.8 per cent; for greyhounds 96.6 per cent.

⁸ See discussion in SACES report, 'Evaluation of Self-exclusion Programs in Victoria', February 2003 for Gambling Research Panel.

need to have in place early warning and detection systems to minimise wagering that is undertaken as a result of illegal or fraudulent activities.

Currently there are restrictions on ‘in-the-run-betting’ or micro-betting imposed by the *Interactive Gambling Act 2001*. While it is outside the scope of this inquiry to make recommendations to the *Interactive Gambling Act 2001*, regulators will need to satisfy themselves that forms of micro-betting do not possess the potential to increase the number or severity of problem gamblers.

Regulators should ensure that online gambling services provide mechanisms to limit harm from wagering. Credit and account-based facilities provide two obvious mechanisms:

- The ability to set bet limits and total pre-commitment for any account; and
- Account statements to inform players of activity, wins/losses over specified time period; while
- Sports betting products such as spread betting should also provide pre-commitment limits and bet/loss limits as important harm minimisation measures.

Regulators might in future require operators of wagering and betting exchanges as a condition of license, to provide more detailed analysis of client characteristics and wagering participation to satisfy themselves of the integrity of the products offered and to inform consumer protection advertising and policies.

The industry and any new entrants such as betting exchanges will need to ensure:

- Strict identification checks are in place to protect against minors accessing wagering for racing and sports betting;⁹
- Potential key sites for accessing wagering products — the home and mobile devices — will require stronger consumer protection, privacy, a high level of security and confidence in online systems and trust in the provider and the product;
- Participation in wagering remains distinctly different to participation in gaming; and
- National Guidelines for Responsible Wagering Practices are universally agreed and promoted.

Finally, the principal risk of an increase in problem gambling behaviours arises from the introduction and accessibility of open gambling opportunities. The researchers have noted the dramatic expansion of open gambling opportunities in recent times through the introduction of casinos, EGM venues and State and privately run lottery games. They are different from the customised wager that is linked to a specific event and specific outcome. This is no better illustrated than by wagering and gaming turnover figures for Australia in 2001–02:

- All wagering¹⁰ \$14,171 million;
- Gaming \$110,485 million;
- Wagering as a proportion of all betting 11.3 per cent.

⁹ It is our view that TABCORP (Vic) has strict processes to protect against betting by minors, it has well-developed systems for credit card accounts and deposit facilities and it adheres to requirements in relation to cash-based transactions to protect against fraud and illegal activities.

¹⁰ Includes Thoroughbred Racing, Harness and Greyhound Racing and Sports Betting.

1. Introduction

1.1 Background, Terms of Reference, Scope and Methodology

This study is part of the Victorian Gambling Research Panel's (GRP) 2002–2003 Research Plan, dimensions of gambling and problem gambling, and forms part of a series of studies of changes that are taking place in the Victorian gambling and gaming environment which aim to identify how government policy and programs may need to be refined to adequately accommodate them.

The Gambling Research Panel indicated that in recent years, wagering within the racing industry in Victoria (includes thoroughbred, harness and greyhound racing industries) has changed, with little known about its impact on existing and emerging groups of users.

This study was designed to investigate key changes in the gaming environment, including the trend towards co-location of wagering with gaming, and the development of telephone and internet wagering. It will examine the consequent changes in patterns of gambling participation across different forms of wagering.

This study is not concerned with other changes in the racing industry (again, encompassing the three codes) such as reform within the structure of the industry, rationalisation of country venues, the economic contribution of the industry to the economy or possible mergers/acquisitions. However, where these or any other changes contain a real or potential impact on wagering and access to wagering opportunities, then consideration of relevant issues and/or changes are addressed in this study.

Objectives

The primary objective of this study was to identify the implications of key changes which have been occurring to the operation and organisation of the Victorian wagering industry, including those related to the emergence of new technologies and the co-location of gaming facilities with wagering and, in particular, the current and likely future impact of these changes on the industry itself. Gambling groups within the industry and data on problem gambling and problem gamblers will be examined with a view to identifying any at-risk groups, and what measures if any, might be appropriate from a government, industry or community perspective to protect them.

It was expected that the researchers would work closely with the industry and acquire a sound understanding of the structure, dynamics, dimensions and regulatory provisions for wagering in the thoroughbred, harness and greyhound racing industries. The researchers were also expected to engage with a variety of racing industry participants to develop an understanding of changes taking place or likely to take place in the industry, that impact on wagering and access current information on those for whom wagering is a significant proportion of their gambling time or expenditure.

Scope

The Gambling Research Panel set out the scope of the project to include the following:

- Examine the available literature and current Australian research on trends in the racing industry in terms of its impacts on gamblers;

- Describe the changes which have taken place, or are likely in the near future, in terms of co-location of wagering and EGMs and accessibility to wagering products, including telephone and internet wagering;
- Determine trends in the age, gender, ethnicity and social-economic status of those for whom wagering is a significant component of their expenditure on gambling and to identify any groups, including those under age, who are at risk;
- Determine the differences in the profile of gaming and wagering gamblers, the factors behind their choice (including advertising and other promotional measures) and their propensity to be engaged in behaviour conducive to risking unaffordable gambling losses;
- Draw on a range of research methods and innovative research strategies; and
- Examine by observation and/or survey whether the co-location of wagering facilities with EGMs changes the patterns of gambling expenditure for 'recreational', heavy and, if feasible, problem gamblers.

It was expected that the research outcomes would include a final report that:

- Describes the Victorian wagering industry and changes which have, and which in the future are likely to impact on gambling behaviour;
- Describes the characteristics of those gamblers for whom wagering is their major form of gambling expenditure or time spent gambling, the characteristics that differentiate them from those mainly involved in gaming, and the interaction between wagering and EGM gambling;
- Describes the impact of changes to venues, promotions to target audiences, technology (phone and internet particularly) have brought about to total gambling outlays and the relative expenditures on different types of gambling by gamblers;
- Analyses whether recent changes impact on any particular groups with regard to under-age gambling or established or new groups which may be identified as 'at risk' of entering into problem gambling; and
- Identifies any measures the industry might adopt, or any matters on which government might regulate, in order to minimise the risk of increasing problem gambling behaviours or of attracting vulnerable (particularly young) people to gamble when gambling would not otherwise be of interest, or available to them.

Methodology

In undertaking this research the South Australian Centre for Economic Studies (SACES), the Swinburne Institute for Social Research (SISR) and the University of Western Sydney (UWS) hereafter referred to as 'the researchers' conducted a number of activities, including:

- A series of extensive literature reviews on wagering, problem gambling, and trends in technology impacting on wagering, including canvassing reports and studies generated in Australia, overseas studies and public inquiries into aspects of wagering (e.g., current DOCITA Inquiry¹¹);
- A review of studies into the size of the industry, economic contribution and employment within the Victorian and Australian racing industry;

¹¹ Review of Issues Related to Commonwealth Interactive Gambling Regulation, Department of Communications, Information Technology and the Arts.

- An analysis of trends in wagering for Victoria and nationally using publicly available data, information provided by the respective codes, from public submissions and data supplied by industry stakeholders;
- An analysis of data on the number and sources of problem gambling, reporting trends and relative importance of wagering as a contributor to problem gambling;
- The conduct of wide-ranging interviews and consultations with industry stakeholders and government agencies with responsibilities for the racing industry;
- The conduct of survey-based research involving up to 3,500 Victorian households¹²; and
- Liaison with overseas researchers in the field.

1.2 A Definition of Wagering

It is considered important to define the term wagering and to distinguish wagering from other forms of gambling.

Gambling is the all inclusive term for wagering, betting, gaming and lottery; each has developed a more exact definition particularly with the evolution of English and American law.¹³ A useful starting point is to provide some general or commonly understood definitions of the terms wagering, betting, gaming and lottery. We refer here to definitions sourced from the Collins Dictionary of the English Language.¹⁴

A 'wager is an agreement or pledge to pay an amount of money as a result of the outcome of an unsettled matter'. Thus, a wager is said to be a bet that involves the risk of one's money against another's on the result of a doubtful event. One notable feature of the wagering relationship is that both parties put at risk money or a stake, on an event or situation in which one party will win and the other party will lose. In the State of Victoria, wagering is defined as parimutuel betting on a horse race, harness race or greyhound race'.¹⁵ There is a degree of mutuality in participation and of risk. Thus the term 'parimutuel' means mutual wager in a system of betting whereby those who have a bet on the eventual winner of a race share in the total amount wagered less a percentage for the management.

Likewise, a bet is a contract with another person or persons. A bet, as with a wager is an agreement between two or more parties that a stake ('the amount or thing bet') will be paid by the loser to the party that correctly predicts the outcome of an event. The system of betting or wagering may involve a third party such as the TAB, that in effect brings together the two punters, much as a bank and the banking system brings together borrowers and lenders. The parties bet on or against an unknown result, or competitor, that a thing or result will happen. The terms betting and wagering, or a bet and wager ('I bet/wager you that...') are used interchangeably.

A lottery is defined 'as a game of chance in which tickets are sold, one or more of which may later qualify the holder for a prize. It is an activity or endeavour the success of which is regarded as a matter of fate or luck'¹⁶. In the Australian context, the most commonly cited examples of games of

¹² This survey was undertaken for another research project commissioned by the Gambling Research panel and is currently work in progress. The project 'Community Impact of Gambling: A Comparison of Victorian and Western Australian Communities' included a survey of households in both States in which several questions were asked concerning participation in wagering. Preliminary results are included in this study in Section 5.

¹³ Bridwell R. *et al.*, p. 616.

¹⁴ Collins Dictionary of the English Language 1979.

¹⁵ Victorian Gaming and Betting Act 1994, Act No. 37/1994 p 6 of 83.

¹⁶ Collins Dictionary of the English Language 1979 p. 870.

pure chance include TattsLotto, X-Lotto, Powerball, Bingo and raffle tickets, where the eventual winner has all the required numbers corresponding to those on a ticket, matching numbers in a row or the corresponding number to that drawn in a raffle. The conditions of a lottery most often involve specific arrangements for distributing prizes among purchasers of tickets, as in X-Lotto or raffle ticket sales, where prizes are identified and numbered (i.e., first prize through to the nth prize, sometimes showing the value of each prize on the ticket).

The three elements required in a lottery are:

- The element of chance;
- An entry ticket price; and
- A prize or prizes.

The term gaming has its origins in betting or wagering on games, sporting events or (usually) games involving mechanical devices designed to generate random outcomes (roulette wheel, spinning wheel, dice, etc.). The term gaming covers universally, games of pure chance and games requiring some combination of chance and skill. While various descriptions of 'gaming machines' can be found they are usually described as involving a machine for games of pure chance, requiring the insertion of a coin, card or token. Gaming machines were originally simple mechanical devices (e.g., the 'one arm bandit'), whereas now they are electronic and computerised, hence the term electronic gaming machines (EGMs).

Legal Classifications

Classifications of games and wagering on games and events have evolved through the decisions of the courts over a considerable period of time.

Under the Victorian *Gaming and Betting Act 1994*¹⁷ 'wagering', as previously noted, means 'parimutuel betting on a horse race, harness race or greyhound race'. The Victorian *Gaming Machine Control Act 1991*, defines 'gaming' to mean 'the playing of a gaming machine' which is a device, 'whether wholly or partly mechanically or electronically operated that is so designed that it may be used for the purpose of playing a game of chance or a game of mixed chance and skill and as a result of making a bet on the device, winnings may become payable'.¹⁸ The Victorian *Gaming and Betting Act 1996*¹⁹ defines a 'lottery' as 'any scheme by which prizes of money or of any other property matter or thing are or are proposed to be drawn or won by lot, dice or any other mode of chance or by reference to any event or contingency dependent upon chance'.

Under English law the term 'lottery' was not confined to the 'state-run lottery' as we understand them today, but to any form of 'gaming activity which could be carried on by a variety of contrivances or devices and was not confined to the sale of tickets'.²⁰

The distinguishing feature of a lottery was that it depended entirely on chance (the two terms chance and lottery were used synonymously) and:

'A lottery has 'bare bones' requirements that are far simpler than those entailed in a gambling contract. All that a lottery requires is the offering of a prize for a price on the issue of chance (lot) which, under English law, meant that the transaction had to be entirely governed by chance.'

(Bridwell 2002, p. 644).

¹⁷ Victorian Government: Gaming and Betting Act, 1994.

¹⁸ Victorian Government: Gaming Machine Control Act, 1991.

¹⁹ Victorian Government: Lotteries, Gaming and Betting Act, 1996.

²⁰ Bridwell R. *et al.*, p. 643.

Under American law the 'pure chance' doctrine was not exclusively followed, instead applying what is known as the 'dominating element rule' to differentiate between chance and skill. It was the state of knowledge of the gambler that was determined to be the dominant or significant factor:

'What a man does not know and cannot find out is chance as to him, and is recognised by the law as chance. Thus under the American rule, the inability to separate the result of any transaction from the element of chance is the key characteristic of a lottery.'

(Bridwell 2002, p. 648–49).

We therefore note, that under American law slot machines, 'slots' or poker machines are defined as a lottery following from the dominating element of randomisation and chance; in the same tradition the machines are referred to as Video Lottery Terminals (VLTs) in the USA and Canada. In Australia, poker machines or Electronic Gaming Machines (EGMs), fit within the English tradition of a lottery, as machines involving pure chance. (See further discussion in Section 1.3, Pure Chance and the 'Gamblers Fallacy'.)

Wagering and Mutuality of Risk

Wagering has a more limited and precise definition than a lottery or games of pure chance. In legal terms, a wager or bet is a contract, and an agreement does not become a wager until a contract is formed. Specifically, in England, a wager or a bet is defined as:

*'[A] wagering contract is one by which two persons, professing to hold opposite views touching the issue of a future uncertain event, mutually agree that, dependent upon the determination of that event, one shall win from the other, and that the other shall pay and hand over to him, a sum of money or other stake; neither of the contracting parties having any other interest in that contract than the sum or stake he will win or lose, there being no other real consideration for the making of such a contract by either of the parties. It is essential to a wagering contract that each party may under it win or lose, whether he will win or lose being dependent on the issue of the event and therefore, remaining uncertain until that issue is known. If either of the parties may win, but cannot lose, or may lose but cannot win, it is a not a wagering contract.'*²¹

A wagering contract requires mutuality of risk, although the risk shared between two parties does not have to be equal. A form of wagering or betting on horse racing is described as 'parimutuel',²² in which those backing the winners (i.e., win and place) share or divide amongst themselves the losers stake, minus some percentage for government taxes and the organiser or management fee, such as the totalisator or the TAB. Thus, wagering has quite a specific meaning in that:

- The parties place money or property at risk;
- There is a contract between the parties enforceable by law; and
- The parties to the contract stand to win or lose depending upon the outcome of an uncertain event.

As we have seen, the term lottery has a more generic meaning to cover various forms of gambling such as EGMs, Bingo, X-Lotto, fundraising schemes based on ticket sales and a variety of other schemes.²³ Further distinctions relate to the element of 'chance' (under US law, chance is the

²¹ Bridwell R. *et al.*, p. 653.

²² French term used to describe the system to bet on horse racing. In English speaking countries usually referred to as the totalisator or the tote.

²³ 'In law...the term lottery embraces *all schemes* for the distribution of prizes by chance, such as policy playing, gifts, exhibitions, prize concerts, raffles at fairs, etc., and includes various *forms of gambling*.' (emphasis added). See Bridwell, p. 658. Footnote 307.

predominating element), the relative scale of the activity (relative to the customisation of a wager), the degree of openness for participation and the offering of a prize under a lottery.

'All that a lottery requires is the offering of a prize for a price with the winning of the prize determinable on the issue of chance or lot. On the other hand, a wager or bet is a contract, and is treated by the law as such. The essential difference is that a lottery is a type of gambling that is designed to operate on an extensive scale, providing an opportunity for gambling on a mass basis to all comers who will tender their consideration for a prize to be determined by a chance event. Instead of being limited to certain contracting parties who have customized their wager or bet to depend on any chance event that suits them, a lottery consists of an open gambling opportunity made available to all comers by its promoters. For this reason the social costs and damage caused by lotteries have often been recognised as greater than those caused by private wagering.'

(Bridwell 2002, p 658)

In terms of social cost and individual harm, this last point is very significant. There has been a dramatic expansion of 'open gambling opportunities' in recent times through the advent of casinos, EGM venues and State-run lottery games. These forms of gambling opportunity continue to expand; however, they need to be differentiated from the scale and impact of the customised wager that is linked to a specific event and specific outcome. The gambling industry itself differentiates wagering ('skill required') and gaming such as poker machines and lottery ('no skill required, random result').²⁴ Some interesting insights into the scale of wagering, the durability of the wagering sector relative to open gambling opportunities are considered in Chapter 2, where the researchers analyse trends in gaming and wagering.

The Australian Racing Ministers Conference (May 2001)

The Australian Racing Ministers Conference (May 2001) defined wagering as the placing of a bet on the outcome of racing, sport or other events covered by totalisators or licensed bookmakers.

Wagering within Australia across the three codes is conducted on and off-course. On-course wagering is conducted with bookmakers and totalisator operators and is based mainly on cash transactions. Off-course wagering is via the telephone, TAB agencies and the internet. Telephone betting and internet betting are also conducted with bookmakers, TABs and licensed providers. With all telephone and internet wagering, accounts procedures are in place prior to bets being taken (see Appendix J). Because telephone and internet betting require a pre-arranged account to be established and verified, there are in practice, more checks and balances for the operator and the punter than in the case of EGM play. The accounts may have limits. Money must be deposited into the account prior to wagering; there are usually a number of time delays in the process unlike continuous play with 'EGM lotteries'. Off-course wagering within a TAB agency/premises is strictly cash based. Bookmakers are able to conduct credit betting.

The Australian Racing Ministers Conference (May 2001) endorsed seven objectives under the National Guidelines for Responsible Wagering Practices to promote the adoption of responsible wagering practices throughout Australia and establish uniform standards for such practices. In particular, the National Guidelines seek to promote harm minimisation and generally contribute to the integrity, fairness and quality of wagering services.

²⁴ TABCORP (Vic): National Media Presentation, September 2003.

The seven objectives are to:

- Provide consumers with the information required to make considered and informed decisions in relation to wagering products. This objective ensures consumers are fully aware of how each betting product operates and of their realistic prospects of winning;
- Provide consumers with the information likely to prevent the development of wagering-related problems or to assist consumers at risk of, or experiencing, such problems. This objective ensures that consumers are fully aware of services and procedures available to consumers experiencing wagering-related problems;
- Provide wagering services in a manner that encourages responsible wagering patterns and behaviour. This objective ensures that wagering services provided to consumers are conducive to responsible wagering patterns and behaviours on the part of the bettor;
- Ensure all appropriate personnel are capable of delivering the responsible provision of wagering. This objective ensures that totalisator and bookmaker staff are conversant with the responsible provision of wagering;
- Require that service providers act in an ethical manner. This objective ensures that service providers offer products that are, to the best of their knowledge, ethically conducted and do not have an adverse impact on the image of the relevant racing code or sport or is in any way offensive or contrary to the public interest;
- Provide that advertising and promotion is conducted in a responsible manner. This objective ensures that the advertising of wagering products is conducive to responsible wagering patterns and behaviours on the part of the individual bettor; and
- Require that the performance of responsible wagering practices is evaluated. This objective ensures that service providers are effectively implementing best-practice responsible wagering.²⁵

In summary, when considering changes in wagering within the racing industry the basic contractual relationship and mutuality of risk remains at the heart of the activity, although opportunities for wagering and the technology enabling such opportunities are rapidly changing. There are now local, state, national and international opportunities for wagering, including for *inter alia*, various forms of horse racing, 'the dogs', special events and sports betting on a wide variety of sports. The traditional vehicles for wagering such as bookmakers, the totalisator and the TAB have been supplemented by telephone betting and the internet. Competition within the wagering industry has become far more intense with the challenge by new betting operators such as the licensed bookmaker Centrebet located in Alice Springs operated by Jupiters Casino,²⁶ CentreRacing, Belfair, SportOdds and IASbet offering telephone and internet betting. The TABs have been very active in promoting sports betting as well. The new technologies, particularly telephone, mobile phone and the internet²⁷ and the ability for greater ease in funds transfer have considerable potential to expand the wagering market. These enabling technologies separate the physical destination for wagering and the requirement to attend the destination; the destination no longer matters as technology conquers distance.

In their submission to the Productivity Commission (1999) study into Australian Gambling Industries, the Australian Racing Industry considered the implications of new technologies and stated:

²⁵ Drawn from www://harness.org.au/ahrc/RACEMIN Australian Racing Ministers Conference Nov 2002 Wagering.

²⁶ In September 2003, SportsOdds purchased Centrebet for \$46.6m.

²⁷ In New Zealand automated television technology enables bets to be lodged from the home via a digital TV screen.

'The information revolution is a significant agent of change in today's world and a major aspect of this is the disrespect for national boundaries which it may encourage. It is evident that emerging technologies lend themselves almost too well to the gambling field and particularly to avoiding the traditional controls over, and taxation on, gambling operators. For example, modern communications technology provides far greater mass access to potential clients with greater privacy, and a combination of multimedia and funds transfer technology provides convenience and colour which enables the cyber operator to compete with bricks and mortar casinos, and traditional TABs and bookmakers.

'In terms of the Australian Racing Industry, a significant proportion of the revenue earned from wagering on racing is returned to the Industry to fund prize money, racetrack facilities and the major employment that is associated with the industry and consolidated revenue to contribute to community obligations such as, hospitals, schools etc.

'The erosion of this revenue lifeline would have serious consequences for the economy of the Racing Industry and the State Governments, as well as for the Australian economy in general.²⁸ Accordingly, there is significant concern that unlawful internet wagering operators should not be afforded the opportunity to establish themselves. Moreover, if such operators established a significant Australian subscriber base during these early days then it is considered that they will be that much more difficult to displace.

'The Australian Racing Industry is already experiencing the effects of such a drain from domestic revenue through Australians betting on Australian races with Vanuatu operators. This is an ongoing problem which the Industry seeks to have addressed and, while not itself a feature of more recent technology, serves as a portent of the potential implications of internet and other new technology.'²⁹

1.3 Pure Chance and the 'Gamblers Fallacy'

Consistent with the elements of a lottery and the pure chance perspective, EGMs players in Victoria are informed that, 'nothing you do can influence the symbols that appear when the reels stop spinning and that poker machines are a form of entertainment that you pay to use. The longer you play a poker machine, the more likely you are to lose all the money you have wagered (sic: gambled).'³⁰ In short, there is, no skill required, the element of chance predominates the activity and there is virtually no interaction involved in playing EGMs. It is this combination of the characteristics of lotteries, which includes poker machines, and the ubiquitous presence of various forms of lotteries that led government and regulatory authorities, until recently, to restrict the accessibility of lotteries and EGMs.

The dominating element of chance and randomisation leads to what is known as the 'gambler's fallacy'. The 'gambler's fallacy' refers to the erroneous belief that in games of pure chance (e.g., electronic gaming machines and X-Lotto, Powerball) the probability of future events is affected by the history of the game. So, for example, people think that a machine that has not paid out for a while must be ready to pay-out very soon, while a machine that has just paid out is not likely to do so again for a while. Lottery sellers often provide a history of the 'luckiest numbers' that have come up most frequently, as if the probability of future events is affected by past history or some combination of lucky numbers.

²⁸ The 'consequences' are very unlikely to have any importance for the Australian economy!

²⁹ Submission to Productivity Commission (1999), Inquiry from Australian Racing Industry.

³⁰ Gambler's Help Victoria. Publication 'Can you really win on a poker machine.'

Many individuals have faulty conceptions of randomisation. In a random sequence of events each event is independent of all events preceding it. However, many gamblers seem to behave as if random events have an internal logic. This is perhaps due to a lack of experience with truly random sequences in everyday life. Gamblers who do not understand that events in gambling are independent, can be led to believe that a 'near miss' indicates that the machine 'must be due to pay-out soon'. This lack of understanding creates difficulties for people with a gambling problem because they believe that they can recover past losses by playing the machine a bit longer. This type of behaviour only serves to worsen the problem via a downward spiral as more money is lost and the individual reaches crisis point. People who have found themselves in such a vicious cycle of irrational behaviour are in need of therapeutic interventions.

Many people in the community are left wondering how a machine can possibly guarantee a given rate of return if indeed the outcome on each new game is independent of previous games. Most people do not understand that the regulated return rate is naturally achieved by the sheer number of trials that are played (Productivity Commission, 1999). The 'gamblers fallacy' gives rise to behaviour such as chasing losses or people with a gambling problem frequently exhibiting overconfidence in their ability to win. The problem gambler continues to gamble so as not to miss out on a big win, or to 'chase' their money.

1.4 Competition, Efficient Markets, New Products and TABs

There is pressure from within the wagering sector of gambling to, on the one hand increase the scope for competition across the range of betting products while at the same time, to restrict competition from new providers of betting products.

Competitive pressure from within the wagering sector of racing is largely between bookmakers who offer a fixed-odds betting product to punters across the three codes of racing,³¹ and the TAB or parimutuel betting. The Centre for International Economics observes that 'wagering in Australia is heavily partitioned with the TAB having exclusive access to the parimutuel market. In contrast to the TAB, bookmakers have a very limited ability to offer their services to off-course punters via telephone betting which remains heavily restricted'.³²

The argument maintains that, to develop an efficient market, punters should have access to full information which is reflected in the prices offered by bookmakers, the tote and the off-course TAB. Thus, bookmakers wish to extend wagering opportunities through an expansion of telephone betting direct with a bookmaker (and potentially the internet) while the TAB wishes to restrict access by bookmakers to this form of market liberalisation, while themselves offering telephone and internet wagering opportunities.

It is not the purpose of this report to consider the arguments of the respective parties.³³ More importantly, we note that following the introduction of telephone betting with bookmakers in South Australia and Western Australia in 1993 as reported by the CIE:

- Bookmaker's turnover across the three codes of racing increased by 42.4 per cent in South Australia, 19 per cent in Western Australia;
- TAB turnover increased by five per cent and 13 per cent respectively; and
- On-course tote wagering increased by eight per cent and 14 per cent respectively.

³¹ Licensed bookmakers also provide betting service on sporting events and other events.

³² Centre for International Economics (2002), p. 1.

³³ See CIE (2002).

Rather than the predicted cannibalisation of markets and profits, it appears telephone betting resulted in an overall increase in wagering through drawing in additional punters. It is anticipated by commentators across the racing industry that the removal of restrictions on betting limits and opportunities for telephone betting will enhance competition and raise wagering revenue. According to the Australian Racing Board (2001) some 37 per cent of total bookmakers' turnover now comes from telephone betting.

Betting exchanges and sports betting³⁴ represent new forms of wagering opportunities and new products, in competition with the more traditional wagering on racing. Wagering on racing is largely facilitated by the TAB structures and ownership arrangements in each State. They are legislated monopolies in effect. However, sports betting is not controlled by the TAB and offers opportunities for new entrants and vigorous competition in this form of wagering. The telephone is the principal platform technology, although the internet is also important, particularly because wagering is exempt from regulations under the *Interactive Gambling Act 2001*. These new products and technologies are discussed in Section 4.2, Future Directions in Wagering.

In a 'snapshot history' of the creation and role of TABs (Keck, 2003) records that following the establishment of the Victorian TAB in 1961, other States followed in quick succession — Western Australia in 1961, and Queensland in 1962. Then came the ACT's TAB in 1964, the New South Wales TAB in 1964, South Australia in 1967, Tasmania in 1974 and the Northern Territory in 1985.

Off-course TABs were established to 'act as the legal off-course betting agency or arm of the existing totalisators which operated at the racecourses throughout the country. These on-course totalisator systems were responsible for accumulating the investments on various pools, such as win, place, quinella and calculating the dividends' (Keck, 2003). Over time, the TABs assumed responsibility for all on-course totalisator wagering. The more recent history of the TABs is that successive State Governments have privatised their TABs and market activity has resulted in takeovers and consolidation. The most recent takeover involved the successful bid by TABCORP (Vic) for TabLimited (NSW).

TABs have expanded following the introduction and application of new technologies and the development of new products. This has resulted in an expanded range of distribution channels to now include the internet and the mobile telephone with the possibility of home-based wagering via digital television on the horizon. TABs also hold licences for sports betting; some own or hold an interest in casinos and hold a licence for the operation of gaming machines in licensed clubs and hotels. They also supply specialist games to licensed clubs/hotels and other gambling outlets.

³⁴ The recent decision with respect to the *Interactive Gambling Act 2001* and the possible licensing of betting exchanges is discussed in Section 3.3.

TAB establishments were originally set up as standalone government licensed facilities to challenge the illegal activities of the off-course SP bookmaker. They were geographically dispersed, employing considerable numbers of casual employees per agency and operated under relatively strict rules (e.g., race betting closed 30 minutes before race start time, restricted betting choice, no collect until following day). One important reason for the growth in the PubTAB and ClubTAB facilities, and which has contributed to the relative decline in the 'standalone, corner shop' is the extension of trading hours for pubs and clubs. This combined with developments in technology, changes in consumer preferences, the televising of a greater number of events and other social changes have contributed to the growth of TAB facilities in clubs and pubs.³⁵ No person in the industry disputes the fact that PubTABs have delivered higher quality services and facilities to TAB customers. The combination of improved facilities, television coverage and extended trading hours has 'benefited the twilight and night meetings of the harness and greyhound racing codes' (RVL).

TAB venues have undergone dramatic transformation over the years. In hotels and clubs they may range from the smaller, stand-alone kiosk to the more expansive 'entertainment space' with multiple televisions, tables and lounge facilities, bar and services by counter staff. Stand-alone TABs (the 'local TAB') have also been substantially upgraded. Many are no-smoking venues. They provide seating, wall charts and space to meet with friends and to relax. TAB facilities are also to be found in the new 'sportsbar' or new style hotel with rows of multiple televisions, betting facilities, and again, providing meeting space, bar, meals and entertainment. The TABs have responded to the changing tastes and preferences of the 'local and regular punter', including the youth market particularly for sports betting and 'events betting'. Examples of the latter include the rugby and soccer World Cups. It is evident to the researchers that in all States we visited, there has been significant investment and upgrading of TAB facilities in response to consumer demand.

³⁵ Section 2.2 considers the 'business case' for the growth in PubTabs relative to the older style TAB agency.

2. Analysis of Gaming and Wagering Trends

In this chapter we consider the Victoria and the Australian racing industry, discuss trends in wagering and gaming, review the recent history of Australia's gambling industries and examine whether the introduction of gaming machines and casinos contributed to a decline in wagering in Victoria. The analysis and discussion that follows is based on publicly available data provided by the racing industry, the gambling industry and the Australian Bureau of Statistics.

2.1 The Racing Industry

By any estimate the racing and wagering industries are a large part of the Australian economy and the community more generally, and in fact play a larger role in Australia than in most other countries. One estimate suggests that the horse and dog racing industries alone directly employed 15,900 people around Australia in 2000–01 (probably around 5,000 to 7,000 full-time equivalent jobs) and spent around \$1.1 billion. Almost a further 5,000 people (probably around 3,000 full-time equivalent jobs) were employed in wagering-related occupations in Australia. Many more people are employed in allied industries, such as horse breeding. Another estimate suggests that around 63,000 people worked within the broadly defined racing industries at some time during the 1999–00 racing season. The racing industry appears to play a disproportionately large role outside of the capital cities, with large numbers of races run with the participation of a lot of people in non-metropolitan areas.

Compared to its share of the adult population, Victoria enjoys a larger share of Australian prize money, wagering and employment in racing but a smaller share of Australian races. All forms of racing (thoroughbred, harness and dog) appear to be more popular in Victoria as spectator sports than in other parts of the country.

Table 1 provides a wide range of summary statistics on the current state of the Australian thoroughbred racing industry. In particular, there were 76 racing clubs active in Victoria during the 2002–03 season, participating in 577 race meetings on 66 tracks, and with total prize money exceeding \$115 million. This represents almost one-fifth of all race meetings in Australia, and around one-third of total prize money on offer in Australia. In comparing the data to the national averages it is worth bearing in mind that the 3.7 million adults in Victoria in 2001–02 represented around one-quarter (25.1 per cent) of the Australian adult population: for its population, Victoria enjoys fewer races but has greater prize money on offer than the national average. Across the country as a whole, over \$330 million was awarded in prize money during the 2002–03 season and this has grown from less than \$200 million a decade earlier during the 1992–93 season, at an annualised rate of growth exceeding five per cent (shown in Figure 1).

Table 1: The Australian Racing Industry by State, 2002–03 Season

	NSW	VIC	QLD	SA	WA	TAS	NT	ACT ⁴	Total ¹
Clubs ²	127	76	131	26	40	5	7	1	413
Tracks ³	117	66	117	28	38	6	6	1	379
Race meetings	814	577	853	191	292	75	81	24	2907
Flat Races	5,592	4,532	5,609	1,459	2,130	599	424	180	20,525
Jumping	0	145	0	26	0	6	0	0	177
Total Races	5,592	4,677	5,609	1,485	2,130	605	424	180	20,702
Flat Horses	10,710	9,360	8,564	3,140	3,163	1,004	584	*	36,525
Jumping Horses	0	179	0	48	0	6	0	*	233
Total Horses	10,710	9,539	8,564	3,188	3,163	1,010	584	*	36,758
Flat Starters	54,758	47,948	51,534	14,959	21,170	6,331	3,143	2,015	201,858
Jumping Starters	0	1,196	0	217	0	40	0	0	1,453
Total Starters	54,758	49,144	51,534	15,176	21,170	6,371	3,143	2,015	203,311
Prize Money (\$m)	95.591	115.625	60.306	20.958	26.311	6.469	3.778	2.436	331.473
Total Incentive Scheme Pay-outs (\$m)	2.147	5.966	4.693	1.175	0.585	0.829	0.145	*	15.539
Bookmakers	223	152	141	36	42	15	10	23	419
Trainers	1,416	849	1,115	198	641	120	32	36	2,991
Owner/Trainers	0	502	363	179	60	18	4	5	1,131
Total Trainers	1,416	1,351	1,478	377	721	138	36	41	4,142
Jockeys	279	247	213	40	89	27	23	10	649
Apprentice Jockeys	114	66	69	17	30	6	3	3	194
Amateur Jockeys	34	29	2	n.a.	n.a.	n.a.	n.a.	3	34
Total Jockeys	427	342	284	57	119	33	26	16	877

1 The number of horses for each State includes every horse that started in a race in that State, so that horses that travel interstate are included in more than one State's total. The total number of horses starting in Australia was 31,639.

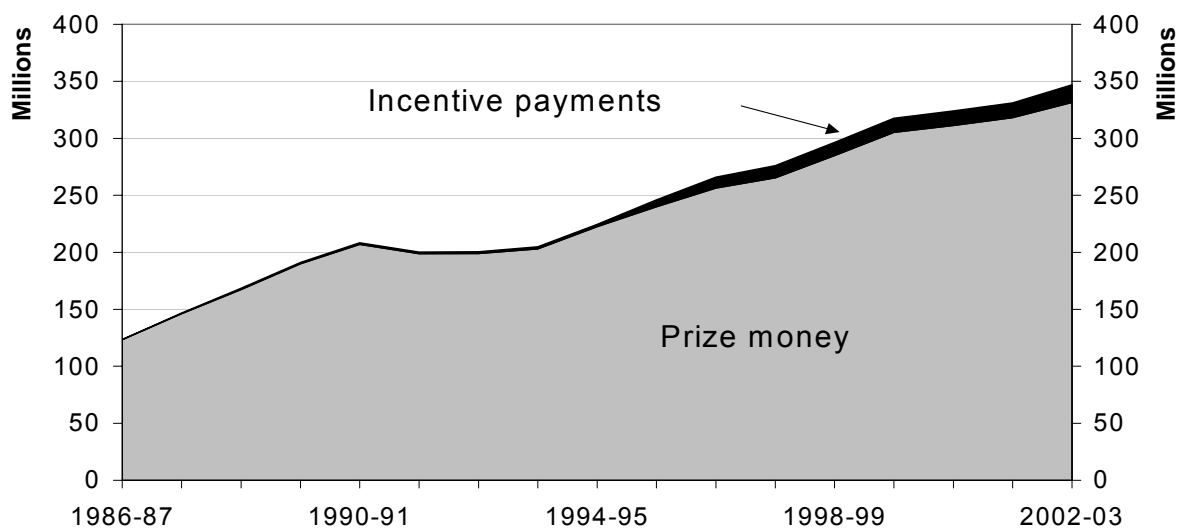
2 Clubs that raced in 2002–03.

3 Tracks raced on in 2002–03.

4 Missing data included in New South Wales totals.

Source: Australian Racing Board (2003) *Australian Racing Fact Book 2002–03*

Figure 1: Australian Thoroughbred Racing Industry Prize Money and Incentive Payments, 1986–87 to 2002–03



Source: Australian Racing Board (2003) *Australian Racing Fact Book 2002–03*

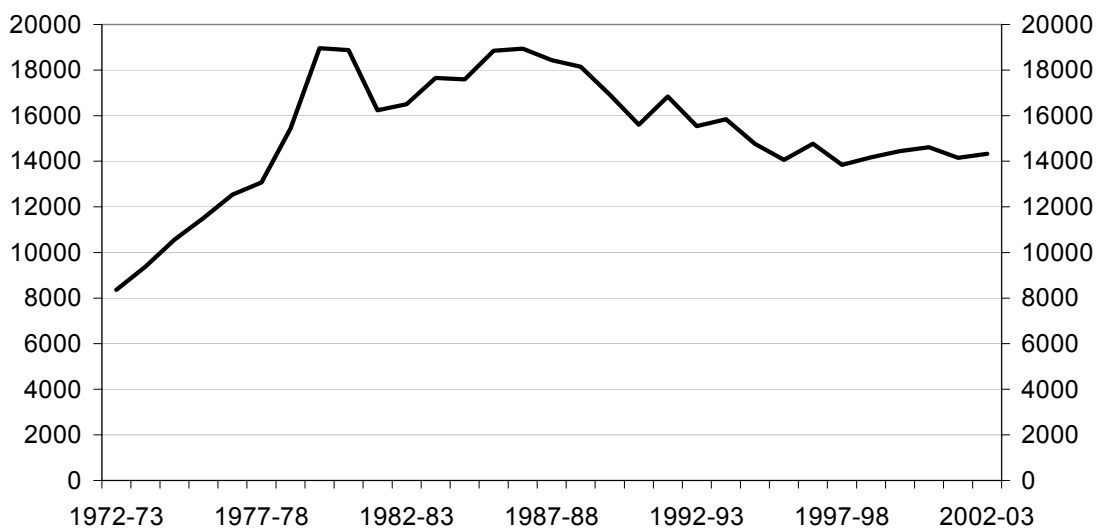
Each year, around five thousand thoroughbred races are run in metropolitan areas, and more than three times as many in country areas (Table 2). As such, racing is an even more important part of the regional or country economies than it is of the metropolitan economies, both as a provider of entertainment and gambling opportunities, as well as a regular meeting place. The number of races run has held firm in metropolitan areas but has steadily declined (at an annualised rate of -1.6 percent) in country areas over the past decade, while the number of thoroughbreds registered has also declined from its most recent peak during the mid-1980s (see Figure 2.2).

Table 2: Number of Thoroughbred Races: Australia 1988–89 to 2002–03

Year	Metropolitan Races	Country Races	Total Races
1988–89	4,696	20,003	24,699
1989–90	4,810	20,404	25,214
1990–91	4,966	20,648	25,614
1991–92	4,788	20,274	25,062
1992–93	4,896	19,494	24,390
1993–94	4,884	18,956	23,840
1994–95	4,898	18,605	23,503
1995–96	4,915	18,365	23,280
1996–97	4,830	18,105	22,935
1997–98	4,957	17,541	22,498
1998–99	5,056	16,962	22,018
1999–00	5,070	16,694	21,764
2000–01	4,966	16,224	21,190
2001–02	4,996	16,328	21,324
2002–03	4,653	16,049	20,702

Source: Australian Racing Board (2003) *Australian Racing Fact Book 2002–03*.

Figure 2: Australian Thoroughbred Racing Industry Thoroughbred Registrations 1972–73 to 2002–03



Source: Australian Racing Board (2003) *Australian Racing Fact Book 2002–03*.

Thoroughbred racing and wagering appears to be more popular and to play a larger role in the Australian economy than in most other countries. Table 3 places the Australian thoroughbred racing industry within an international context by comparing it to 22 other major racing countries. The data is sourced from the International Federation of Horse Racing Authorities' 37th Annual Conference as cited in the *Australian Racing Fact Book 2002–03*. The Australian data relates to the 2001–02 season. Australia holds the third highest number of races annually (21,324), behind the United States of America (54,304) and Japan (22,407). Australian races offered more prize

money (\$318 million) than any other country except for the United States of America (\$1,657 million) and Japan (\$1,438 million). Australia is also the fifth-highest wagering country behind only Japan, the United States of America, Great Britain and Hong Kong, and is the fourth-highest wagering country on a per capita basis behind Hong Kong, Macau and Ireland.

An insight into the popularity of racing as a pastime in Australia is demonstrated by crowd attendance at racing events. This data is published every few years by the Australian Bureau of Statistics in a publication called 'Sporting Attendance — Australia' based upon a survey of Australian adults. Across the whole of Australia, horse racing was the second most popular sporting event (after Australian rules football) with more than 1.8 million adults attending at least one horse race during 2002 (Table 4). Harness racing was also popular, with more than a half a million adults attending a harness race during 2002, while nearly one-quarter of a million adults attended a dog race at some time during 2002. Attendance rates at all forms of racing are higher in Victoria than the national average, and this is particularly noteworthy for horse racing with 577,700 adults attending a horse race in Victoria, which equates to nearly one-in-six adults.

Table 3: Australia's Racing Industry in an International Context — 23 major racing countries, 2002

	Thoroughbred races		Prize money (AUD million)		Wagering turnover (AUD million)		Wagering turnover per capita (AUD)	
1	U.S.A.	54,304	U.S.A.	1,657	Japan	54,151	Hong Kong	2,383
2	Japan	22,407	Japan	1,438	U.S.A.	31,676	Macau	1,506
3	Australia	21,324	Australia	318	Great Britain	22,349	Ireland	869
4	Great Britain	7,691	France	242	Hong Kong	16,206	Australia	652
5	Argentina	7,222	Great Britain	241	Australia	12,851	Japan	425
6	France	6,530	Hong Kong	158	France	12,367	Great Britain	371
7	Chile	6,369	Canada	158	South Korea	10,442	South Korea	216
8	Canada	5,592	Turkey	117	Ireland	3,304	France	208
9	Brazil	5,317	Ireland	85	Canada	2,096	New Zealand	161
10	South Africa	4,166	Germany	75	Malaysia & Singapore	2,006	U.S.A.	110
11	India	3,115	Macau	60	Turkey	1,145	Mauritius	71
12	New Zealand	2,810	Argentina	56	New Zealand	626	Malaysia & Singapore	70
13	Turkey	2,763	Malaysia & Singapore	53	Macau	602	Canada	67
14	Germany	2,458	U.A.E.	45	Germany	579	Turkey	17
15	Ireland	1,994	South Korea	42	Argentina	430	Chile	16
16	Malaysia & Singapore	1,177	South Africa	36	India	307	Argentina	12
17	Macau	1,116	New Zealand	33	Chile	244	Germany	7
18	South Korea	1,094	Chile	31	Brazil	159	Thailand	2
19	Hong Kong	710	India	16	Thailand	136	Brazil	1
20	Thailand	500	Brazil	13	Mauritius	85	India	0
21	U.A.E.	373	Thailand	7	Qatar	(n.l.)	Qatar	(n.l.)
22	Mauritius	232	Qatar	4	U.A.E.	(n.l.)	U.A.E.	(n.l.)
23	Qatar	172	Mauritius	3	South Africa	(n.a.)	South Africa	(n.a.)

(n.l.) indicates that wagering is not legal in this jurisdiction.

(n.a.) indicates that this data is not available.

Source: Australian Racing Board (2003) *Australian Racing Fact Book 2002-03*; Population Reference Bureau (2003) *World Population Datasheet*; and SACES calculations.

Data from previous surveys indicate an improvement in attendance rates at horse races since 1995, particularly in Victoria (Table 5). The popularity of harness racing appears to be declining, both in Victoria and nationally, while the popularity of dog racing appears to have held up well in Victoria despite a general decline nationally. The number of persons attending dog racing has increased in recent times; industry advice is that this turnaround reflects the success of recent event management strategies, such as the twilight meetings introduced by the greyhound industry.

Table 4: Most Popular Sporting Events, Australia and Victoria — Adults Attending During 2002

Australia	Attendance ('000 adults)	Attendance rate (per cent)	Victoria	Attendance ('000 adults)	Attendance rate (per cent)
Australian rules	2,486.0	17.1	Australian rules	1,224.9	33.4
Horse racing	1,865.2	12.9	Horse racing	577.7	15.8
Motor sports	1,473.4	10.2	Motor sports	378.0	10.3
Rugby league	1,464.6	10.1	Cricket (outdoor)	318.1	8.7
Cricket (outdoor)	866.2	6.0	Tennis	191.0	5.2
Soccer (outdoor)	801.9	5.5	Harness racing	155.8	4.3
Rugby union	673.6	4.6	Soccer (outdoor)	144.9	4.0
Harness racing	508.3	3.5	Basketball	134.3	3.7
Basketball	434.4	3.0	Dog racing	75.9	2.1
Tennis	393.5	2.7	Rugby league	60.7	1.7
Dog racing	232.3	1.6	Netball	56.3	1.5
Netball	219.7	1.5	Rugby union	44.1	1.2
Hockey	106.8	0.7	Golf	40.4	1.1
Golf	95.1	0.7	Hockey	23.5	0.6
Lawn bowls	89.2	0.6	Lawn bowls	20.9	0.6

Source: Australian Bureau of Statistics (2003) Sporting Attendance, Australia, 2002.

Table 5: Attendance at Racing Events, Victoria and Australia — Number of Persons: 1995, 1999 and 2002

	Persons (thousand adults)			Attendance rate (per cent of adults)		
	1995	1999	2002	1995	1999	2002
Horse racing						
Victoria	443.8	482.0	577.7	13.2	14.3	15.8
Australia	1632.2	1698.8	1865.2	12.3	12.8	12.9
Harness racing						
Victoria	164.7	157.0	155.8	4.9	4.4	4.3
Australia	553.3	508.4	508.3	4.2	3.6	3.5
Dog racing						
Victoria	55.4	53.8	75.9	1.6	1.5	2.1
Australia	280.0	258.0	232.3	2.1	1.8	1.6

Source: Australian Bureau of Statistics (2003) Sporting Attendance, Australia, 2002.

Horse racing also attracts a more varied crowd than harness or dog racing. Nationally, around 57 per cent of all people who attended horse racing were male, compared to 63 per cent of all people who attended harness racing and 65 per cent of all people attending dog racing. Across all forms of racing, around two-thirds of all respondents who attended a race during the year had attended only one or two racing events in total during the year.

2.1.1 Employment in the Racing Industry

The racing industry is a significant employer and any analysis should also consider the extent of employment in closely allied fields such as horse farming and wagering. However, there is not a single measure available to estimate how large the industry is, and so we will present a range of available data.

The data is in four categories:

- 1) Head counts of the number of people participating in the industry in various capacities;
- 2) Census data counting the number of people who identify themselves as being in racing-related occupations as their main employment, or who indicate that their employer in their main-job is a part of a racing-related industry;

- 3) Employment data based upon responses by businesses surveyed by the Australian Bureau of Statistics; and,
- 4) Estimates of the economic impact of the racing industry on employment in the broader economy.

Each of these data sources has its limitations.

The data in Table 1 (p. 28) earlier, sourced from the *Australian Racing Fact Book*, provides an indication of employment of some occupations in the thoroughbred racing industry. The table identifies 342 jockeys, 1,351 trainers and 152 bookmakers in Victoria, and a total of 877 jockeys, 4,142 trainers and 419 bookmakers in Australia. In total, this estimate suggests that there are 1,845 people employed in these occupations in Victoria, and 5,438 around the country.

While these are the occupations most specifically linked to thoroughbred racing, this may not be a good estimate of ongoing employment within this industry. For example, large numbers of staff are employed as race and track officials, in catering and in betting agencies more generally, both located on and off the racetrack which are not captured by the data. On the other hand, for many staff in the thoroughbred racing industry, these jobs may provide only part-time or casual employment so that these figures would translate into much smaller numbers on a full-time equivalent basis. For example, some catering staff may operate in other businesses during the week and only work at the racetrack on those weekends when races are held. Hence, it is difficult to infer an estimate of ongoing employment from limited data on participants in the thoroughbred racing industry.

The best source of data for the horse and dog racing industries appears to be based upon a survey by the Australian Bureau of Statistics (Sports Industries Australia, 2000–01) of horse and dog racing organisations that employ staff. This data is the most useful because, in principal it counts all jobs (not just a person's main job) and permits an estimate of full-time equivalent employment based on wage costs. Further, because the ABS has chosen businesses to survey from its business register, it is more likely the respondents are actually a part of the horse and dog racing industry, whereas it is more difficult to infer which industry a person works in from their Census response (as we do later). However, the scope of the survey is narrow and excludes a lot of staff in closely allied industries such as horse breeding and gambling.

The ABS reports that at the end of June 2001, there were 1,034 organisations in the horse and dog racing industry nationally, comprising:

- 792 thoroughbred-racing organisations;
- 150 harness-racing organisations; and
- 93 greyhound-racing organisations.

Of these, 750 organisations were run on a 'for-profit' basis, while 284 organisations were run on a 'not-for-profit' basis.

As Table 7 illustrates, in 2000–01 it was estimated that these organisations generated \$1135.6 million in revenue, with the largest share coming from industry and TAB distributions. Expenses totalled \$1107.3 million, including \$242.2 million spent on labour costs and \$404.2 million spent on prize money and trophies (Table 7).

The survey found that in total the horse and dog racing industry employed 15,900 people during the 2000–01 financial year, though a very high proportion of these are employed on a casual basis (Table 6).³⁶ Only 3,661 people were employed on a permanent full-time basis, with a further 995 people employed on a permanent part-time basis. A further 10,567 people (66.5 per cent) were employed on a casual basis. This compares with around 27 per cent of all wage and salary earners in the broader economy in 2001 (ABS, Employee Earnings, Benefits and Trade Union Membership). A further 677 people worked as proprietors/partners in their own business.

Table 6: Employment by Organisations in the Australian Horse and Dog Racing Industries (at 30 June 2001)

Selected occupation	People employed	Share of employment (per cent)
Managers or administrators	1,943	12.2
Stewards, judges and other racing officials	1,159	7.3
Security officers	80	0.5
Other race-day staff	3,714	23.4
Curators, gardeners and other maintenance workers	1,156	7.3
Bar managers and attendants	1,506	9.5
Catering staff	1,905	12.0
Poker machine gaming staff	166	1.0
Totalisator operator staff	845	5.3
Trainers	568	3.6
Stable hands, strappers and handlers	1,767	11.1
Apprentice jockeys and trackwork riders	561	3.5
Other	530	3.3
Total (All occupations)	15,900	100

Source: Australian Bureau of Statistics (2002) Sports Industries, Australia, 2000–01.

Table 7: Income and Expenditure by Australian Racing Organisations 2000–01

	Income (\$ million)	Share (per cent)
Sales of goods and services: including,	1124.3	99
Net industry and TAB distributions	555.4	48.9
Income from registration and licensing fees	9.4	0.8
Commissions from on-course totalisator/TAB operations	47.6	4.2
Admissions	26.5	2.3
Membership fees	20.8	1.8
Nomination, acceptance and scratching fees	24.1	2.1
Bookmakers' fees (including turnover levy)	15.9	1.4
Poker/gaming machines	17.3	1.5
Other gambling activity	1.2	0.1
Sponsorship and advertising income	53.5	4.7
Takings from meals and food sales	29.6	2.6
Sales of liquor and other beverages	44.1	3.9
Other retail sales	5.8	0.5
Catering commissions/concessions	2.7	0.2
Training fees	141.2	12.4
Harness racing drivers' fees	0.9	0.1
Prize money	25.5	2.2
Rent, leasing and hiring income	17.6	1.5
Income from television and other broadcasting rights	31	2.7
Total operating income	1124.3	99
Interest income	9.1	0.8
Other non-operating income	2.3	0.2
Total income	1135.6	100

³⁶ A person is considered to be employed on a casual basis if they have access to neither paid sick leave nor paid annual leave.

Changes in Wagering Within the Racing Industry

Table 7: *Income and Expenditure by Australian Racing Organisations 2000–01 (continued)*

	Expenditure (\$ million)	Share (per cent)
Labour costs : including,	242.2	21.9
Wages and salaries	210.9	19
Employer contributions to superannuation funds	13.7	1.2
Workers' compensation costs	6.6	0.6
Fringe benefits tax	3.2	0.3
Payroll tax	7.8	0.7
Purchases: including,	64.5	5.8
Liquor and other beverages	17.8	1.6
Food and foodstuffs used in preparing meals	13.2	1.2
Animal feed	23.5	2.1
Animal medicines and additives	3.4	0.3
Other expenses: including,	800.6	72.3
Prize money and trophy expenses	404.2	36.5
Payments for broadcasting	17.9	1.6
Advertising, marketing, promotion & sponsorship expenses	41.3	3.7
Poker/gaming machine taxes and levies	n.p.	n.p.
Repair and maintenance expenses	41	3.7
Rent, leasing and hiring expenses	20.5	1.9
Nomination/acceptance fees	n.p.	n.p.
Horse breaking/farrier expenses	7.8	0.7
Veterinary expenses	8.9	0.8
Float charges	4.6	0.4
Motor vehicle running expenses	6.8	0.6
Payments to employment agencies for staff	1.8	0.2
Other contract, sub-contract and commission expenses	27.3	2.5
Electricity, gas and water charges	11.8	1.1
Telecommunication expenses	5.4	0.5
Interest expenses	5.4	0.5
Insurance premiums	14.3	1.3
Depreciation and amortisation	42.9	3.9
Total expenses	1107.3	100

Source: Australian Bureau of Statistics (2002) Sports Industries, Australia, 2000–01.

The study also revealed that the Victorian horse and dog racing industries were quite large relative to Victoria's share of Australia's adult population (recall, this is about one-quarter). Victorian organisations employed around 29 per cent of all people employed in the horse and dog racing industries, as summarised in Table 8 and received about 36 per cent of all income (Table 8).

Table 8: Size of the Horse and Dog Racing Industries by State 2001

	Organisations at 30 June 2001	Employment People employed	Share	Income Income (\$ million)	Share
New South Wales	311	4754	29.9	353.7	31.1
Victoria	313	4632	29.1	412.1	36.3
Queensland	177	3104	19.5	158.4	13.9
South Australia	75	810	5.1	71.6	6.3
Western Australia	110	1948	12.3	100.6	8.9
Tasmania	36	339	2.1	21.4	1.9
Northern Territory	7	122	0.8	9.8	0.9
Aust Cap Territory	6	191	1.2	8.0	0.7
Total	1034	15900	100.0	1135.6	100.0

Source: Australian Bureau of Statistics (2002) Sports Industries, Australia, 2000–01.

The main drawback of the data is that the scope is too narrow and ignores both the horse farming industry and wagering-related jobs linked with the horse and dog racing industry. In order to construct an overall estimate of employment in this and allied industries we need to supplement these estimates with data from the Census.

Table 9 presents estimates of employment within the horse farming industry in the whole of Australia, sourced from the August 2001 Census of Population and Housing. The data relates to a person's main job in the week of the 2001 Census. In summary, the census identified 2,795 people primarily employed in the horse farming industry. As above, occupation is classified based upon the main tasks performed by an individual worker in his or her job, while industry is classified based upon the main activity of the employing organisation. For example, a veterinarian who has a private practice and consults for the horse farming industry is included in the veterinary services industry, not the horse farming industry. This explains why only 13 veterinarians are identified as part of the horse farming industry. It can be very difficult for the ABS to accurately determine a person's occupation and, especially, industry on the basis of the census forms and as a result classifications are unreliable, both in terms of being inaccurate and potentially biased.

There are some further problems with interpreting this data. First, some people will be employed part-time in the horse farming industry as a supplement to their main job and only their main job would be recorded. By comparison, the data presented in Table 8 for the horse and dog racing industry counts all jobs, not just main jobs. Second, many people will perform work for the racing industry on a consultative basis and will not be employed by an organisation which is part of the racing industry. For this reason we have included totals for all industries and all occupational classifications, though it is impossible to separate out all of those people working primarily with the racing and breeding industries. Further, more people will be employed at some time during the year than in the given survey week, and to the extent that August is not representative of average racing activities over the year (which includes special events such as the Spring Racing Carnival) it may understate annual levels of employment. Finally, the data refer to all employed people, and as many will be employed on a part-time basis this figure will need to be adjusted to obtain a measure based on full-time equivalent employment.

Table 9: Employment (in Main Job) in Horse Farming, by Selected Occupations, Australia — August 2001

Selected Occupations	Horse Farming	All Industries
Horse breeder	859	1,230
Veterinarian	13	5,004
Veterinary nurse	10	4,858
Sport or recreation manager	0	4,503
Jockey	57	1,126
Coach	10	7,549
Horse or dog racing official	3	410
Farrier	13	815
Animal trainer	117	3,126
Stud hand or stable hand	693	3,490
Total employment (all occupations)	2,795	

Source: Australian Bureau of Statistics (2003) Employment in Sport and Recreation, August 2001.

Table 10: Employment (in Main Job) in Selected Wagering Occupations, Australia — August 2001

Selected Wagering Occupations	Horse and dog racing	Other Industries	All Industries
Bookmaker	12	295	307
Bookmaker's clerk	8	193	201
Betting agency branch manager	13	1,231	1,244
Betting clerks (not further disaggregated)	0	39	39
Betting agency counter clerk	96	1,920	2,016
Telephone betting clerk	16	745	761
Betting clerks (not elsewhere classified)	0	354	354
Total employment (selected wagering occupations)	145	4,777	4,922
Total employment (all occupations)	8,576		

Source: Australian Bureau of Statistics (2003) Employment in Sport and Recreation, August 2001.

For completeness, we have drawn on the same census data to identify people employed in certain wagering occupations, and removed from data of those people employed within the horse and dog racing industry because they should already have been counted above. In total, 4,922 people report working in the seven wagering-related occupations we identified, with 4,777 of these are employed outside of the horse and dog racing industry.

We have attempted to make a 'back-of-the-envelope' estimate of total employment in the two industries 'horse and dog racing' and 'horse breeding', plus people employed in 'wagering-related occupations' outside of these industries, though this is only meant to be indicative as we have had to estimate a number of components.

We start with wages and salaries of \$210.9 million in the horse and dog racing industry in 2000–01. ABS data (ABS, Average Weekly Earnings, Australia, 2003) show that average weekly full-time adult ordinary time earnings in the 'cultural and recreational services' industries (of which horse and dog racing is a part) was around \$42,500 a year in 2000–01. On this basis we could estimate full-time equivalent employment at around five thousand people. However, it is most likely that this industry has lower than average full-time salaries, say \$30,000 a year, and this would imply 7,000 full-time equivalent people employed.

Using the census data for the horse breeding industry, we start with 2,795 people employed. Based on indicated hours worked for the main occupation groups within this industry, we estimate that on average people in the horse breeding industry worked around 35 hours in the survey week. The average full-time worker works a little over 42 hours per week (ABS, Labour Force, Australia, 2003), so that the average person in the horse breeding industry works around 83 per cent of a full-time position. This implies that there are around 2,300 full-time equivalent positions in the horse breeding industry. Using the census data for selected wagering-related occupations (outside of the horse and dog racing industries) we start with 4,777 employed people. Based on indicated hours worked we guess that on average these people worked around 26 hours in the survey week, or about 62 per cent of a full-time position. Hence, we estimate that there are around three thousand full-time equivalent positions among these wagering-related occupations.

All up, between the two industries and the wagering-related occupations we estimate that employment totals 12,500–15,000 full-time equivalent positions, which is between 0.1 and 0.2 per cent of the 7.6 million full-time equivalent positions in the Australian economy during the 2000–01 financial year.

An earlier study by ACIL (1992) estimated direct full-time equivalent employment in the racing industry for Australia at 40,000 persons, of whom 10,300 (or 12,500 as at 2003) were allocated to Victoria. Measures of direct full-time employment in the racing industry itself are different to the total number of people involved in racing (e.g., you may be an owner of a horse or a race steward on a weekend but this is not your principal occupation); the latter measure of involvement is usually used by the industry as an indicator of the size of the industry (see below: Size and Scope study).

Notwithstanding, it appears that differences between our estimates (of FTE) and those of earlier studies arise from different classifications to define the industry. The use of the ABS Business Register survey is likely to give rise to some underestimates as it excludes government employees in administration and racing control functions for example. It may underestimate owners as this activity is not classified as their principal occupation or business.

An alternative estimation procedure was put forward by the study 'Size and Scope of the Australian Thoroughbred Racing Industry, December 2001' commissioned by the Australian Racing Board, from which summary indicators have been displayed in Table 11.

The study reports, in marked contrast to the figures we estimated above, that 77,755 full-time equivalent jobs were due to the Australian thoroughbred racing industry alone and that, of these, 22,230 full-time equivalent positions are in Victoria (around 28.6 per cent of the national figure, which is somewhat larger than Victoria's share of Australia's adult population at 25.1 per cent).³⁷ The report also highlights the larger economic impact that horse racing has on the non-metropolitan economies than the metropolitan economies.

Table 11: Summary Indicators: Victorian & Australian Thoroughbred Racing Industries — 1999–2000

Economic Indicators	Victoria		Australia	Victoria Share of Australia (per cent)
	Metropolitan	Non-Metropolitan		
Economic Impact (\$m)	1,248.7	925.1	7,739.6	28.1
Jobs Created (FTEs)	13,418	8,812	77,755	28.6
Direct Spending (\$m)	861.9	683.7	5,558.1	27.8
Thoroughbred Owners	7,895	24,693	133,089	24.5
Direct Participants	8,310	9,343	63,003	28.0
Breeders	704	1,977	11,220	23.9
Horses in Training	2,193	5,612	31,952	24.4
Race Clubs	3	73	454	16.8
Race Meetings	130	448	3,050	18.9

Source: Australian Racing Board (2001) Size and Scope of the Australian Thoroughbred Racing Industry.

While we do not intend to write a complete critique of this study, it is clear to us that the Australian Racing Board data overstates the size of the racing industries in the Australian economy. These estimates of employment are intended to include all employment in all industries throughout the economy that result from spending in the thoroughbred racing industry, and are not estimates of employment within the racing industry itself.

The study estimates the 'economic impact' of racing on the Australian economy. These measures of the 'economic impact' take into account all of the expenditure by racing clubs, customers and investment by the industry. This total direct expenditure in the thoroughbred racing industries was estimated to be \$861.9 million in metropolitan Victoria and \$683.7 million in non-metropolitan Victoria, out of a total expenditure of \$5,558.1 million across Australia. (These figures appear to be quite high. As detailed above, the ABS estimate of the total expenditure in the Australian thoroughbred, harness and dog racing industries combined was only \$1107.3 million.) The study then calculates a 'multiplier flow-through' impact on the economy, totalling a further \$2,181.4 million in Australia and \$628.3 million in Victoria, which is added to direct spending to yield an 'economic impact'. The idea is that additional expenditure in the racing industry directly generates economic activity and employment in that industry.³⁸ As racing industry employees spend their additional income in Australia, this indirectly generates additional production and employment in a range of other industries, and so forth. The 'multiplier flow-through' impact is supposed to estimate the size of the total indirect stimulus. These amounts are converted into full-time equivalent employment based on assumptions of expenditure per full-time equivalent job.

The justification for this calculation is unclear. First, it is only sensible to estimate an 'economic impact' of an event where the expenditure on goods and services in the economy would otherwise not have occurred. Typically, this kind of analysis is used where, for example, a firm either exports goods and services overseas or provides goods and services locally that otherwise would have been imported. In these cases, the result of the event is additional spending and production in the

³⁷ The estimate of employment is not sourced to any specific method of calculation. They are quoted only as prepared by IER Strategic Planning for the industry report.

³⁸ It is also not clear whether the study makes an allowance for the fact that \$1 spent in the racing industry *directly* generates less than \$1 in additional output within the Australian economy. This is because some inputs to the racing industry (e.g., motor vehicles, computers) are bought from overseas so that a portion of each additional dollar flows out of the Australian economy as imports.

Australian economy that otherwise would have flowed to the economies of other countries. It is not sensible to estimate an 'economic impact' in this manner when expenditure is simply diverted from one type of good/service to another type within the Australian economy, such as movements between expenditure in the racing industry and other leisure industries. Second, in estimating an 'economic impact' it is necessary to think about movements in the resources of labour, land and capital that are used to provide these additional goods and services. Is the event, firm or industry simply taking employment away from other industries or is it actually resulting in the employment of people who otherwise would have been unemployed? This is difficult to estimate in practice and the study may be forgiven for not taking this second point into account in the context of the high rates of unemployment prevailing during much of the past decade, particularly in regional areas.

However, the first point is not so easily overcome. From the perspective of the Australian economy, it only makes sense to measure the economic impact resulting from international tourism related to racing, not general spending by Australians. For example, the study of 'The Economic Benefits of a Thoroughbred Horse Racing Industry' prepared by the Thoroughbred Racing Bureau in August 2001 reports an estimated 29,749 visits to the Melbourne Spring Racing Carnival by foreigners, almost five per cent of the total of 631,000 visits to the carnival. However, it is doubtful that any other racing event in Australia would attract a similar proportion of international tourists. It may also be possible to argue that some expenditure by Australians may have gone off-shore in terms of wagering on foreign races had their not been a domestic racing industry, so that the local racing industry is an 'import-replacing' industry to some extent. But both this import replacement and the possible boost to the level of tourism provided by racing are likely to have only moderate impacts on the domestic economy.

It may also be possible to identify some regional 'economic impacts'. In the absence of a racing event at a particular racetrack, much of the expenditure may have occurred elsewhere in Australia (at a racetrack in a different town) or on goods, rather than services, which results in less employment in the local community because the goods are manufactured elsewhere. This local 'economic impact' results from moving economic activity and employment from one local community to another.

However, to say that total Australia-wide spending on racing should be considered part of an 'economic impact' is to argue that if the racing industry didn't exist then everybody working in the industry would sit idly unemployed forever, while those punters who would have gone to racetracks also sit idly, saving their money rather than enjoying their leisure time in some other fashion.

The primary source of value of the racing industry to the Australian economy is in terms of the enjoyment provided to the Australian viewers, punters and racing participants that is in addition to the enjoyment they could obtain from any other source of entertainment, and is not in terms of employment and economic activity.

Secondary is a potential 'economic impact' from additional international tourism or perhaps import replacement. Since we contest that the total direct spending by the racing industry does not, in any immediate sense, contribute to an 'economic impact', the accompanying multiplier analysis and employment estimates throughout the economy are also inappropriate and overstate the role played by the racing industries.

The same publication, 'Size and Scope of the Australian Thoroughbred Racing Industry, December 2001' highlights the number of direct participants in the racing industry. The study estimates that 63,003 people participated directly in the racing industry at some stage during the 1999–00 season, including some 8,310 people in metropolitan Victoria and 9,343 people in non-metropolitan areas of Victoria, again highlighting the more important role of racing in regional areas.

In total, around 28 per cent of all racing participants were in Victoria, somewhat higher than Victoria's share of Australia's adult population. Included in these estimates of the national number of racing participants were:

- 6,529 trainers;
- 1,202 jockeys;
- 353 apprentices;
- 7,873 stable hands;
- 750 farriers;
- 91 float operators;
- 454 club secretaries;
- 6,465 club committee members;
- 15,545 race club staff;
- 1,066 veterinary specialists;
- 2,880 on-course totalisator staff;
- 19,070 off-course totalisator staff;
- 927 registered bookmakers; and
- 3,122 bookmaker's assistants.

These are interesting as indicators of the size of the industry, but cannot be easily converted into estimates of employment over the year on a full-time equivalent basis, and contrast with the ABS census estimates (which are based on an individual's main source of paid employment during the survey week).

In conclusion there are significantly different approaches to measuring the 'size of the industry' and estimates of full-time equivalent employment. This last measure is important because of the high level of casual and part-time employment across the industry, associated with the conduct of actual race meetings. The ABS reports in their *Sports Industries, Australia (2002)* publication that total employment in the national horse and dog racing industry was 15,900 persons, though a high proportion are casual employees. The researchers estimate for the industries of 'horse and dog racing' and 'horse breeding' and for people employed in 'wagering-related occupations' that nationally, some 12,000–15,000 full-time equivalent positions comprise the industry.

Studies commissioned by the racing industry clearly overstate the size and role of the racing industry by including all employment in all industries throughout the economy that results from spending in the thoroughbred racing industry. They are not estimates of employment in the racing industry itself, but further and equally importantly, it only makes sense to measure the 'economic impact' resulting from international tourism related to racing, not general spending by Australians (i.e., if the racing industry didn't exist Australians would enjoy their leisure time and expenditure in other ways).

We conclude that the industry estimates of the 'economic impact' of the industry, and accompanying multiplier analysis and employment estimates overstate the role played by the racing industry.

2.2 Wagering in Australia

Wagering is a popular pastime in Australia, with around \$12.85 billion bet on the outcomes of thoroughbred, harness and greyhound racing during the 2002–03 season (Table 12).

Thoroughbred racing enjoys the majority of punters' attention, with \$9.64 billion wagered on thoroughbred races in 2001–02.

Harness racing and greyhound racing attract smaller amounts of wagering; during the 2001–02 season there was \$1,371 million wagered on harness races and \$1,512 million wagered on greyhound races in six States and Territories in Australia. (The data include only bets made with TABs and does not include amounts wagered in Western Australia and Tasmania where it was not possible to separate wagering on harness races from wagering on greyhound races.)

Sports betting remains a smaller industry but is growing in popularity very rapidly.

Table 12: Wagering and Gaming Turnover, 1989–90 to 2001–02 — Australia (\$ million)

Year	Thoroughbred Racing	Harness & Greyhound Racing	Sports Betting	Gaming	Total (All Betting)
1989–90	8,354	2,700	-	16,433	27,487
1990–91	8,563	2,683	-	18,438	29,684
1991–92	8,299	2,739	-	20,324	31,362
1992–93	7,934	3,010	-	25,924	36,868
1993–94	8,568	2,679	-	37,518	48,765
1994–95	8,838	2,716	108	50,169	61,723
1995–96	8,835	2,697	143	60,877	72,409
1996–97	8,641	2,740	216	68,840	80,221
1997–98	8,679	2,916	351	82,958	94,553
1998–99	8,677	3,046	461	91,134	102,857
1999–00	8,976	2,822	672	102,222	114,020
2000–01	9,563	2,371	880	105,411	118,225
2001–02	9,642	3,209	1,320	110,485	124,656

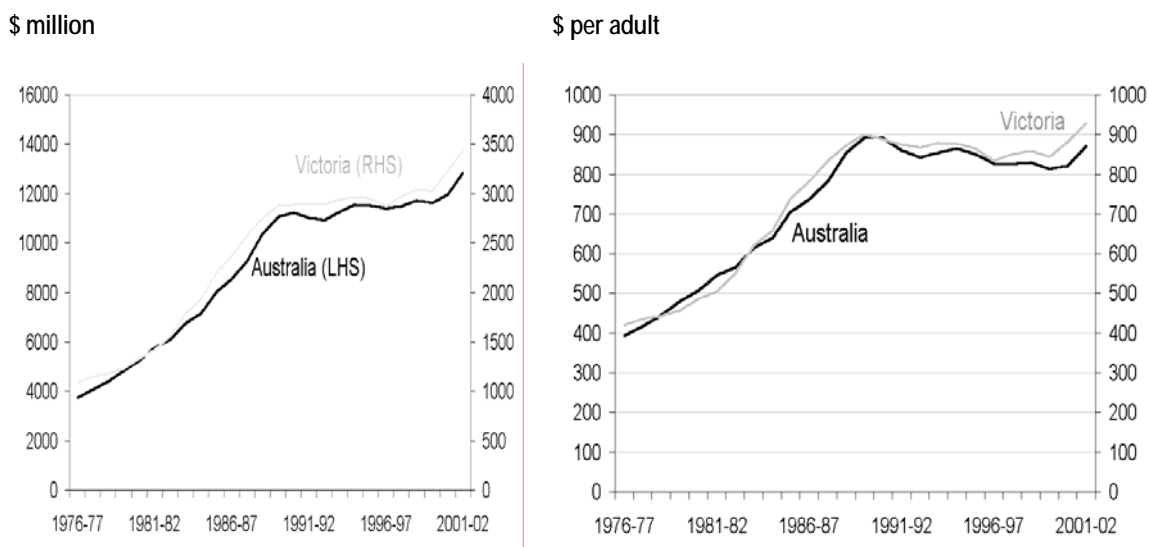
Note: Gaming includes all legal forms of betting other than wagering (i.e., racing related), such as Lottery, Lotto, Tattsлото, Pools, Gaming Machines, Casino, Instant Lottery, Keno, Sports Betting and minor gambling.

Source: Australian Racing Board (2003) *Australian Racing Fact Book 2002–03*.

Overall, the level of wagering has evolved quite similarly in Victoria over the past quarter of a century as in Australia as a whole, though growth in Victoria has been a little more rapid (see Figure 3).

In 2001–02, Victorians placed racing bets in the amount of \$3.44 billion. This represented 26.7 per cent of the national wagering figure of \$12.85 billion, which again, is slightly higher than Victoria's share of the adult population (25.1 per cent) and hence the level of wagering per adult (\$928.62) exceeded the national average (\$870.91).

Victoria's share of national wagering has been growing over time. A decade earlier, in 1991–92, Victorians placed racing bets totalling \$2.89 billion or around 26.2 per cent of national wagering, while a decade before that in 1981–82 Victorians placed racing bets totalling \$1.41 billion or 24.5 per cent of national wagering.

Figure 3: Wagering Turnover — Victoria and Australia — 1976–77 to 2001–02

Source: Tasmanian Gaming Commission, 2003, Australian Gambling Statistics 1976–77 to 2001–02.

Over recent years the method of placing bets has changed as telephone then internet betting became available and the popularity of these methods of placing bets increased. In Table 13, total racing wagering turnover has increased in the thirteen years to 2002–03 by a compound annual growth rate of 1.8 per cent.

This masks wide variations in differential rates of growth: telephone and internet betting with bookmakers grew (eight years to 2002–03) by 21.0 per cent; TAB off-course by 2.5 per cent; the on-course totalisator declined by -0.5 per cent; and on-course bookmakers by -5.7 per cent.

The availability of telephone and internet betting with bookmakers ensured that total wagering with bookmakers reversed a long-term trend decline, to record a 0.6 per cent increase to 2002–03.

TABCORP (Vic) has over three hundred thousand customers with telephone betting accounts, while TabLimited (NSW) has over two hundred thousand such customers (Table 17). Telephone betting with the TAB has proven popular over recent years, growing by 25 per cent in two years from \$986.5 million in 2000–01 to \$1,230.0 million in 2002–03 (see Tables 14, 15 and 16 for wagering turnover by State). Similarly, the internet has become an increasingly popular means of placing bets as is illustrated below in the breakdown of wagering by State and means of betting for the past three financial years.

In 2000–01, off-course TAB betting via the internet totalled \$92.5 million (Table 14). This is estimated to have grown by 218 per cent over two years to be \$294.4 million by 2002–03 as shown in Table 16.

Data from TABCORP (Vic) in Victoria (Table 18) shows that while they have seen a rapid take-up of use of the internet to place racing bets, they have not seen a similar pickup in the volume of bets on sports via the internet. By contrast, TabLimited in New South Wales receives a much higher volume of sports betting via the internet (Table 19).

Table 13: Thoroughbred Wagering Turnover, 1989–90 to 2002–03 — Australia (\$ million)

Year	TAB (Off-course)	Tote (On-course)	Total Pari-mutuel	Bookmakers		Total	Total Racing
				Telephone & Internet	On-course		
1989–90	5,461	638	6,099	-	2,255	2,255	8,354
1990–91	5,838	678	6,516	-	2,047	2,047	8,563
1991–92	5,959	636	6,595	-	1,704	1,704	8,299
1992–93	5,862	617	6,479	-	1,455	1,455	7,934
1993–94	6,318	823	7,141	-	1,427	1,427	8,568
1994–95	6,377	799	7,176	303	1,359	1,662	8,838
1995–96	6,496	764	7,260	383	1,192	1,575	8,835
1996–97	6,533	697	7,230	366	1,045	1,411	8,641
1997–98	6,659	617	7,276	406	997	1,403	8,679
1998–99	6,667	575	7,242	427	1,008	1,435	8,677
1999–00	6,897	612	7,509	397	1,070	1,467	8,976
2000–01	7,569	572	8,142	522	915	1,456	9,563
2001–02	7,261	560	7,821	625	1,217	1,821	9,642
2002–03	7,488	601	8,089	1,389	1,046	2,435	10,524

Note: Telephone betting figures start at 1994–95, as this was the first year telephone betting was legal in all States.

Source: Australian Racing Board (2002) 'Analysis of Bookmaking in Australia'; Australian Racing Board (2003) *Australian Racing Fact Book 2002–03*.

The other comment that could be made which relates to the method of placing bets and the location of wagering outlets shown in Table 17 is, that the extension of wagering facilities into clubs and hotels continues the co-location of alcohol with gaming and wagering. This was always the case with on-course facilities but not the case with standalone TAB agencies/outlets. On the other hand, it could be argued that the platforms of telephone and internet betting break that nexus between alcohol and wagering and in effect, represent a significant threat to pub and club facilities.

There are a number of reasons for the decrease in TAB agencies related to PubTABs:

- As TAB agencies are stand-alone businesses, paid on a commission basis (turnover percentage) they require a level of sales to be viable. This differs from hotels where the TAB is an add-on entertainment facility to complement other services, e.g., food and beverage service. Therefore, agencies were rationalised to create a critical mass to maintain viability;
- PubTABs are more cost effective for TABCORP as there are no shopfront leasing costs, property maintenance and Sky Channel payments;
- TAB agencies also require significant capital expenditure to achieve a level of presentation that is consistent across the network. Agencies again must have a critical mass in order to justify this capital expenditure. Given the large number of TABs that previously existed, it was not economically feasible for TABCORP to undertake capital upgrades to the entire agency network. Many of the agencies were becoming outdated (many dated back to the 1970s). A rationalisation of the agency network was necessary in order for TABCORP to focus on upgrading the agency network to more modern standards to cater for overall service expectations/requirements of customers; and
- Licensed premises offer customers enhanced entertainment catering to the changing needs of customers (changing consumer preferences) who wanted the opportunity to participate in other leisure activities, consume food, beverages and have the use of convenience facilities.

While telephone and internet betting have proved popular with TAB customers, they have proved a far greater boon to bookmakers. Historically, bookmakers have always offered better rates of return than are available through a totalisator. The average rate of return implied by the Tasmanian Gaming Commission data on a bet with the TAB or with an on-course totalisator is around 84 cents in the dollar, compared to around 94.5 cents in the dollar with an on-course bookmaker. With the convenience of telephone betting available through both the TAB and bookmakers, punters are now increasingly choosing the better odds available through the latter. While

bookmakers' turnover fell in the early 1990s, it has recovered in the past couple of years due entirely to telephone and internet betting. Telephone betting with bookmakers grew by 82 per cent over the past two years, from \$522.6 million in 2000–01 to \$951.0 million in 2002–03, while internet betting with bookmakers has grown from just \$18.1 million in 2000–01 to \$438.3 million in 2002–03. (These last figures are largely estimated, so that in part the apparent growth has resulted from changes in the way these are estimated.) In fact, the majority of all bets placed with bookmakers in 2002–03 were made using the telephone or the internet, and the trend toward these media appears likely to continue as more customers become comfortable with the technology. The introduction of internet interactive betting exchanges will likely continue this trend.

The sports-betting industry has grown rapidly in the past five years with turnover increasing from \$216.3 million in 1996–97 to \$1319.7 million in 2001–02, at an average annual rate of growth of 43.6 per cent. The industry is dominated by bookmaking firms in the Northern Territory and the Australian Capital Territory, that receive telephone and internet bets from all over Australia (Figure 4).

Table 14: Thoroughbred Wagering Turnover by State, 2000–01 Financial Year (\$ million)

Wagering Form	NSW	VIC	QLD	SA	WA	TAS	NT	ACT	Australia
TAB (Off-course)	3,266.0	1,908.8	1,129.6	447.4	497.5	159.5	55.5	104.8	7,569.1
Including Telephone	396.5	456.0	n.a.	66.1	41.5	26.4	n.a.	n.a.	986.5
Internet	79.3	2.3	n.a.	1.7	9.2	n.a.	n.a.	n.a.	92.5
Tote (On-course)	220.0	164.7	94.8	25.5	46.6	2.3	12.9	5.8	572.6
Total Pari-mutuel	3,486.0	2,073.5	1,224.4	472.9	544.1	161.8	68.4	110.6	8,141.7
Bookmakers On-course	319.3	215.8	182.2	35.6	98.5	5.6	11.2	13.1	881.2
Telephone	112.0	118.3	47.3	30.9	35.6	1.8	161.7	15.0	522.6
Internet	0.2	n.a.	n.a.	n.a.	n.a.	n.a.	17.9	0.0	18.1
Total Bookmakers	431.5	334.1	229.5	66.5	134.1	7.4	190.8	28.1	1,421.9
Total Wagering	3,917.5	2,407.6	1,453.9	539.4	678.2	169.2	259.2	138.7	9,563.6

Note TAB and Tote turnover provided by TAB in each State. Bookmaking figures provided by Government Department of Racing or Principal Club in each State.

n.a. Unavailable.

Source: Australian Racing Board (2001a) *Australian Racing Fact Book 2000–01*.

Table 15: Thoroughbred Wagering Turnover by State, 2001–02 Financial Year (\$ million)

Wagering Form	NSW	VIC	QLD	SA	WA	TAS	NT	ACT	Australia
TAB (Off-course)	2,820.50	1,998.88	1,143.29	431.39	509.761	171.62	58.96	126.42	7,260.82
Including Telephone	n.a.	489.69	268.56	59.64	39.13	28.04	7.53	31.64	924.23
Internet	n.a.	*	77.08	8.59	12.59	n.a.	2.16	1.42	101.84
Tote (On-course)	208.77	164.62	89.19	24.29	46.33	2.98	15.90	8.13	560.22
Total Pari-mutuel	3,029.26	2,163.50	1,232.48	455.68	556.091	174.60	74.86	134.55	7,821.04
Bookmakers On-course	336.62	264.67	143.16	43.01	102.3	3.07	314.80	9.75	1,217.41
Telephone	121.31	145.51	64.37	52.25	16	0.54	207.65	17.33	624.95
Internet	0.07	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	5.71	5.78
Total Bookmakers	430.80†	410.18	207.53	95.25	118.33	3.61	522.45	32.79	1,728.85
Total Wagering	3,460.07	2,573.67	1,440.02	550.93	674.42	178.21	597.31	167.34	9,641.98

Note TAB and Tote turnover provided by TAB in each State. Bookmaking figures provided by Government Department of Racing or Principal Club in each State (Queensland Bookmakers turnover from Queensland Racing).

n.a. Unavailable.

* Included in telephone total.

† Not a total (adjusted for bets back).

Source: Australian Racing Board (2002a) *Australian Racing Fact Book 2001–02*

Changes in Wagering Within the Racing Industry

Table 16: Thoroughbred Wagering Turnover by State, 2002–03 Financial Year (\$ million)

Wagering Form	NSW	VIC	QLD	SA	WA	TAS	NT	ACT	Australia
TAB (Off-course)	2,889.5	2,069.00	1,193.20	434.50	541.20	196.54	63.99	100.09	7,488.02
Including Telephone	385.00	516.78	184.13	43.91	44.85	26.41	9.29	19.61	1,229.99
Internet	157.00	*	87.43	20.85	20.01	1.19	4.41	3.49	294.37
Tote (On-course)	230.00	173.94	92.64	31.48	47.69	3.33	16.28	5.95	601.31
Total Pari-mutuel	3,119.5	2,242.94	1,285.84	465.98	588.89	199.87	80.27	106.04	8,089.33
Bookmakers On-course	404.93	293.68	191.22	46.59	97.53	2.27	2.52	9.27	1,045.51
Telephone	180.30	186.96	93.01	27.41	24.34	0.04	416.60	21.09	951.00
Internet	0.55	0.00	0.00	0.00	0.00	0.00	416.60	19.88	438.28
Total Bookmakers	585.78	480.64	284.23	74.00	121.87	2.31	835.72	50.24	2,434.79
Total Wagering	3,705.28	2,723.58	1,570.07	539.98	710.76	202.18	915.99	156.28	10,524.12

Note TAB and Tote turnover provided by TAB in each State. Bookmaking figures provided by Government Department of Racing or Principal Club in each State (Queensland Bookmakers turnover from Queensland Racing).

* Included in telephone total.

Source: Australian Racing Board (2003) *Australian Racing Fact Book 2002–03*

Table 17: Summary of Wagering Outlets

	AGENCIES/TAB OUTLETS	PUBTAB ¹	CLUBTAB	PHONE ACCOUNT	TAB ON-COURSE
Victoria	101	465	-	302,0002	106
New South Wales	346	1,000	600	200,000	175
South Australia	65	300*	-	20,000	Agents for on-course

¹ May be either a full Agency with billboards, paper on walls, on-screen electronic betting with cashier or a fully electronic kiosk, 'paperless office'. In South Australia, 240 kiosk agencies and 60 fully-fledged PubTAB.

² Includes multiple account holders who maintain racing and sports betting account. In New South Wales we understand there is a charge to maintain a telephone account which is likely to account for lower utilisation of this medium.

Table 18: TABCORP (Vic): Telephone & Internet Betting Sales, Financial Year 1999–2002 — Victoria

Year	1999 (\$'000)	2000 (\$'000)	2001 (\$'000)	2002 (\$'000)	Sports Share (Per cent) and CAGR*
Telephone					
Parimutuel Racing	579,296	609,665	636,656	675,442	Sports
Sports	23,270	26,189	24,593	29,924	3.9% share 1999
Combined	602,566	635,854	661,249	705,366	4.2% share 2002
Internet					
Parimutuel Racing	0	0	3,439	23,182	Sports
Sports	0	0	1,850	2,545	- 1999
Combined	0	0	5,289	25,727	9.9% share 2002
Total All TAB Wagering	2,803,322	2,857,574	2,988,666	3,170,633	4.2 CAGR 99–02
Telephone	21.5%	22.3%	22.1%	22.2%	
Internet	0.0%	0.0%	0.2%	0.8%	
Telephone and Internet: Total	602,566	635,854	666,093	731,093	6.7 CAGR 99–02
Telephone and Internet: All Wagering	21.5%	22.3%	22.3%	23.1%	

* Compound Average Growth Rate.

Source: TABCORP.

Table 19: TabLimited & Internet Betting Sales, Financial Year 1999–2002 — New South Wales

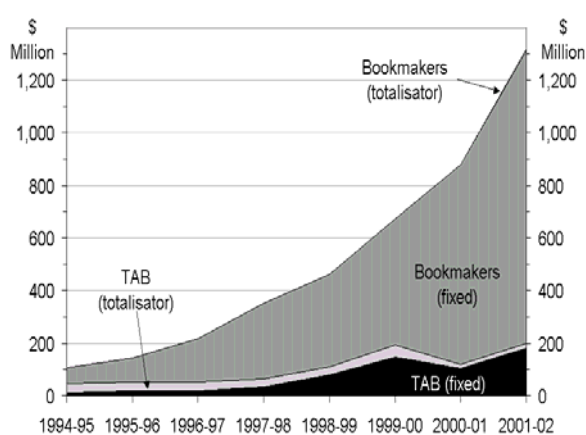
Year	1999 (\$'000)	2000 (\$'000)	2001 (\$'000)	2002 (\$'000)	Sports Share (Per cent) and CAGR*
Telephone					
Parimutuel Racing	549,658	605,488	620,081	543,340	Sports
Sports	12,592	19,968	22,154	36,996	2.2% share 1999
Combined	562,250	625,456	642,235	580,336	6.4% share 2002
Internet					
Parimutuel Racing	20,622	41,310	114,318	174,888	Sports
Sports	1,795	3,603	12,446	29,386	8.0% share 1999
Combined	22,417	44,913	126,764	204,274	14.4% share 2002
Total All Tab Wagering	4,040,617	4,153,453	4,290,711	4,485,394	3.5 CAGR 99–02
Telephone	13.9%	15.1%	15.0	12.9%	
Internet	0.6%	1.1%	3.0%	4.6%	
Telephone and Internet: Total	584,667	670,369	768,999	784,610	10.3 CAGR 99–02
Telephone and Internet: All Wagering	14.5%	16.1%	17.9%	17.5%	

* Compound Average Growth Rate.

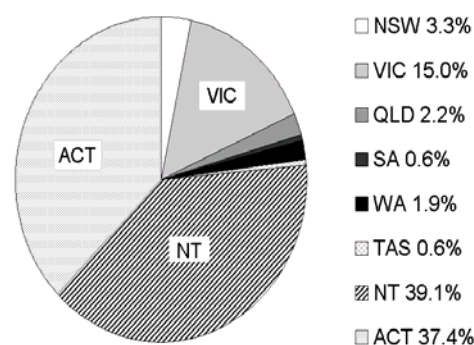
Source: TABCORP, available in public submission.

Figure 4: Sports Betting Turnover in Australia

Turnover by form of bet, 1994–95 to 2001–02 (\$ million)



Share of turnover by State (per cent of national turnover, 2001–02)



Note: This data is likely to be an underestimation of sports betting turnover as indicated in notes to Tasmanian Gaming Commission tables.

Source: Tasmanian Gaming Commission, 2003, Australian Gambling Statistics 1976–77 to 2001–02.

2.3 Recent history of Australia's gambling industries

A necessary context to understand recent developments in the wagering industry is an understanding of the changing shape of Australia's gambling industries more generally. The Australian gambling industries as a group have undergone tremendous growth in the past quarter of a century. Total expenditure on gambling, that is the net amount lost by gamblers, has grown from \$995 million in 1976–77 to \$15,005 million in 2001–02. In part this reflects economy-wide inflation; total expenditure in 1976–77 was \$3,912 million in terms of 2001–02 dollars³⁹, growing to \$15,005 million by 2001–02 at an average annual rate of growth of 5.5 per cent.

The previous section focused on the amount wagered on racing as an indicator of the popularity and extent of wagering. We believe that measures based on the amount lost (expenditure) rather than the amount wagered (turnover) are better for comparison across very different forms of gambling. This is because of the difference in rates of return across forms of gambling, from as

³⁹ By this we mean that the \$995 million spent on gambling in the year 1976-77 could have instead bought a typical selection of consumer goods and services in an amount that would have cost \$3,912 million for a similar selection in 2001-02.

low as 60 per cent on lotto and scratch tickets, and lower on some forms of minor gaming, up to 98 or 99 per cent on some casino games. And rates of 'reinvestment' of winnings also differ between forms: the rate of return on a single spin of an EGM is quite high, but a gambler might put ten dollars into a machine and walk away with nothing having gambled away all of their winnings along the way. The level of expenditure measures the amounts that consumers have paid for the entertainment⁴⁰ of gambling.

While useful as a measure of the growth in the gambling industries, to some extent the data is a misleading measure of Australia's growing appetite for gambling because it results partly from an increase in the adult population eligible to gamble, and partly a result of an increase in the standard of living that has provided Australian households with greater disposable income to spend on entertainment. Table 20 below shows various measures of the quinquennial levels of gambling expenditure in Australia and the average annualised growth rates between the selected years. Either of the last two columns are good measures of the growing importance of gambling in Australian households' budgets. Whereas in the year 1976–77 Australian adults spent 1.7 per cent of their take-home pay (slightly less than a weeks' income) across all forms of gambling, their contemporaries 25 years hence spent 3.4 per cent (a little less than two weeks' income).

Either of the last two columns of the table above also make clear that almost all of this growth in the importance of gambling in the average household's budget has occurred in the past 15 years. It is evident from Figure 5 that this has been driven by growth in expenditure on electronic gaming machines (EGMs) and on casino gaming, though this graph smoothes over the dramatic changes in expenditure within individual states as these have successively introduced EGMs and casinos at different times. For example, New South Wales has had EGMs in licensed clubs since 1956, and in hotels since 1984. The Australian Capital Territory introduced EGMs in 1976. Victoria, Queensland, South Australia, Tasmania and the Northern Territory all introduced EGMs in the 1990s, while Western Australia still does not permit EGMs in hotels or clubs.

Table 20: Measures of the Growth in Australia's Gambling Expenditure — 1976–77 to 2001–02

	Total expenditure (\$ million)		Real expenditure* (2001–02 \$ million)		Expenditure per adult (\$ per adult)		Real expenditure per adult* (2001–02 \$ per adult)		Share of household disposable income (per cent)	
	Level	Rate*	Level	Rate*	Level	Rate*	Level	Rate*	Level	Rate*
1976–77	995	n.a.	3,912	n.a.	104	n.a.	409	n.a.	1.71	n.a.
1981–82	1,781	12.4	4,437	2.6	169	10.1	420	0.5	1.71	0.0
1986–87	3,033	11.2	5,130	2.9	261	9.1	442	1.0	1.81	1.1
1991–92	5,304	11.8	6,722	5.6	414	9.6	525	3.5	2.08	2.9
1996–97	10,036	13.6	11,346	11.0	731	12.0	826	9.5	3.00	7.6
2001–02	15,005	8.4	15,005	5.7	1017	6.8	1017	4.2	3.41	2.6

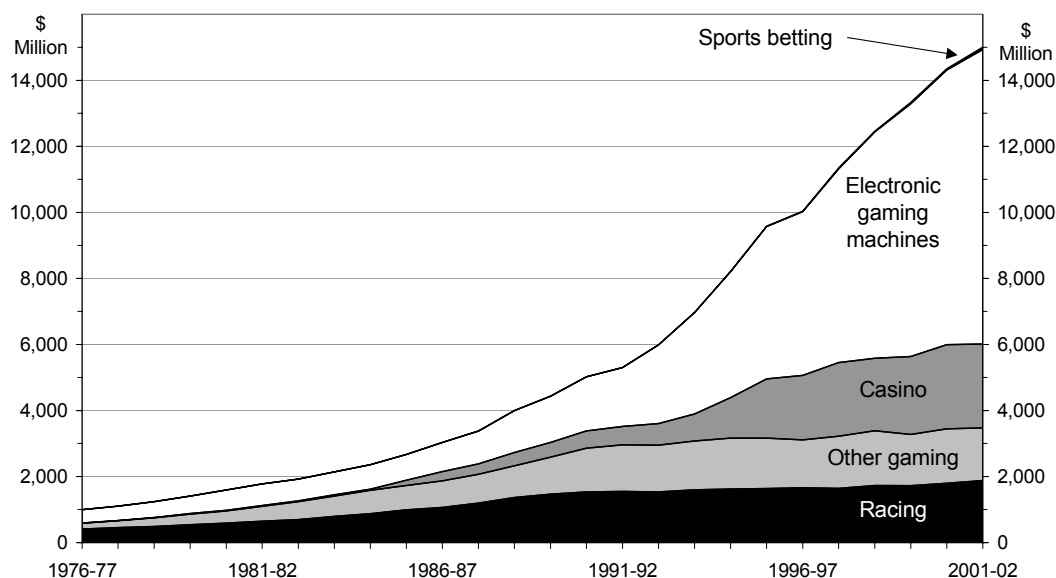
* Inflated using the Consumer Price Index, ABS catalogue no. 6401.0.

** 'Rate' refers to the annualised percentage rate of growth over the previous five years.

Source: Tasmanian Gaming Commission, 2003, Australian Gambling Statistics 1976–77 to 2001–02.

Expenditure on EGMs has grown rapidly over the past decade in all States in which these are permitted, increasing from \$1,633 million in 1990–91 to \$8,916 million in 2001–02, and accounted for nearly 60 per cent of all gambling expenditure in 2001–02. Though there has been rapid growth in EGM expenditure over the decade to 2001–02 in New South Wales (9.7 per cent per annum) and the Australian Capital Territory (8.9 per cent per annum), together these account for less than two-fifths of the increase in national EGM expenditure. The bulk of the growth in EGM expenditure has been due to other State and Territory governments successively legalising the installation of EGMs in hotels or licensed clubs.

⁴⁰ The term 'entertainment' includes the price paid for participation, but also encompasses those who pay a price to sit and feel part of the crowd, a price which reflects part entertainment, part cover.

Figure 5: Australia-wide Gambling Expenditure (\$ million) — 1976–77 to 2001–02

Source: Tasmanian Gaming Commission, 2003, Australian Gambling Statistics 1976–77 to 2001–02.

The expansion in the number of casinos has also contributed to this growth. And though casino gaming expenditure remains small compared to EGM expenditure outside of casinos (where this is available), nevertheless more money is lost in Australian casinos than is lost (separately) on wagering, or on all other forms of gaming combined (excluding EGMs). Whereas prior to the 1980s casino gaming was available only in Tasmania, today casino gaming is available in every State and Territory; a total of 13 casinos provide gaming opportunities to the Australian public, including four casinos in Queensland, and two casinos in each of Tasmania and the Northern Territory.

More recently, expenditure on sports betting has grown very rapidly, but it is still a small industry with consumer expenditure recorded as just \$71.1 million in 2001–02. However, this figure significantly understates the level of expenditure because data is unavailable for the Australian Capital Territory, though sports betting turnover in that State totalled nearly half a billion dollars in 2001–02. Based on similar turnover, expenditure on sports betting in the Northern Territory was \$38.0 million in 2001–02.

This suggests that if data for the Australian Capital Territory were available then the national level of expenditure on sports betting would probably have been around \$110 million in 2001–02, or around six per cent of the level of wagering expenditure.

Table 21: Australian Expenditure on Gambling Activities — Percentage of Household Disposable Income, 1976–77 to 2001–02

	Racing	Sports Betting	Electronic Gaming Machines	Casino Gaming	Total	Other Gaming Of which: Lotteries, Lotto, Pools
1976–77	0.71	0.00	0.69	0.01	0.30	0.27
1981–82	0.62	0.00	0.63	0.02	0.43	0.33
1986–87	0.63	0.00	0.53	0.16	0.48	0.33
1991–92	0.61	0.00	0.70	0.22	0.55	0.32
1996–97	0.50	0.00	1.48	0.59	0.43	0.28
2001–02	0.43	0.02	2.03	0.58	0.36	0.27

Source: Tasmanian Gaming Commission, 2003, Australian Gambling Statistics 1976–77 to 2001–02.

The gambling opportunities available to Australian consumers have multiplied, and in this environment it is perhaps not surprising that the conventional gambling experiences of racing and other forms of gaming (lotteries, scratch tickets, Keno and minor gaming) have struggled to maintain their share of consumers' interest. In particular, Table 21 shows that average expenditure on racing gambling as a percentage of household disposable income fell by 0.18 percentage points over the decade to 2001–02 (a fall of nearly one-third from its 1991–92 level), following a fall of 0.10 percentage points over the fifteen years to 1991–92 (a fall of around one-seventh from its level in 1976–77).

The recorded expenditure on 'other gaming' activities, as a percentage of household disposable income, has also fallen in recent years, though this is exaggerated by the recent cessation of recording of minor gaming in Victoria and Queensland.⁴¹

Nevertheless, expenditure on lotteries, lotto and pools for which good data exists fell as a percentage of household disposable income from 0.32 per cent in 1991–92 to 0.27 per cent in 2001–02, after increasing by a similar amount over the fifteen years to 1991–92. Expenditure on scratch tickets has almost halved over the past decade (as a percentage of household disposable income). A detailed discussion of the racing industry is given above, while further below we provide evidence of the interaction between racing expenditure and other forms of gambling.

The Victorian gambling industry has undergone a similar, though exaggerated, transformation to the national industry over the past quarter of a century. The Victorian parliament passed legislation enabling the introduction of EGMs into hotels and licensed clubs in 1991, and Melbourne's Crown Casino opened on 30 June 1994.

While total expenditure on gambling in Victoria rose from \$205 million in 1976–77 to \$904 million in 1991–92, this largely reflected inflation and the natural increase in the adult population over this period; there was very little growth in gambling expenditure as a share of household disposable income. However, by 2001–02 gambling expenditure had increased to \$4,365 million, approaching five-times the level of a decade earlier during a period of low inflation.

Table 22 shows that – by any measure – Victorian gambling expenditure has grown at a phenomenal rate during the past decade. In particular, the five-year period ending in 1996–97, which followed the introduction of EGMs and included the opening of the Crown Casino, saw expenditure as a percentage of household disposable income more than double. It has continued to rise out to 2001–02 to now represent 3.81 per cent of household disposable income.

Table 22: Measures of the Growth in Victoria's Gambling Expenditure — 1976–77 to 2001–02

	Total expenditure (\$ million)		Real expenditure* (2001–02 \$ million)		Expenditure per adult (\$ per adult)		Real expenditure per adult* (2001–02 \$ per adult)		Share of household disposable income (per cent)	
	Level	Rate*	Level	Rate*	Level	Rate*	Level	Rate*	Level	Rate*
1976–77	205	n.a.	807	n.a.	79	n.a.	311	n.a.	1.28	n.a.
1981–82	361	12.0	901	2.2	129	10.3	323	0.7	1.30	0.2
1986–87	594	10.5	999	2.1	196	8.7	330	0.4	1.28	-0.3
1991–92	904	8.8	1131	2.5	274	6.9	343	0.8	1.34	1.0
1996–97	2757	25.0	3111	22.4	800	23.9	902	21.3	3.22	19.1
2001–02	4365	9.6	4365	7.0	1180	8.1	1180	5.5	3.81	3.4

* Inflated using the Consumer Price Index, ABS catalogue no. 6401.0.

** 'Rate' refers to the annualised percentage rate of growth over the previous five years.

Source: Tasmanian Gaming Commission, 2003, Australian Gambling Statistics 1976–77 to 2001–02.

⁴¹ Minor gaming notionally includes charity raffles, bingo, lucky envelope, trade competitions, etc. although the extent of recording varies from state to state.

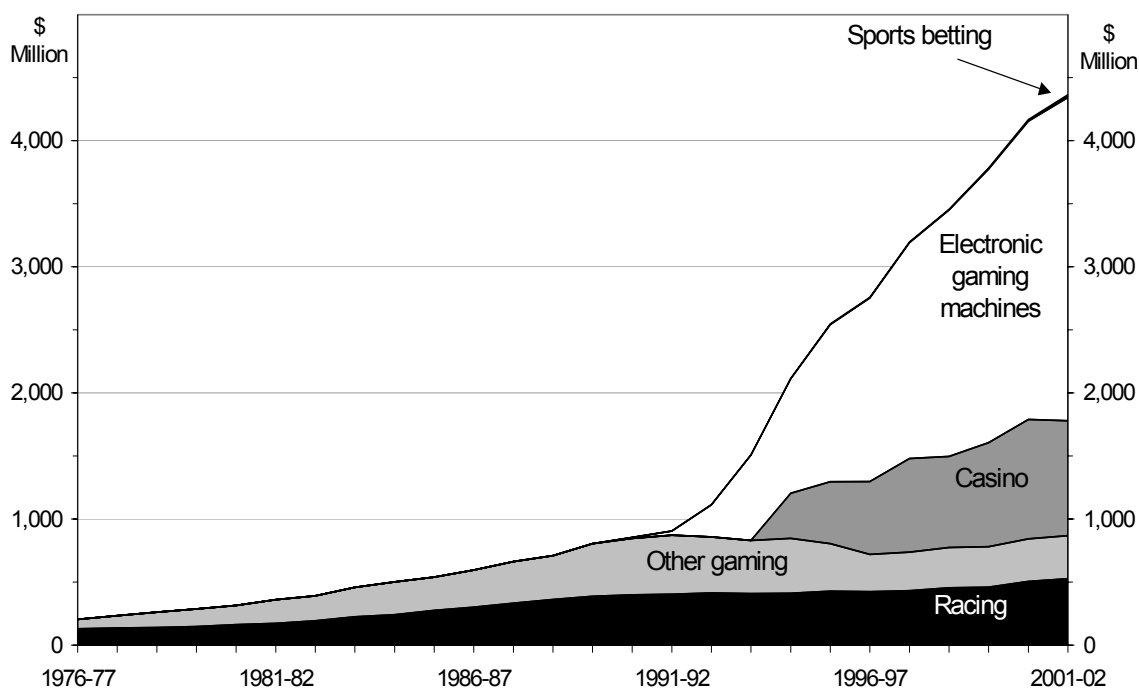
Figure 6 makes clear that this explosive rate of growth in expenditure is due entirely to the expansion of expenditure on EGMs and casino gaming. In recent years the growth in EGM expenditure has slowed, perhaps due to the capping of the number of machines at 27,500 in 1996 and more recently a series of legislative reforms aimed at reducing the extent of gambling problems, for example by requiring additional consumer advice on machines, imposing caps on machine numbers in vulnerable areas and restricting smoking in gaming venues.

TABCORP (Vic) believes that the smoking bans have had a particularly severe impact on gaming, as detailed in their media release of 15 May 2003 titled 'Smoking Bans Will Impact Full Year Profits'. The latest data released by the Victorian Office of Gambling Regulation reveals that \$2,334 million was spent on EGMs in 2002–03, which is a fall of 8.9 per cent from the peak of \$2562 million spent in the previous year and is also below the level of expenditure in 2000–01. Remarkably, EGM expenditure in the first five months of the year 2003–04 has been 7.4 per cent lower than during the same five-month period in 2002–03.

Expenditure on casino gaming expanded rapidly following the introduction of the Crown Casino, peaking at \$946 million in 2000–01. But this, too, appears to have moderated with \$911 million spent in 2001–02, 4.7 per cent less than in the previous year. Nevertheless, even in that year more was spent on casino gaming in Victoria than on racing, sports betting and all other recorded forms of gaming combined (excluding EGMs).

Expenditure on sports betting grew intermittently following its introduction into Victoria in 1994–95, but more recently has more than tripled during the past three years rising from \$5.9 million in 1998–99 to \$22.9 million in 2001–02. Still, this remains small compared to gambling on racing, EGM gaming or casino gaming.

Figure 6: Victorian Gambling Expenditure (\$ million) — 1976–77 to 2001–02



Source: Tasmanian Gaming Commission, 2003, Australian Gambling Statistics 1976–77 to 2001–02.

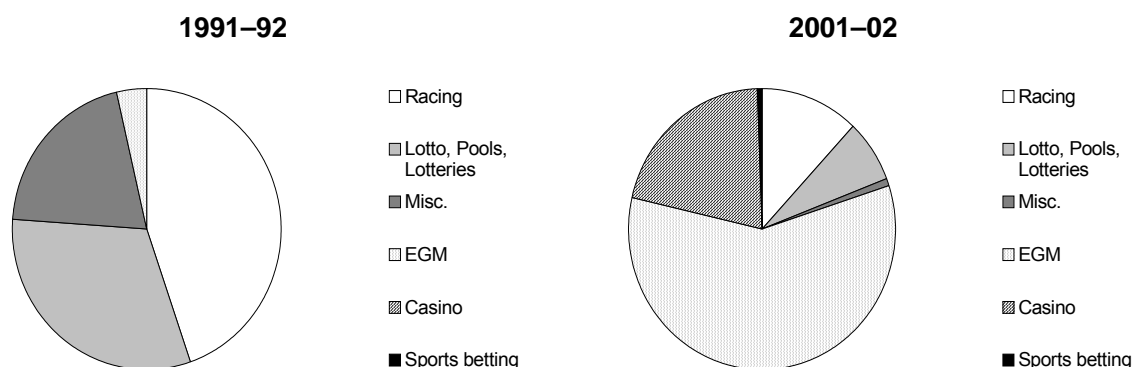
As with the national gambling industry, it is clear that while the EGM and casino industry have found a receptive clientele in Victoria, the racing and other gaming industries have struggled to hold onto their existing customer base (Table 23). This decline in wagering expenditure as a proportion of disposable income in Victoria appears to be of essentially the same magnitude as the national average, perhaps even slightly less severe apart from the sharp fall in the role of racing expenditure in the Victorian households' budgets during the late 1970s. Expenditure on racing gambling, as a percentage of household disposable income, fell by 0.18 percentage points during the five years ending in 1981–82 (or roughly one-quarter of its 1976–77 level), before recovering a little during the mid-1980s only to decline again towards the end of the decade. Between 1991–92 and 2001–02, expenditure on racing gambling fell by 0.14 percentage points (or around one-quarter of its 1991–92 level), with the largest falls recorded during the first half of this period and immediately following the introduction of EGMs in Victoria. The decline in 'other gaming' expenditure is exaggerated by the cessation of recording of minor gaming in 1996. Nevertheless, expenditure on lotteries (generally) has fallen markedly as a percentage of household disposable income over the past quarter of a century, also with a particularly sharp decline in the five years ending in 1996–97, and expenditure on scratch tickets has suffered a similar fate. Where in 1991–92, racing and lotteries (generally) dominated the gambling industries, by 2001–02 these were both minor parts of a much, much larger entity (Figure 7).

Table 23: Victorian Expenditure on Gambling Activities —Percentage of Household Disposable Income, 1976–77 to 2001–02

	Racing	Sports Betting	Electronic Gaming Machines	Casino Gaming	Total	Other Gaming Of which: Lotteries, Lotto, Pools
1976–77	0.80	0.00	0.00	0.00	0.48	0.48
1981–82	0.62	0.00	0.00	0.00	0.68	0.47
1986–87	0.65	0.00	0.00	0.00	0.63	0.45
1991–92	0.60	0.00	0.05	0.00	0.70	0.42
1996–97	0.49	0.00	1.70	0.68	0.34	0.31
2001–02	0.46	0.02	2.24	0.79	0.30	0.25

Source: Tasmanian Gaming Commission, 2003, Australian Gambling Statistics 1976–77 to 2001–02.

Figure 7: The changing role of wagering in Victoria's gambling industries Share of all gambling expenditure



Source: Tasmanian Gaming Commission, 2003, Australian Gambling Statistics 1976–77 to 2001–02.

2.4 Have gaming machines and casinos caused the decline in wagering in Victoria?

The Victorian data paints a suggestive picture of a wagering industry in decline, having been pressured out of the competition for consumers' disposable income by the new and glitzy gambling alternatives available during the past decade; electronic gaming machines and the Crown Casino. While this is a sensible conjecture, we must look to the experience of other States, which have also undergone changes in their gambling environments, to determine whether this conjecture is likely to be true. As we will outline below, the available evidence is persuasive though not definitive.

What needs to be explained? Figure 8 illustrates the movements in each Australian State and Territory in real expenditure per adult on wagering, EGMs and casino gaming. On these graphs wagering expenditure (the left-hand axis) has been magnified four times compared to expenditure on EGMs or casino gaming (right-hand axis) to clarify the smaller changes in wagering over the period (except in the Northern Territory where the sharp rise in wagering recorded in the most recent year precluded the use of these axes). In Victoria, between 1989–90 (before the introduction of EGMs) and 2001–02, real wagering expenditure fell from \$163.64 per adult to \$142.39 per adult amounting to a fall of \$21.24 per adult (in 2001–02 dollars). However, as Figure 8 makes clear, while this fall has occurred in the presence of expanding EGM and casino industries, it continues a decline from the recent peak in the mid-1980s, which was itself lower than the level of expenditure during the mid-1970s.

While New South Wales has had EGMs for half a century, the graph above shows that EGM expenditure per adult declined gradually until the late-1980s, before increasing sharply between the late-1980s and the mid-1990s, pausing briefly, then again increasing sharply during the late-1990s. The graph shows that racing expenditure has followed almost the opposite path, albeit somewhat later than changes in EGM gambling. Wagering was expanding until the late-1980s, before beginning to decline soon after the EGM industry began expanding. However, the rate of decline in wagering has moderated since the mid-1990s.

In Western Australia, the level of wagering expenditure has been trending downwards over time both before and immediately following the introduction of a casino. However, this downward trend has moderated, if anything, since the early-1990s, while casino expenditure peaked in the mid-1990s and has since declined by almost one-half. All of this has been occurring in the absence of EGM gaming.

In Queensland, the level of wagering expenditure has been trending downwards. This trend seems to have accelerated since the mid-1990s, during which time both EGM gaming and casino gaming have expanded, though the latter to a lesser degree than the former.

In South Australia, the level of wagering expenditure has remained broadly steady despite the introduction of a casino and EGMs.

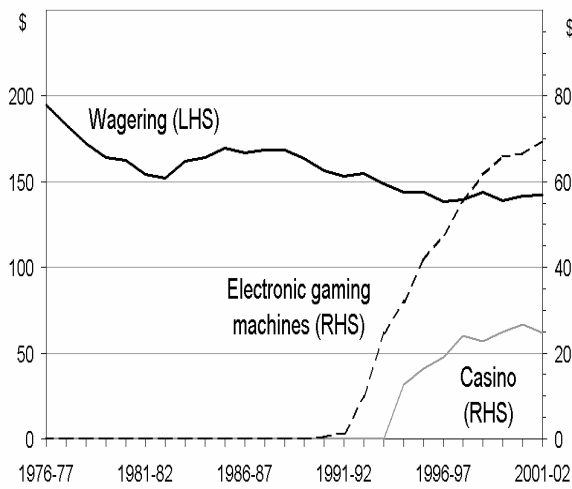
In Tasmania, wagering expenditure has declined sharply since the introduction of EGMs in mid-1990s, but this continued a decline from the recent peak in the early-1990s. It is difficult to observe a relationship between casino gaming, which has been steadily trending upwards, and wagering expenditure.

In the Australian Capital Territory, wagering expenditure declined somewhat during the build-up in casino expenditure during the early-1990s, though both were short-lived. It is difficult to spot a relationship between EGM expenditure, which has been trending upwards, and wagering expenditure over this period.

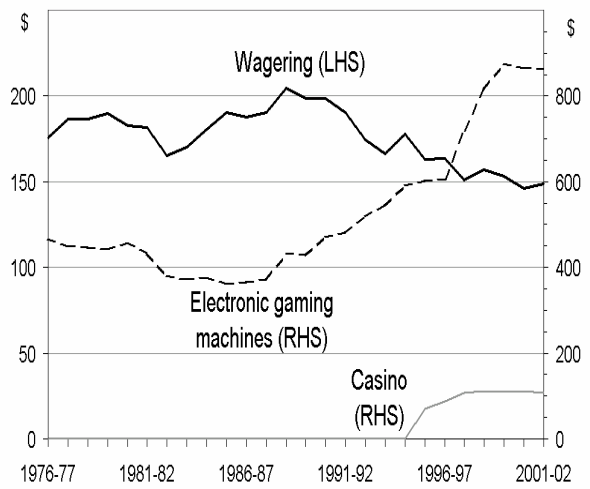
In the Northern Territory, some of the data are quite volatile, and movements in the casino gaming data are particularly difficult to believe. It is worth noting, however, the general upward trend in wagering expenditure, and in particular the very sharp tick-up in the most recent year.

Figure 8: Gambling Expenditure by State or Territory — Casino Gaming, Wagering and EGM Expenditure; Real Expenditure per Adult, 2001–02 \$, 1976–77 to 2001–02

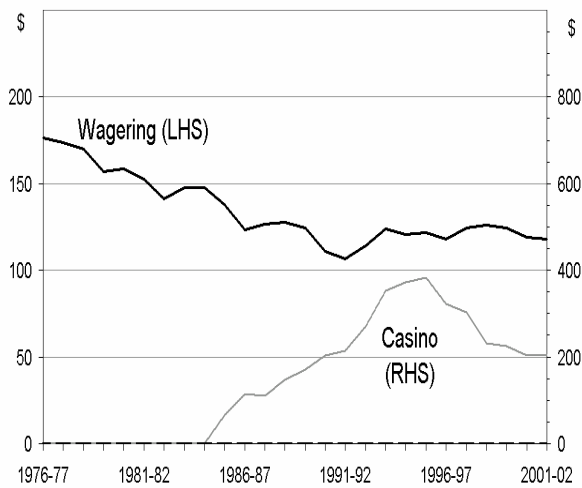
Victoria



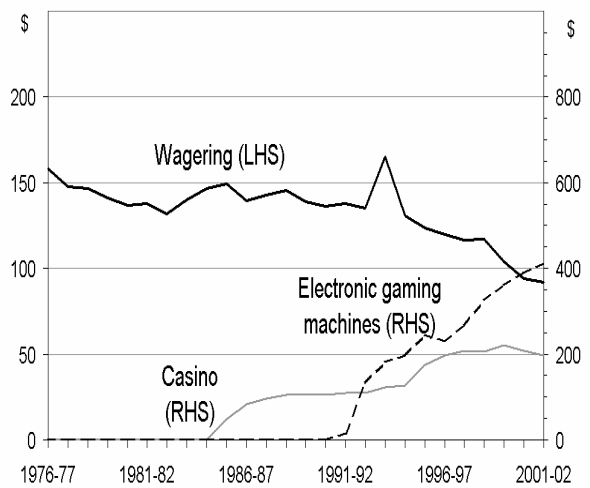
New South Wales



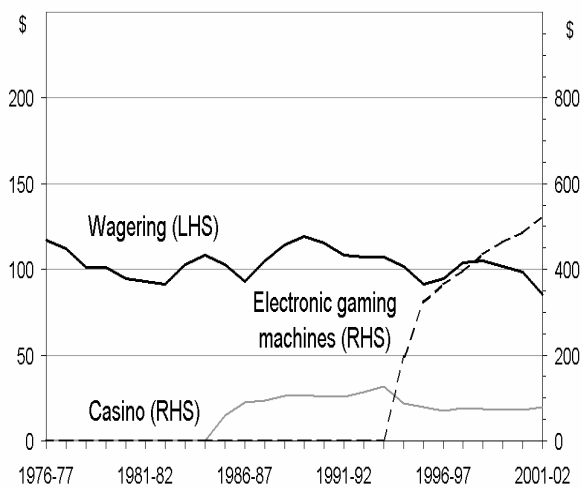
Western Australia



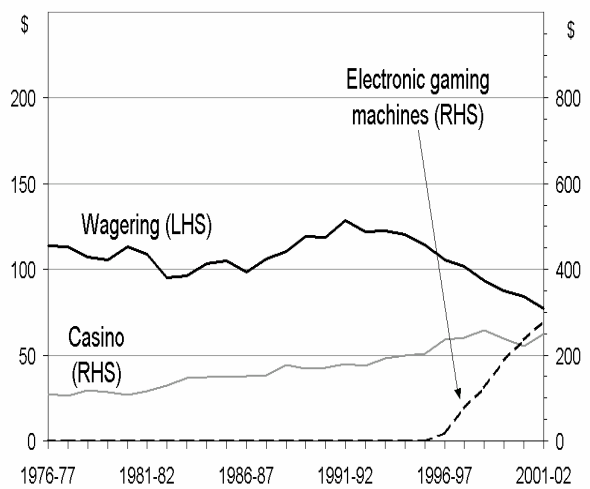
Queensland



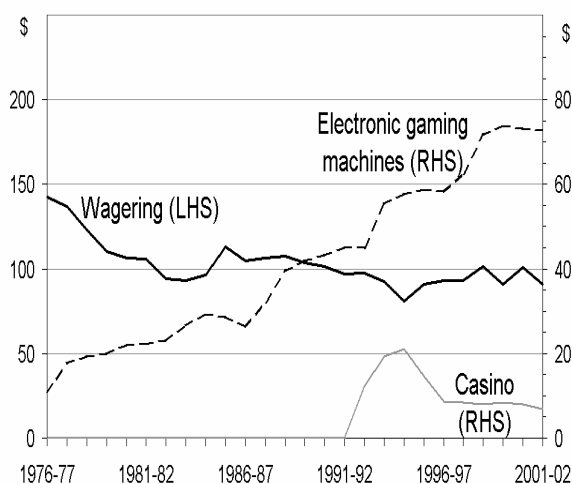
South Australia



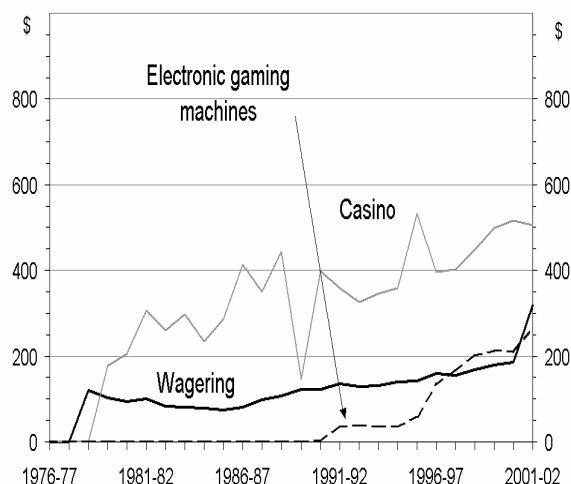
Tasmania



Australian Capital Territory



Northern Territory



Source: Tasmanian Gaming Commission, 2003, Australian Gambling Statistics 1976–77 to 2001–02.

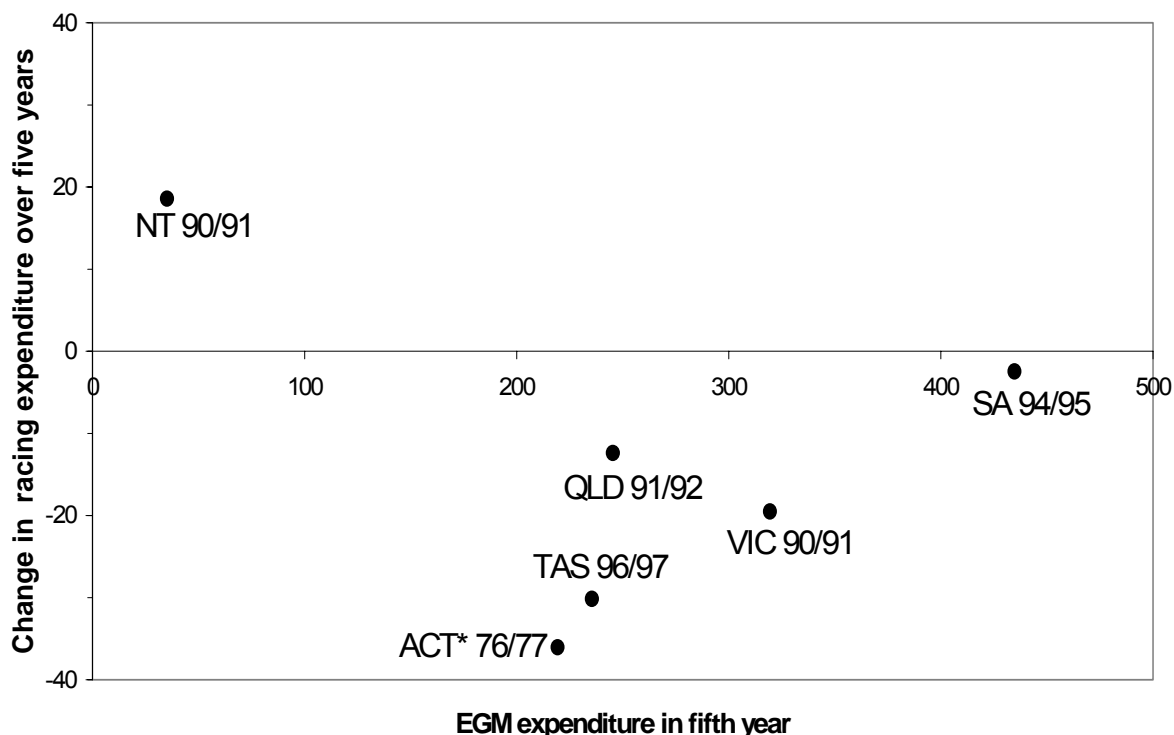
We expect that further insight may be gained by looking at changes in wagering expenditure immediately following the introduction of EGMs or casino gaming into a jurisdiction. It is often during these periods when the expansion in EGM or casino gaming is the most rapid, and by focusing on these periods we might more easily detect resulting movements away from wagering.

The following two figures show the change in wagering expenditure over the five years after the introduction of EGMs in Figure 9 (or casinos in Figure 10), and these are plotted against the level of expenditure on EGMs (or casinos), in the fifth year. We chose to display real expenditure per adult so that the changes in wagering expenditure are not distorted by inflation over the five-year period or growth in the adult population, and are broadly comparable across States. Figure 9 shows that during the first five years following the introduction of EGMs, five out of six States and Territories recorded a fall in real wagering expenditure per adult.

In Victoria, real wagering expenditure per adult fell from \$163.64 in 1989–90 to \$144.14 in 1994–95, a fall of \$19.50 per adult (in terms of 2001–02 dollars). However, the data could be slightly misleading since the level of real expenditure per adult on wagering had been trending downwards anyhow; nationally, real wagering expenditure per adult fell on average by \$1.28 per year, or \$6.41 over an average five-year period, during the past two decades. Hence, the decline in real wagering expenditure in South Australia of \$2.46 per adult in the five years following the introduction of EGMs was in fact a smaller fall than this trend.

The only State to show an increase in wagering expenditure following the introduction of EGMs was the Northern Territory, where real wagering expenditure per capita rose from \$121.44 in 1989–90 to \$140.02 in 1994–95. It appears that the Northern Territory EGM industry took a long time to expand following legalisation; unlike in other jurisdictions, EGM expenditure after five years, at \$35.12 per adult in 2001–02 dollars, was only a small fraction of wagering expenditure. In fact, subsequently expenditure on wagering per adult has tended to increase in the Northern Territory over the past five or six years (reaching \$319.68 per adult by 2001–02). That this has occurred despite an increase in EGM expenditure would at first instance appear to count against our hypothesis that the introduction of EGMs has reduced expenditure on wagering. However, much of the increase in wagering expenditure is due to a sharp increase in wagering with bookmakers, and this is probably mainly due to a number of companies (e.g., Centrebet, Sportingbet) supplying telephone and internet betting services to customers residing outside of the Territory, as discussed above.

Figure 9: Gambling Expenditure Following the Introduction of Electronic Gaming Machines — Wagering and EGMs, Real Expenditure per Adult, 2001–02 \$



* ACT data report the level of EGM expenditure in 1980–81, and the change in wagering expenditure over the four years since 1976–77, reflecting the coverage of the Tasmanian Gaming Commission data.

Source: Tasmanian Gaming Commission, 2003, Australian Gambling Statistics 1976–77 to 2001–02.

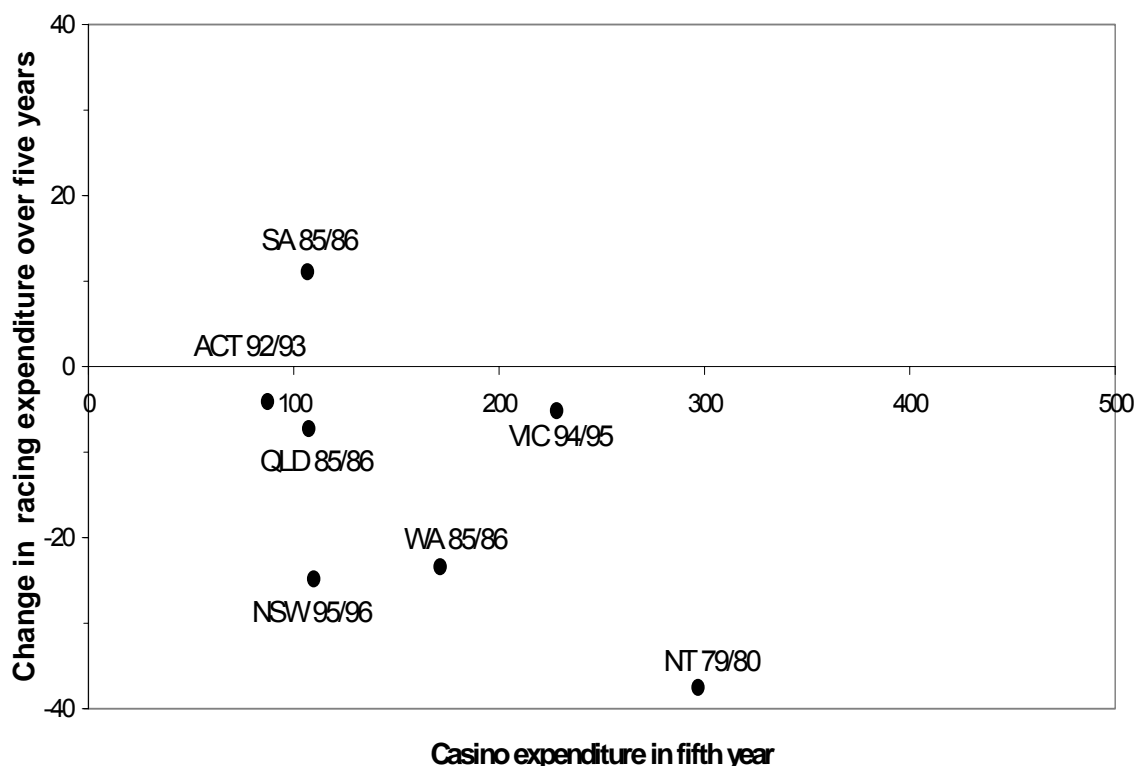
Figure 10 shows that six of the seven jurisdictions that have introduced casinos during the past quarter of a century have subsequently seen a decline in real racing expenditure per adult. In Victoria, real wagering expenditure per adult fell from \$150.48 in 1993–94 to \$141.74 in 2000–01 (albeit at a time when expenditure on EGMs was also increasing very rapidly).

However, the declines in the Australian Capital Territory (-\$4.09), Victoria (-\$5.15) and Queensland (-\$7.27) are around the level of the average national rate of decline over the past two decades. In the Northern Territory, where casino gaming expanded the most rapidly, wagering expenditure per adult fell by nearly one-third from \$119.46 in 1978–79 to \$81.95 in 1983–84 (all in 2001–02 dollars).

The stylised facts that we can take away from these simple analyses are:

- The introduction of EGMs in most jurisdictions has preceded a larger than normal fall in real wagering expenditure. However, it is not immediately clear that greater expenditure on EGMs has accompanied a sharper fall in wagering expenditure;
- The introduction of casinos preceded a larger than normal fall in real wagering expenditure in some jurisdictions. It would appear that greater expenditure on casinos has accompanied sharper falls in wagering expenditure.

Figure 10: Gambling Expenditure Following the Opening of Casinos — Casino Gaming and Wagering; Real Expenditure per Adult, 2001–02 \$



Source: Tasmanian Gaming Commission, 2003, Australian Gambling Statistics 1976–77 to 2001–02.

However, large movements in expenditure on EGMs or casino gaming per adult translate to only small movements in racing expenditure per adult (if any).

To formalise these analyses we applied a Granger-causality test to these data, with the full results reported in Appendix B to this report. This is a form of regression analysis that considers the effects of past changes in the level of gaming machine and casino expenditure per adult on the current growth or decline in wagering expenditure per adult. Where past movements in these variables can explain current changes in wagering expenditure then this is evidence that these changes in the past caused the movements in wagering expenditure per adult. Our analysis tried to eliminate differences in the data due to different consumer preferences in different States, and the change in consumer preferences nationally across the past quarter of a century.

We found some evidence that the changes in EGM expenditure have caused changes in wagering expenditure, and evidence that changes in casino expenditure have caused changes in wagering expenditure. In both cases, the data suggest that these are inverse relationships, by which we mean that rising expenditure on EGMs and casino gaming results in falling expenditure on wagering. Roughly, every additional dollar per adult spent on EGMs is associated with a fall in wagering expenditure of around one cent per adult within three years, and every additional dollar per adult spent on casino gaming is associated with a decline in wagering expenditure of around three cents per adult. Interpreted literally, this would imply that wagering expenditure in Victoria in 2001–02, which was \$142.39 per adult, might have been around \$6 per adult higher in the absence of EGMs and about \$9 per adult higher in the absence of the Crown Casino. In turn, this would imply that the level of wagering expenditure in 2001–02, which was \$526.8 million, might have been \$21 million higher without EGMs in Victoria, and a further \$33 million higher without the Crown Casino. However, we stress that the magnitude and even the direction of these effects is

not convincingly demonstrated by the available data, and given the large degree of uncertainty surrounding these estimates they should be considered 'best guesses' rather than definite figures.

At the start of this section we asked whether the introduction of gaming machines and the Crown Casino have caused the recent decline in wagering expenditure per adult in Victoria. The data available at a State level suggest that the growing popularity of these newly available forms of gambling probably did contribute to the decline in popularity of wagering and that a small amount of wagering expenditure — perhaps in the vicinity of half of the \$21.24 per adult fall in real wagering expenditure per adult since 1989–90 — is now instead being spent on EGMs and casino gaming. While this is a small transfer away from wagering expenditure, due to the difference in magnitude of the industries this represents only a tiny fraction of the current level of expenditure on EGMs in Victoria and at the Crown Casino.

3. Overview of the Racing Industry

3.1 Introduction

The preceding chapter considered the scale of the racing industry in Victoria, trends in wagering in Victoria and Australia and reviewed publicly available data on gambling expenditure in Victoria. The researchers also considered the impact of the introduction of EGMs into hotels and clubs and the establishment of casinos around Australia and their impact on wagering expenditure. The research indicates that wagering in Victoria has continued a path of decline from the level of expenditure in the mid-1970s, and that the introduction of the EGM and casino industries has contributed to a further decline in the popularity of traditional forms of wagering.

The racing industry continues to respond to longer-term trends and more recent changes occurring within the industry. Two important challenges for the industry arise from the development and application of new technology and changing consumer preferences.

In this chapter the researchers report the views of industry stakeholders who were invited to participate in this study and who were interviewed by members of the research team. In Section 3.3 we summarise the views of industry stakeholders and consider developments arising from the review of the *Interactive Gaming Act 2001* by the Commonwealth.

3.2 An Industry Perspective: Summary of Interviews

A study of this type would not be complete without seeking the views of the racing industry. Senior managers from peak bodies representing all facets of racing in Victoria were invited to take part in face-to-face interviews. All who agreed to an interview were asked to sign a statement of consent in accordance with normal ethics requirements, and full anonymity was assured. Of the thirteen organisations contacted, nine accepted, one declined, while one agreed only on the condition that the interview was not taped. One agreed to participate only on the condition that they answer the questions in written form only. All except these two interviews were taped and the tapes subsequently transcribed. Interviews lasted for approximately one hour, and were conducted in a semi-structured way with thirteen people participating. Appendix D and E record those interviewed and the general topic covered. In addition, a second group of interviewers spoke with TABCORP (Vic), government agencies and companies offering internet wagering facilities.⁴² Interviews were held during November and December 2003.

When the project began, the intention was to focus the questions around innovations in wagering, including internet betting, corporate bookmakers, and betting exchanges. The researchers were also interested in other innovations at the retail end of the wagering market, such as the co-location of gaming and wagering facilities. In the week leading up to the start of the interviews, TABCORP (Vic) revealed its intention to bid for TabLimited (NSW), which was ultimately successful and press speculation turned to the possible emergence of a truly national wagering industry dominated by a single, privately owned TAB.

⁴² SA Centre for Economic Studies and Swinburne Institute for Social Research (SIRS), Swinburne University.

Questions were therefore added to ascertain industry views concerning this development and possible outcomes from the Commonwealth's review of the *Interactive Gambling Act 2001*. Questions were structured around three core themes:

- Views and strategic responses concerning the most significant changes facing the racing industry;
- Innovations in wagering; and perceptions about how these changes are affecting both the industry and punters, particularly problem gamblers; and
- Potential issues for government policy.

Responses

Significant changes

All of those interviewed drew attention to the enormous changes that have affected both wagering and racing over the last decade. Without exception those within the industry felt that the wagering and racing industries were much stronger now than ever before and that commercialisation, liberalisation and privatisation had been beneficial. As evidence of this they cited the overall financial strength of the three codes, the success of the TABCORP (Vic) joint venture, and the introduction of various proactive measures to help ensure the social reproduction of the industry into the future, including education and training programs for those interested in working in the industry. The most significant changes identified were:

- Privatisation of the TAB(s);
- The establishment of the Joint Venture Agreement with TABCORP (Vic);
- The rapid spread of EGMs and the resultant high revenues they generated; and
- Liberalisation of the rules governing racing, including the number and timing of races.

Also significant were changes to wagering, including:

- Commercialisation of wagering and the opportunities this offers for new products;
- The growth of off-course betting, and the relative and in some cases absolute decline in on-course betting;
- The emergence of new technologies and their application to wagering, particularly the internet and betting exchanges; and
- The globalisation of wagering.

These changes are neatly captured by the Chairman of Racing Victoria Limited⁴³:

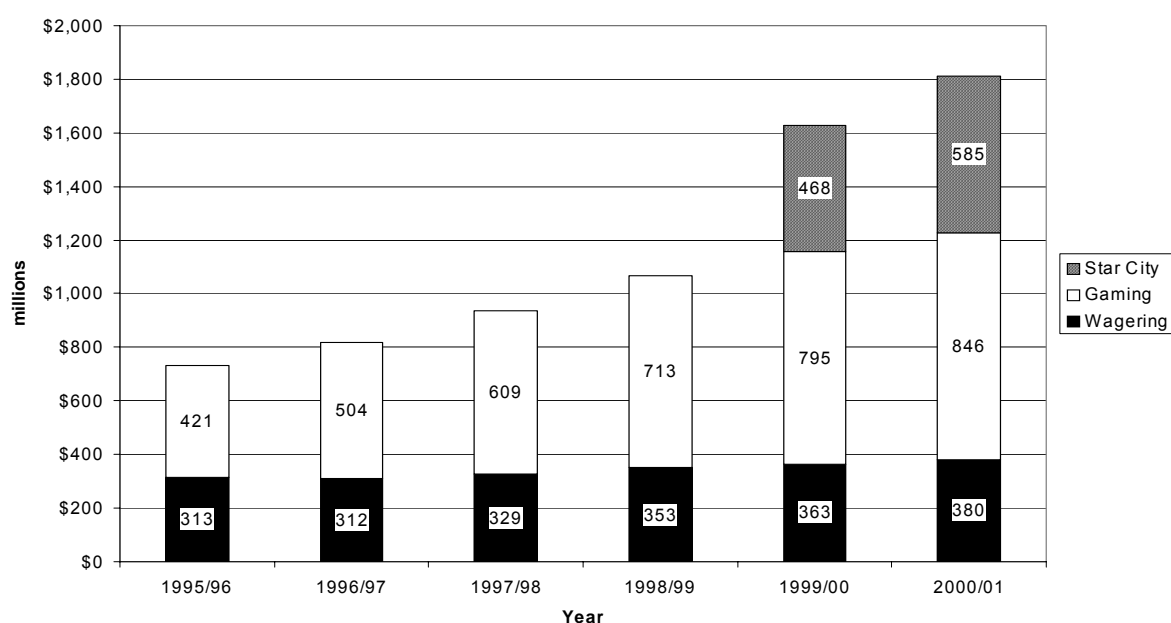
'The wagering market is undergoing rapid change with the entry of new betting exchange operators, the continued growth of corporate bookmaking both locally and overseas, and the progressive commercialisation and amalgamation of Australia TABs. Many wagering operators are exploiting information and communication technology so effectively that it is inevitable that there will be even greater levels of revenue leakage and free riding on the suppliers of the wagering product — the Australian Racing Industry.'

All of these changes have helped to establish a far more dynamic and forward-looking industry, with a strong focus on innovation, both within the racing industry and wagering. There is also a view within the industry that privatisation and liberalisation had created an important power shift,

⁴³ Mr Graham Duff, Racing Victoria Limited, 2002-03 Annual Report, p. 5.

with TABCORP (Vic) becoming more powerful and wagering opportunities expanding largely through the application of new technologies. It was acknowledged that during the late 1990s there was a concern in some quarters that TABCORP (Vic) was more interested in promoting its gaming interests than its wagering division, as reflected in the relative decline in percentage contribution to net revenues made by wagering (Figure 11). Others pointed out that while the changes have certainly made wagering much more dynamic, the Joint Venture Agreement (JVA) between TABCORP (Vic) and the racing industry meant that racing still benefited from improvements in TABCORP (Vic)'s performance irrespective of its source and that the JVA meant that racing had a strong voice at the wagering table.

Figure 11: Operating Revenues by Division, 1995–96 to 2000–01 TABCORP (Vic)



Source: TABCORP (Vic) Annual Reports.

The Joint Venture Agreement (JVA) which runs until 2012 was established as part of the privatisation of the Victorian TAB when it became the publicly listed company TABCORP (Vic). The three codes formed a joint venture with TABCORP (Vic) to operate the wagering and gambling licences that were sold as part of the privatisation process. Each of the three codes enjoys a revenue stream partly based on their share of the wagering market. TABCORP does not make the distribution to individual codes, but instead makes one payment to the Victorian Racing Industry.

The JVA provides for 25 per cent of profit from TABCORP's (Vic) wagering and gaming to the racing industry. Thus, in the annual accounts of TABCORP (Vic) this is treated similar to an 'operating expense' such that they record only 75 per cent of final profit. The distribution paid from the JVA excludes other payments to the racing industry such as product, program and marketing fees.⁴⁴ The final distribution is paid to the racing industry and is then allocated by the industry itself across the three codes. Tables 24 and 25 show the final distribution for 2001–02 and 2002–03.

⁴⁴ See Appendix I for summary of JVA between the Victorian Racing Industry and TABCORP (Vic).

Table 24: TABCORP Distributions to Each Code, 2001–02

	Total income (\$m)	TABCORP Distribution (Per cent)
Harness Racing Victoria	40.6	16.5
Greyhound Racing Victoria	28.1	11.4
Racing Victoria Ltd	176.9	72.0
Total*	245.6	

* This figure reflects the full amount received from TABCORP (Vic) and includes a racing program fee, a product supply fee, a marketing fee and the profit share as per VRL Annual Report (p. 72). It appears that JVA revenue received by the other codes is also split up in this way but is not identified as such in their annual reports.

Source: Annual reports.

Table 25: TABCORP Distributions to Each Code, 2002–03

	Total income (\$m)	TABCORP Distribution (Per cent)
Harness Racing Victoria	40.6	16.7
Greyhound Racing Victoria	28.0	11.5
Racing Victoria Ltd	175.1	71.9
Total*	243.7	

* This figure reflects the full amount received from TABCORP (Vic) and includes a racing program fee, a product supply fee, a marketing fee and the profit share as per VRL Annual Report (p. 72). It appears that JVA revenue received by the other codes is also split up in this way but is not identified as such in their annual reports.

Source: Annual reports.

Table 26: TABCORP Operating Revenues (\$ million) by Division —1995–96 to 2002–03

	Wagering	Gaming	Star City
1995–96	313.0	421.0	
1996–97	312.0	504.0	
1997–98	329.0	609.0	
1998–99	353.0	713.0	
1999–2000	363.0	795.0	468.0
2000–01	380.0	846.0	585.0
2001–02	403.6	917.6	611.9
2002–03	421.3	848.1	631.2

Source: TABCORP Annual Reports.

This has had two important effects. First, it has encouraged each code to be as commercial and wagering-focused as possible in order to increase their revenue share. Greyhound racing in particular has been spectacularly successful in increasing its share of wagering turnover, with a consequent beneficial impact on its revenue stream. Second, the JVA has given the racing industry a strong economic interest in other TABCORP (Vic) activities; the more profitable that TABCORP (Vic) becomes, the more revenue that flows to the racing industry. TABCORP Holdings' successful \$2.3 billion bid for TabLimited (NSW) suggests that the company believes there is scope to improve revenue streams through a much enlarged wagering pool. Ultimately a much larger wagering pool will need to increase returns to punters to compete against bookmakers offering higher returns and who are aggressively utilising the new technologies available to them.

There is one other important economic inter-relationship between the racing industry and TABCORP (Vic). A number of racing clubs operate EGM venues, the profits from which are used to subsidise the club's racing activities. Rapid growth in EGM revenues over the decade to 2002–03 benefited the individual clubs enormously, although in aggregate (as discussed in Section 2) wagering would have been higher in the absence of EGMs. The introduction of smoking bans,⁴⁵ led to a significant and unexpected decline in EGM revenues. Mooney Valley for example ran an operating loss of approximately \$600,000, which was almost solely due to an unforeseen decline in EGM revenues (Mooney Valley 2002–03 Annual Report).

⁴⁵ Smoking bans in gaming areas were introduced on September 1, 2002.

At the time of interview, there was some uncertainty surrounding the merger of the TABs and the role that TABCORP (Vic) might play in the future. All felt without exception that a national TAB would be a beneficial development for the racing and wagering industries. As one participant explained:

'... national consolidation can be expected to generate additional industry revenue though TAB cost savings; higher quality service delivery; improved product innovation and promotion; and a foundation for increased penetration into the global wagering market.'

TABCORP's wagering business now includes New South Wales, Victoria, Tasmania, the ACT and Western Australia. Queensland's UniTAB still controls Queensland, South Australia and the Northern Territory. It is likely that some form of new Joint Venture Agreement will be developed to protect the interests of the racing industries in New South Wales and Victoria; respective State Governments have a role to play if only because of their desire to protect tax revenue streams and possibly to maintain differential State tax rates.

However, at the time of interview the racing industry, and hotels and clubs, were concerned about any takeover, particularly the implications for broadcasting of race meets. Broadcast rights are currently held by Sky Channel, which is owned by TabLimited (NSW). Essentially, the concern centred on TABCORP (Vic) as the owner of Sky Channel, controlling wagering and distribution of racing coverage, thus weakening the negotiating position of ownership of the 'racing product' which resides with the racing clubs/or associations.⁴⁶ Access to content is the key issue; the 'real jockeying' relates to the interaction of digital television, wagering using digital television/technology and broadcast rights. For example, TabLimited (NSW) has launched a two-way interactive betting channel to compete with pay TV Foxtel and Sky Channel's Sky Racing that will be able to accommodate TV betting as digital television is introduced. A particular concern was the tension between the forces unleashed by the commercialisation of wagering on the one hand and the historical and cultural roots of the racing industry on the other. One participant described this tension as being between 'economic rationalism and the social structure of racing'. The CEO of Greyhound Racing Victoria explains it this way:

'...the Board of Greyhound Racing Victoria has had to balance sustainability and financial responsibility, our dynamic environment and maintaining the 'social fabric' or culture that is our industry.'

(Greyhound Racing Victorian 2002/3 Annual Report, p. 4).

Declining attendances are well documented in relation to the greyhounds, harness racing and at country racetrack meetings. However, racing attendances have increased in the last five years as shown in Table 27, while attendance figures for greyhound race meetings declined throughout the 1990s, although they appear to have stabilised over the last few years (see Figure 12). Attendance by persons at dog racing in Victoria were estimated by the ABS at 75,900 and for Australia at 232,000 in 2002,⁴⁷ as shown in Table 5 (p. i). They show a turnaround in attendances in Victoria in 2002 and this direction or trend is consistent with the trend illustrated in Figure 12, which is based on total attendance and gate receipts data supplied by the Victorian greyhound racing industry. Industry estimates of attendances include all persons and repeat attendances. This explains why industry attendance figures (i.e., gate money) are approximately twice the number of persons reported by the ABS who 'have attended a dog racing meeting in that year'. Gate money receipts in this case reflect a slight increase in people attending, but attending on fewer occasions.

⁴⁶ ThoroughVision is the company that holds the rights (the intellectual property or product to sell) on behalf of the Victorian thoroughbred racing industry, the Australian Jockey Club and Sydney Turf Club.

⁴⁷ Australian Bureau of Statistics (2003), *Sporting Attendances, Australia: 2002*.

Victoria's share of race meetings (metropolitan and non-metropolitan) is approximately 21 per cent of all race meetings and for every race meeting in metropolitan areas, there were 3.4 race meetings in non-metropolitan areas in 2000–01. In Victoria and throughout Australia, there continues a trend to close/shut down minor country tracks and race meetings so that non-metropolitan meetings now represent 76 per cent of all meetings down from 81 per cent in 1988.

In Victoria, the non-metropolitan share of all racing attendances has declined from 27 per cent to 24 per cent over the last five years; however, in 2003 attendances increased by almost 10 per cent on the previous year.

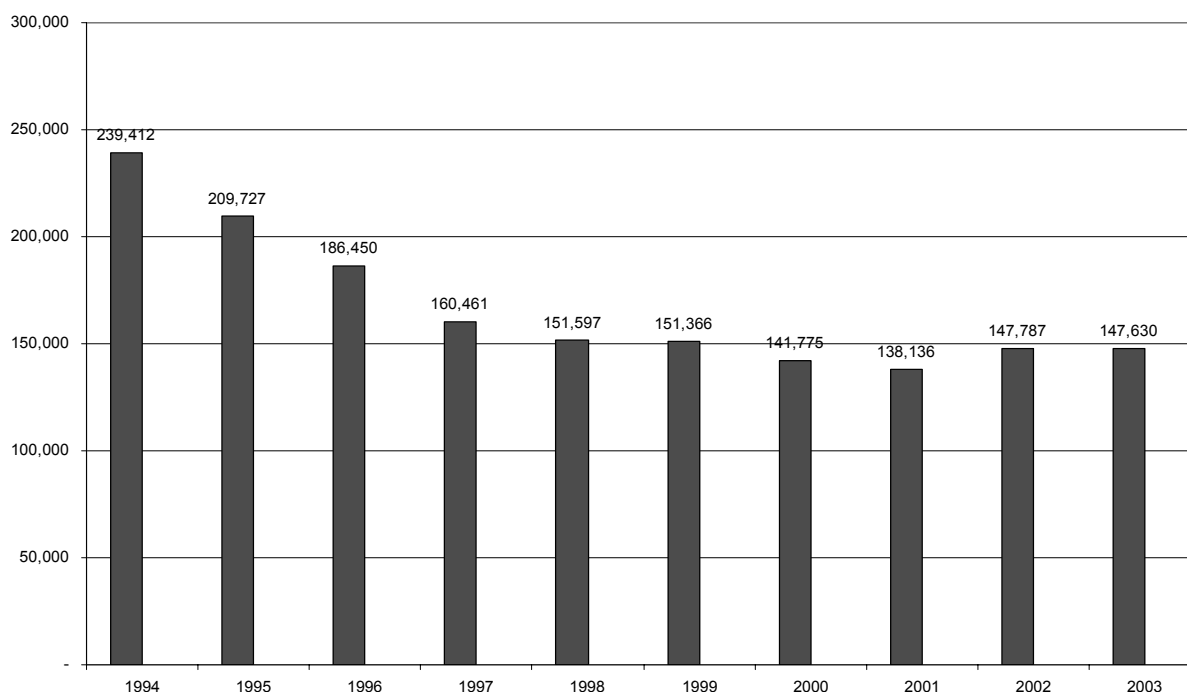
The decline in attendances has had several spin off effects, including loss of gate receipts that go directly to the clubs, the end of on-course bookmaking at particular venues, rationalisation of tracks, training facilities and country track management. For country towns, these trends are particularly challenging, given the significance of race meetings and country racing clubs as important social and cultural institutions. There are usually localised employment impacts associated with a reduction in country race meetings.

Table 27: Racing Attendances, Victoria: 1999–2003

	Metropolitan	Country	Total	Country share (per cent)
1999	435,293	161,361	596,654	27
2000	495,815	135,322	631,137	21
2001	468,242	152,962	621,204	25
2002	495,483	142,664	638,147	22
2003	502,150	156,525	658,675	24

Source: Racing Victoria Ltd.

Figure 12: Greyhound Total Attendances, Victoria: 1994–2003



Source: Unpublished data supplied by Greyhound Racing Victoria. Actual number of attendances includes repeat attendances by all persons.

In summary, interviewees expressed a range of views concerning changes across the racing industry. It is generally acknowledged that the racing industry was doing better than ever financially. However, there were stakeholders within the industry who were disappointed with

declining attendances at some venues and the end of the 'old way' of doing business. Record prize money might be good, but for many people with a longstanding attachment to a particular code it is just as good to have a large crowd to watch the winner home.

Attitudes toward innovation and new technologies of wagering

Generally, racing industry stakeholders were cautiously optimistic about the opportunities made possible by new technologies in wagering. In addition to the internet, the next wave of innovation is likely to centre on digital TV, and the online wagering which this will support, further encouraging the trend toward off-course betting. Although acutely aware of concerns such as the effect on attendances of new forms of off-course betting, participants were of the view that there is a certain inevitability about new technologies being introduced. The racing codes have demonstrated a flexibility and willingness to accommodate new technologies and it is the researchers' assessment that the industry's generally positive experience of the last ten years of rapid change has left them relatively open to further change down the track.

One immediate challenge referred to by those we interviewed in the racing industry was internet-based betting exchanges, a form of 'borderless' wagering in which punters can bet on both winners and losers organised by an intermediary. Two principal concerns were raised by racing industry stakeholders at the time of interview. (See Section 3.3 for discussion on outcome of review of the *Interactive Gambling Act 2001*. Foremost was the possibility that internet-based betting could lead to revenue leakage away from the racing industry by diluting the profits of the TAB (estimated at five per cent over two years) thereby, reduce payments (dividends) from the TAB back to the industry. The industry stated that by not having to pay their share of industry costs,⁴⁸ the betting exchanges could offer better returns to punters, thereby lowering revenues to the TAB and by implication the industry through the joint venture. Most felt that the best way to deal with this was not to prevent these operators from offering betting services. Rather, they would be required to purchase commercial rights to racing content and thereby contribute to the development of the racing industry. At the time of interview at least one UK-based operator, Betfair, had approached State and Territory governments to licence it and had proposed to backdate product fees and to pay taxes to jurisdictions which licence its operations.⁴⁹ On this score, betting exchange operators are endeavouring to satisfy the concerns of the racing codes. The researchers note that betting exchange offer better returns to the punter for a number of reasons, the principal factor being lower cost per dollar wagered using new technology platforms.

The second concern about betting exchanges expressed by those interviewed related to probity. Interviewees argued that the long-term viability of the racing industry in an increasingly globalised racing world depended on it being perceived to be 'squeaky clean'. Offering punters the option of backing losers could expose the industry to organised crime and other forms of unscrupulous behaviour. The argument proceeded that a loser is much easier to effect than a winner, and the opportunities for corruption could increase.

One interviewee acknowledged that it might be possible to set up effective regulator regimes, especially given the high quality systems that are now in place. But they believed reforms would be expensive, and someone would need to pick up the extra cost which the industry could not afford. Others did not believe the setting up of regulatory systems would be that problematic.

⁴⁸ Generally, the situation in Australia is that betting exchanges have traditionally not paid content fees or access rights to intellectual property generated and owned by the racing industry.

⁴⁹ Following the decision on the IGA (2001) Betfair has offered the Australian Racing Board the same percentage of the profit it makes from Australian racing as TABCORP.

The overall view of the industry was summarised by one of the participants this way:

'Betting exchanges — and the capacity to bet on horses losing races — raise an inherent risk to the probity and integrity of racing. The Australian racing industry is following the UK experience closely, where the British Horse Racing Board has recently introduced monitoring systems to detect suspicious betting exchange transactions. (We) acknowledge that betting exchanges are a growing world-wide phenomenon and that realistically it is not possible to prevent companies such as Betfair from offering services on Australian racing. In short, regulation not prohibition is regarded to be the most appropriate path.'

This view has proven to be insightful.

However, the Betting Exchange Taskforce established by the Australasian Racing Ministers reported (July 2003) that no licence be granted in Australia for the conduct of a betting exchange on racing or sport. The taskforce identified two significant issues identified with betting exchanges:

- The enhanced level of risk (both real and perceived) to the integrity of the Australian racing product; and
- The likelihood of substantially diminished commercial returns to the racing industry and all governments.

The integrity issue centres on the ability to 'profit from the knowledge that a particular runner is likely to lose'. This relates to the integrity of the conduct of races — not the betting exchange operator or the punter. In fact, betting exchanges provide the ability to create an audit trail via client accounts, unlike the anonymous cash-based betting with a TAB, the tote or a bookmaker. The Northern Territory was the sole dissenting voice on the Taskforce, perhaps because of their experience with the Alice Springs-based Centrebet and experience in the regulation of internet-based gambling. There is some force in the argument of the betting exchange that 'the punter' could benefit from more options than those currently made available by the TAB operators. However, we consider this debate as outside our terms of reference. At the most recent meeting of Racing Ministers⁵⁰ it was resolved that the 'Australian Racing Board would submit to the Commonwealth Government review of the *Interactive Gambling Act 2001* that there be a complete and total prohibition on the offering of betting exchanges services to Australians'.⁵¹ This position in favour of prohibition, is in contrast to many in the racing industry who felt regulation was more appropriate. This recommendation was designed to prohibit offshore betting exchanges accepting bets from Australians, as well as the on-shore operation of such exchanges. In addition, corporate bookmakers and on-course bookmakers are to be charged a fee of 1.5 per cent of turnover in the form of a national product fee. This measure was designed to establish a national product fee framework (which could apply to betting exchanges if they were to be allowed to operate sometime in the future) and to ensure that interstate corporate bookmakers paid a product fee to the racing industry.

3.3 Interactive Gaming Act 2001 and the States

During the course of this study the Commonwealth was reviewing the *Interactive Gaming Act 2001* and various States, the racing industry and TABs were lobbying to retain the ban on interactive gambling service providers (e.g., Betfair and others). Racing clubs were generally more realistic in that (see Section 3.2) they believed it was 'not possible to prevent companies offering exchange services and that regulation not prohibition was the appropriate path'. Racing Ministers and the

⁵⁰ March 12th, 2004.

⁵¹ *Western Australian*, 16 March 2004, p. 56.

Australian Racing Board, following a review by the Betting Exchange Taskforce sought a prohibition on the offering of betting exchanges, a position supported by TAB operators.

However, the Commonwealth decided that no federal intervention on betting exchanges was warranted. The Minister reported that the review found:

'No compelling evidence to suggest that betting exchanges were likely to contribute to an increase in the level of problem gambling [and] noted the potential for enhanced consumer protection measures to be introduced in an online gambling environment'.⁵²

The decision by the Commonwealth is consistent with the history of the States and Territories implementing their own regulatory regimes, including the granting of licences for interactive wagering and betting. The way is now clear for betting exchanges to negotiate with each jurisdiction for a licence to operate.

The Commonwealth acknowledged that each State has a long history of development of its own unique regulatory regime and that this should continue in regard to betting exchanges. Gambling regulation has always been the responsibility of State and Territory governments. The recent foray by the Commonwealth into gambling regulation was sparked by the use of the internet, whereby online internet wagering services could be offered to Australian residents by international, offshore operators. The *Interactive Gambling Act 2001* was introduced specifically to prohibit the offer of interactive gambling services to Australian residents. However, it excluded the traditional forms of gambling including wagering, sports betting and lotteries. Online internet wagering involves the placing of a wager on an event which is not under the control of the punter (i.e., purchase of a lottery ticket or wager on a horse race), whereas interactive gaming involves the 'player actively interacting and making choices that influence the outcome of an event'. The use of the internet for wagering is regulated by State and Territory legislation, so that individual jurisdictions retain the power to issue interactive gaming licences.

The *Interactive Gaming Act 2001* specifically excludes telephone betting services from the meaning of 'interactive gambling service' and also excludes betting on horse, harness and greyhound races. However, the *Act* does exclude micro-betting or 'in-run' betting after a sporting event has started.

The *Act* specifically 'targets the providers of interactive gambling and not their potential or actual customers'. The *Act* does not prohibit Australian companies from providing access to online gambling facilities into foreign jurisdictions. Given this limitation the *Interactive Gaming Act 2001* cannot be interpreted as a full commercial ban on interactive or online gambling. This reinforces the policy view that prohibitions are unsustainable; ultimately regulation of providers, regulation of the types of bets allowed and audit trails to minimise fraud and provide early warning of illegal activities will need to be implemented (see Section 4.2).

The decision of the Commonwealth potentially challenges the monopoly position of the TAB operators, and of course, the financial relationship they have with the industry through Joint Venture Agreements (JVA).⁵³ Licensing more providers will introduce competition and expand the market. The Victorian Government will need to consider these issues in the context of renewal of the 2012 JVA, including the period of extension, the licensing of additional 'exchange' operators and the tax-take from all forms of wagering.

⁵² Minister for Communications, Information Technology and the Arts, 'No Federal Intervention on Betting Exchanges', 12 July 2004.

⁵³ PBL and Betfair: PBL was seeking to take a half share in Betfair's Australia and New Zealand business, posing a real challenge to the TAB business model for wagering (as at 22 July 2004).

The racing industry, which effectively has had access to a predetermined fixed share of race betting (25 per cent), will be challenged by these developments. At the very least, the Victorian Government will seek to maintain its 'tax-take' paid from turnover; the racing industry will need to provide a much stronger commercial argument for the current level of racing activities (e.g., the number of country races will need to be closely scrutinised).

The researchers' assessment (based on overseas experience where betting exchanges were licensed) is that the wagering market will expand. One of the principal reasons for this is the medium or platform of the internet is more appealing to younger participants (under 40 years of age), while competition will also increase in horse and race wagering and sports betting.

What protections will be offered to those who wager? Credit-based internet gaming provides an audit-trail, the 100 points identification check remains in place as do the restrictions on pay-out until proof of identity is established, while a condition of licence should stipulate official access to betting records. On balance, the principal concern is the offering of new products such as spread betting.

It is our view that the wagering market will be shaped through the types of bets allowed rather than through determining the media by which wagering and gaming opportunities are provided. The National Guidelines for Responsible Wagering Practices provide guidance in this area, but it is likely that regulators will be more involved in considering the 'types of bets allowed' to enforce responsible wagering patterns and behaviours.

3.4 Punters, Problem Gamblers and Target Audiences

Industry stakeholders acknowledge that punters and punting itself had altered dramatically over the last decade. Previous research indicates a long-term decline in the proportion of Victorians participating in horse racing gambling activities, from 19 per cent in 1992 to 17 per cent in 1996 and 14 per cent by 1999.⁵⁴ There has been a similar decline in the proportion of people betting on harness racing, which climbed during the early to mid-1990s to six per cent, then fell to three per cent by the end of the decade. The most recent data, based on a sample of 13,000 respondents, suggests that participation in wagering is sitting at around 16 per cent of the total population of Victorians who are 18 years and over (Roy Morgan Research, 2003). This was comprised of 13 per cent who bet via the TAB, two per cent through a bookmaker and one per cent who use the internet to access the TAB and bookmakers (see Table 3.5).

The proportion of those reporting gambling activity who stated horse racing was their favourite activity was nine per cent; this group were reported as predominantly male, full-time workers, particularly tradespersons and clerks, with a significantly higher proportion of committed heavy gamblers among this group (VCGA 2003, p. 201). This profile is supported by problem gamblers who access Gambler's Help services. Over the period 1997 to 2003 the proportion of all clients stating the principal source of problem gambling was the TAB and/or race meetings was 9.6 per cent of all clients; the profile was overwhelmingly male (88 per cent), employed (64 per cent), in the trades, clerical or production occupations (65 per cent).

Table 28: Wagering Participation in the Last Three Months (2003)

Place a Wager ...	Of Those Wagering (per cent)	Estimated Number of Adult Victorians
With TAB	13.0	483,000
With Bookmaker	2.0	80,000
Through the Internet	1.0	36,000

Source: Roy Morgan Research, Wagering Analysis, 2003.

⁵⁴ Seventh Survey of Community Gambling Patterns and Perceptions, VCGA, p. 203.

Table 29 summarises the 'profile of the horse racing gambler', who has gambled in the last twelve months or who gambles once a month or more. It was further estimated that those with a SOGS score for problematic gambling in the range 5 to 20 (VCGA, 2000) was 0.9 per cent for those gambling in the last twelve months and 2.2 per cent for the regular gambler. Applying these proportions to the number of 'committed heavy gamblers' only,⁵⁵ while excluding controlled but extensive gambling activities in syndicates, the researchers estimate that some 2,500 persons engaged in wagering could be classified as problem gamblers (see Section 5.2).

Table 29: Horse Racing Punters — A Snapshot, 2000

	Horse Racing Gamblers (Last 12 months) 14% of Population Aged 18 Years and Over	Regular Horse Racing Gamblers Once a Month 6% of Population Aged 18 Years and Over
Male	62	82
Female	38	18
Equates to (Persons):	504,200	216,085
Market segment		
Disinterested gambler	11	11
Occasional gambler	33	19
Social gambler	15	9
Acknowledged heavy gambler	4	7
Committed heavy gambler	37	55

Note: Table was incorrectly labelled in VCGA publication.

Source: VCGA, 2000: Table 11.1. Rounding discrepancies in original data.

While EGMs and casino tables are the forms of gambling most prone to problem gambling behaviour, racing on key measures is third, reflecting the large core of punters who are committed, heavy gamblers. The Productivity Commission, for example, found that the proportion of punters scoring 5 or more on a problem gambling scale was 4.46 per cent, only slightly lower than for EGMs at 4.67 per cent (see Table 30). Those scoring 10 or more accounted for about the same proportion (0.74 per cent) as EGMs (0.76 per cent).

In summary, estimates of problem gambling arising from wagering vary from as low as 0.9 per cent of weekly racing gamblers who score 10+ on SOGS to as high as 3.1 per cent. However, each of these estimates does not discount for those who engage in 'corporate wagering' for a living (often in syndicates) who are 'acknowledged or committed heavy' gamblers.

Another perspective on wagering is provided by industry figures supplied by TABCORP. In Table 31, of the total wagering turnover, 71.3 per cent is sourced from off-course TAB agencies and pub-TAB facilities. Telephone and/or internet accounts for 22.5 per cent and is the favoured mode of the 'corporate syndicate', while on-course wagering represents only six per cent of turnover. More interestingly, some five per cent of the total adult population (i.e., approximately 180,000 persons) are regular gamblers, wagering at least once a week, accounting for 78 per cent of wagering turnover. This translates, of only those who wager, to some 15 per cent of wagering customers (again, approximately 180,000 persons) that account for 78 per cent of turnover. A further five per cent of 'occasional gamblers' account for a further 13 per cent of turnover. This profile is very similar to the six per cent of Victorian adults who play EGMs and who account for 57 per cent of EGM losses as reported by Tattersalls⁵⁶: that is to say, a relatively small number of committed players who account for the largest proportion of turnover and net gaming revenue.

⁵⁵ That is 55 per cent of 216,035 times the proportion of population with SOGS of 0.9 and 2.2 per cent provide a range of 1,100 persons up to 2,600 persons.

⁵⁶ 'What Have we Learnt', Corporate Marketing Division, CRM Group, a report prepared for Tattersall's, September 2002.

Table 30: Percentage of Players Who are Problem Gamblers by Favourite Gambling Mode

All players	SOGS 5+ (per cent)	SOGS 10+ (per cent)
EGM players	4.67	0.76
Racing	4.46	0.74
Instant scratch tickets	2.83	0.39
Lotteries	2.75	0.34
Casino table games	6.12	1.06
Other commercial games	5.60	0.92
All commercial gambling	2.55	0.41
Weekly players		
EGM players	22.59	3.77
Racing	14.72	3.10
Instant scratch tickets	5.49	1.32
Lotteries	2.48	0.35
Casino table games	23.84	8.03
Other commercial games	13.31	2.30
All commercial gambling	4.62	0.88

Note: SOGS means South Oaks Gambling Screen and is a measure of problem gambling, defined in terms of agreement with statements indicating a pathological commitment to gambling.

Source: Productivity Commission, 1999, Table 6.15.

Table 31: TABCORP (Vic) Turnover: Financial Year 2002–03

	Turnover (\$ million)	Total Turnover (per cent)
Standalone Betting Shops (No. 105) (TAB Agencies)	810.5	24.5
PubTAB Facilities (No. 460) (In Hotels/Clubs)	1,552.3	46.8
Retail	2,362.8	71.3
Telephone/internet, etc	744.9	22.5
On-Course (At Racetracks)	207.1	6.2
Total Wagering Turnover	3,314.8	100.0

Source: TABCORP (Vic), Victoria.

Table 32: TABCORP (Vic): Customer Profile

	Percentage of Population	Percentage of Turnover
Regular (bet at least 52 days per annum)	5.0	78.0
Occasional (bet between 12–52 days per annum)	5.0	13.0
Infrequent (bet less than 12 days per annum)	24.0	9.0
Non-Wagerers	65.0	0.0
	100.0	100.0

Note: This profile is not split by Retail, Telephone or On-course. Does not add to 100 per cent due to rounding.

Source: TABCORP (Vic), Victoria.

The most significant development in wagering over the last decade has been the shift to off-course betting, made possible by telephone accounts first introduced in the early 1970s, Sky Channel's Sky Racing and Radio Sport 927 (dedicated radio). Sky Racing has made it possible to punt at home or at the pub (since mid 1980's), while watching or listening to the race live, and pub venues have emerged which cater specifically for this activity.

Greyhounds in particular saw this transformation early and capitalised on the opportunities made possible by these developments. A decade ago the greyhounds racing industry decided that their future lay in off-course betting and Sky Racing. On course attendances have declined as a result, and it is difficult now to find an on-course bookie. In 1994 average attendances at a metropolitan greyhound meeting were 832 but have since declined to 176 people in 2002–03. The greyhound wagering market has shifted decisively off-course — in 2002–03, for example, \$430m of the \$445m wagering turnover was off-course. The greyhound market share of off-course betting has

climbed from 8.8 per cent in 1994 to a record 14.6 per cent in 2003, which in turn has ensured the code is doing very well financially thereby enabling prize monies to be increased significantly⁵⁷.

Changes to the times in which greyhound race meetings are held, principally to the 'twilight race meeting' before 4.30pm and 7.30pm has enabled increased coverage of race meetings on Sky Racing. This has resulted in a sustained growth in racing revenue in the period 1999–2003, with TABCORP (Vic) reporting an increase of seven per cent in 2002 (relative to 3.5 per cent from thoroughbreds; five per cent from harness) and 6.7 per cent and 16.5 per cent increase respectively for NSW TAB and UniTAB (Queensland). These recent changes in the fortunes of greyhound racing illustrate the importance of television coverage and the 'convenience wager' conducted in hotels/clubs. Described recently in the *Australian Financial Review*, the 'typical greyhound meet has a race every 15 to 18 minutes, compared with about 40 minutes between horse races'⁵⁸ providing 'instant entertainment or "lotto on legs"'.

Those interviewed were aware of the significance of the big-spending punters who account for a large share of wagering expenditure and who decreasingly attend trackside in order to pursue their business. They work increasingly off-course, exploiting state-of-the-art technology to keep abreast of and analyse in some detail the latest news concerning horses and greyhounds. For these punters, telephone accounts, the internet and Sky Racing are the main tools of trade.

Racing clubs have responded to declining weekly attendances by becoming 'event managers', focused around a high-profile cup or particular meeting. The Spring Racing Carnival is a series of meetings that focus heavily on social racegoers and fashion, with a view to encouraging a new, broader racing audience. Country clubs similarly run their own cup meetings, which have become major annual social events in their country towns attended by a large proportion of the local population. This switch to 'event management' appears to have been successful. Attendances at major events and at country event meetings have shown a small but upward trend.

Over the last three years (2000–03) attendances are approaching the half million mark for the ten major metropolitan events conducted in the October/November racing carnival but total turnover per patron has remained relatively stable. The racing clubs have been successful in marketing these major events but there is no cause to suggest this had any negative impacts on gambling behaviour.

A special effort has been made to maintain attendance levels at country clubs. Harness Racing Victoria did so successfully in 2001–02 courtesy of a well-planned marketing campaign which lifted country cup attendances by 18 per cent. The effort that went into this particular effort is described in HRVs annual report:

'... (this) was the result of an unprecedented state-wide marketing campaign... (with) each Cup meeting promoted extensively through print and electronic media in the weeks leading up to each event. For the first time, HRV also co-ordinated a package of on-course attractions and activities to serve as a focal point at each of the 25 venues. The entertainment package included a Master of Ceremonies, live Sky Channel hosting, big screen coverage, an HRV merchandise stand, Junior Harness Club activities, pony trot races, the virtual reality harness racing experience and Camp Australia for children'

(Harness Racing Victoria 2002 Annual Report, p. 6)

The shift in the nature of on-course punters has in turn presented the industry with new challenges. Unlike the crowds of old, 'the new on-course punter' is likely to be less interested in racing and much less knowledgeable about the sport. Whereas people who used to go to the track

⁵⁷ Data in this paragraph are from the 2002/3 Greyhound Racing Victoria Annual Report.

⁵⁸ *Australian Financial Review*, 'Dogs are on track for hip status', (5th August, 2003).

did so regularly, the new punter is likely to do so irregularly and with a broader social day out in mind than simply following the horses and wagering.

The emergence of the social punter is mirrored by trends at TAB betting shops. The old TAB corner shop attracted a more specialised and a more diverse cross section of punters, according to the racing industry, who knew a lot about racing and horses, but were weighted toward the less affluent. TAB shops have gone upmarket in search of a more affluent market to be found at PubTAB venues. The standalone betting shops have also been extensively renovated. The new punter is likely to be less sophisticated in betting terms, and less likely to be familiar with the finer points of racing. For this group, greyhound racing shown on Sky Racing in which bets can be placed on colours while enjoying a meal or a beer is a particularly attractive option, in part accounting for the success of the greyhounds over the last decade or so.

There are two important observations about the PubTAB structure and the televised coverage of racing. The first is that the 'full PubTAB' is the growing segment of the market, centred on entertainment involving co-location of EGMs with wagering options (approximately one half of the PubTABs have EGMs). The hotel meets the cost of space for wagering facilities and labour costs, but is seeking to provide an entertainment experience including meals, drinks, music, gaming and wagering. The co-location of facilities provides for a different clientele than those who use telephone, internet, on-course or stand alone TAB betting shops. The second observation is that televised race meetings — with a race somewhere every two to three minutes — has the potential to change 'wagering' to 'gaming'.

Without exception, those interviewed were keenly aware of problem gamblers and the need to have in place appropriate safeguards. For example, the adoption of codes of responsible wagering practices was cited as one instance of the industry's proactive response to the issue. All were fully aware that the transformations within racing and in particular wagering were attracting a younger and more technologically savvy consumer group. This group could avail themselves of a larger array of betting techniques and mechanisms than had ever before been available. Nevertheless, participants were keen to draw a distinction between racing and gaming and in particular EGMs. Unlike the latter, racing did not involve the rapid-fire expenditure pattern characteristic of problem gamblers using EGMs. The relative slowness and more purposeful nature of racing and wagering, generally made them less prone to the emergence of problem gamblers. Some expressed concern at the way that a more commercial approach to wagering had led to the emergence of 'products' designed for the less discerning punter and those keen to have spontaneous bets. Digital racing in which computer-generated horses race against each other was pointed to as an example, as was greyhound racing, with its shift toward identification of the dogs by colour rather than number. The greyhound racing industry, however, argues that while their code might have simplified betting and opened it up to regular punters wanting to have a small 'flutter' or 'mystery bet', the risk of problem gambling is very low and this will remain so no matter what the technological innovations simply because of the nature of the activity. It will never be the same as 'button pushing'. It should be pointed out that these views appear to sit uneasily next to the available data on problem gambling, which suggests it to be a bigger issue for racing than the interviewees acknowledged.

In support of industry claims the researchers report that real per capita gambling expenditure for adult Victorians in 2001–02 was:

- Total racing \$142.39;
- Total lotteries, lotto, instant money, pools \$90.32;
- Total casino \$246.26; and

- Gaming machines \$692.63.

When real per capita gambling expenditure is \$142.39 for racing and \$1,030 for total gaming (i.e., 7.2 times that for racing) combined with the element of skill and more purposeful consideration in wagering, then more 'natural protections' could be said to exist in wagering relative to gaming.

It should also be noted that upwards of 85 per cent of those who seek gambling counselling, in environments where EGMs are available, report problems with EGMs. Comparatively, in Western Australia, approximately 50 per cent of problem gambling clients are due to TAB betting; 50 per cent related to the casino.

While some of the interviewees pointed to new technology as potentially a problem, others suggested a more complex picture:

'It is difficult to predict the impact of changes in wagering on problem gamblers. For example, while the trend toward online wagering products creates easier access, it also provides greater capacity to deliver harm minimisation measure such as displaying information about the chances of losing, personal transaction summaries, imposing limitations on losses and offering linkages to counselling services.'

Industry trends and government policy

While all of those interviewed were aware of the effect of globalisation on racing and wagering as well as the likely emergence of a national wagering company, some also pointed to the development of national codes. All codes now have or are close to having, well-maintained national peak bodies that are responsible for advocacy and co-ordination of State-based clubs and associations, as is the case with the bookmakers. Those interviewed saw this trend toward a national racing industry as a logical outcome of the commercialisation trends unleashed a decade ago, and which are increasingly national in flavour. They also without exception saw these developments as beneficial developments.

The shift toward national peaks and representative bodies in racing to match a national wagering market raises important questions about regulation, which remains for the most part State-based. These questions are especially challenging given the degree to which State Governments have become dependent on gambling revenue, a development which some suggest has made it more difficult to regulate the gambling industries as independently as they might otherwise do. The researchers posed the question: would it be better for the regulation of racing and wagering to progressively shift to the federal level in the same way that some are suggesting should happen with the regulation of the electricity industry?

Those interviewed were unanimous in opposing such a suggestion. Their main concern was racing and its associated industries would continue to be State-based, as would most wagering. Protecting local industries and punters would by necessity have to remain a State-based responsibility, who were the best placed to deal with cultural and regional issues which have sensitive local considerations that a national government would not be able to attend to.

Most participants felt on balance that the State Government had done a very good job in overseeing the Victorian racing and wagering industries. Over the last decade the industries have been transformed, and while there were many over that time who were critical of the government policy, history had proven the critics wrong. Industries which for decades had been mired in the past had been modernised. An inflexible regulatory regime had given way to a more liberal policy framework, which in turn had broadened the range of options available to those who would like to have a punt, while simultaneously opening up wagering to a broader market than had previously been the case. The challenge for the future was to continue to balance the economic imperatives with the social structure of racing, and the cultural history on which this is based. State-based regulatory regimes would be best able to meet this challenge into the future.

4. Technology Changes — Operation and Organisation

We have provided an analysis of gaming and wagering trends in Chapter 2 including utilisation of new technologies such as telephone and internet wagering. In Chapter 3 we extended this analysis based on interviews with key stakeholders in the racing industry. A key theme to emerge from the data analysis and the interviews is the enormous changes that have affected wagering and racing, especially over the most recent decade. In some cases attendances had followed a long-term path of decline or only recently plateaued; on-course wagering at the totalisator or with bookmakers continued to decline, TAB facilities have been significantly upgraded and are increasingly co-located with other forms of entertainment as consumer preferences change. New technologies such as the internet and telephone betting are slowly gaining in popularity. Total gambling outlays have increased with the introduction of EGMs and then the Crown Casino.

In this chapter changes within racing and wagering are examined, first through a brief review of literature and then by examining changing technologies and their implications for the future directions in wagering.

Changes in technology including the internet and telephone, the development and expansion of standalone betting shops and PubTAB facilities, the televising of race meetings and changes to the format and timing of races, the introduction of EGMs, the casino, a raft of changes in the format and sophistication of wagering opportunities (i.e., mystery bets, by colour, interstate betting, access to betting exchanges, sports betting etc.), commercial marketing campaigns and changes in consumer preferences all play some part in altering and expanding wagering opportunities.

The following summary points highlight the impact of many of these changes:

- Real per capita racing expenditure in Victoria (2002) was \$142.39;
- Real per capita expenditure on lotteries was \$90.32;
- Real per capita expenditure at the casino \$246.26;
- Real per capita expenditure on gaming machines \$692.64;
- Expenditure on various forms of lotteries represented 83 per cent of gaming expenditure in 1980, but has now declined to 8.7 per cent of gaming expenditure;
- Gaming expenditure on EGMs now represents 67 per cent of total gaming expenditure;
- PubTAB facilities account for 47 per cent of TAB turnover (2002–03);
- The TAB share of racing turnover is 82 per cent (2002) up from 51 per cent in 1981; while bookmaker's share has declined from 38.2 per cent to 12 per cent over the same period; and
- From a very low base in 1994–95, sports betting on a per capita basis has grown by 37.4 per cent,⁵⁹ while in same time total gaming increased by 10.7 per cent and total racing 2.3 per cent.

⁵⁹ CAGR: compound average growth rate.

4.1 Literature Review on Wagering

Racing and Wagering

There have been a number of technological advances in wagering over the years, since the first formal horse race was run in New South Wales in 1810. Initially, legal wagering on racing was limited to on-course betting, although in the first half on the twentieth century there was also quite extensive illegal off-course (SP) wagering. The first significant change in the technology of Australian wagering was the introduction of off-course totalisator betting (TABs) first introduced in Victoria in 1961. Subsequent changes have primarily involved expanding opportunities to place bets with these government regulated TABs. Changes in the 1980s and 1990s included broadcasting of race meetings via dedicated race channels and pay television, opportunities to place bets in hotels and other licensed premises, and telephone betting (AIGR, 1999, pp. 62–67). Currently, emerging technologies for wagering include: internet wagering and mobile phone wagering, with digital television being raised as a further potential channel to place bets.

In racing, there are in effect two wagering or betting systems operating — the totalisator or parimutuel system with equal sharing of the pool less a small operating percentage take (operated through the TAB) and a fixed-odds system with a licensed bookmaker.

Parimutuel refers to the fact that the pool is created by those wagering ('the punters') and the pool of funds, less tax and a management fee, is returned to the punters. In the case of the operations of the TAB there is no risk in the sense they are participants in wagering; they are not putting money at risk, but acting as a central clearing house for the pool (minus 'tax and take'). The TAB shows the win and pay-out pools progressively as betting occurs and there is no formal pay-out dividend until betting stops. The on-course totalisator is an agency of the TAB operating on-course on any race day and paying a fee to the racecourse for being allowed to operate. Licensed on-course bookmakers operate a fixed odds system (in effect, the bookie is a gambler selling money at fixed odds).

'It is important to recognise that the business risks of bookmaking and TAB parimutuel operations are quite different. Unlike bookmaking, the latter does not carry a residual risk on an individual event. Punters effectively bet against each other with the TAB taking out a fixed proportion of wagers to finance operating costs, returns to capital, levies and taxes'.⁶⁰

The racing industry is heavily reliant upon wagering; currently more than seventy per cent of the Racing Industry's total revenue is derived from TAB payments. This is different from other sports, such as cricket, that receive no revenue from wagering (The Australian Racing Board et al, 2003).

TABCORP (Vic) is the licensed totalisator monopoly in Victoria operating a statewide network of more than 650 TABCORP (Vic) outlets. The combination of TABCORP (Vic) retail outlets (and their location), licensed bookmakers and the availability of telephone and internet wagering means that opportunities to wager on race meetings is very accessible to the majority of Victorians. This is also the case in other States.

In response to community concerns about problem gambling a self-exclusion programme has been developed for wagering. In Victoria, problem gamblers can ban themselves from wagering at racetracks, at TAB standalone outlets, and from placing wagers with TABCORP (Vic) through the telephone or internet. However, PubTABS are refusing to participate in the scheme, citing the difficulty in administering it (Warner, 2003).

⁶⁰ Centre for International Economics (2002), 'Efficient Wagering: an analysis of the economic contribution of bookmaking in Australia', p. 2.

Our discussions with the AHA⁶¹ and others indicate the very real and practical difficulties experienced by hotels and clubs in implementing self-exclusion programs for wagering. One major reason for this, unlike participation in EGM gambling, is that it is easy for a potential self-excluded patron to ask a 'mate or colleague to place bet'. This is a very unlikely scenario for participants in EGM gambling.⁶² A second practical difficulty is that a patron is readily able to access a kiosk facility in some venues where there is minimal human interaction. Third, there are multiple entry points to racetracks so that it is relatively easy to enter without being challenged. The current self-exclusion program for wagering could reasonably work in a standalone TAB facility, although again, it is readily able to be bypassed as is the case for the industry self-exclusion program.⁶³ On balance, our assessment of the scheme is that it is practically very difficult to implement and administer and therefore it is extremely difficult to monitor, or evaluate the effectiveness of 'self-banning' schemes.

Emerging Technologies: Internet Wagering

Wagering on the three codes and selected sporting events where bets are received prior to commencement of the event are exempt from regulation under the *Interactive Gambling Act 2001*. This is because online wagering was perceived as an alternative distribution channel for a current product (Australian Racing Board et al, 2003). The Australian Racing Board et al (2003) states that, since 2001, internet wagering has not produced any increase in the rate of growth of wagering. The ARB consider that expenditure switching between the distribution modes has taken place, such that there has been a gradual transfer from phone wagering to internet wagering.

Wagering turnover by gambling form and by State or Territory suggests that there has not been any significant increase in the rate of growth of wagering, but the telephone betting continues to grow strongly. Telephone betting in 2002 accounted for 16.1 per cent of wagering turnover (15.7 per cent in 2000) while internet wagering is approximately 1.1 per cent of all wagering. This would seem to be broadly in line with other changes in telecommunications usage within Australia. The Australian Bookmakers' Association Pty Ltd (2003) suggests that online wagering provides a more informed environment for wagering and 'given wagering is a skill-based form of gambling, is less likely to cause harm than offline wagering' (p. 2).

The 'typical' profile of the internet wagering customer was described by TabLimited (NSW) (2003)⁶⁴ in their submission to Commonwealth's Interactive Gambling Review, as:

- Male (90 per cent);
- Aged 37 years (56 per cent aged between 25–49; 13 per cent 18–24 years);
- Occupation of professional/management/manager;
- Middle income earner (60 per cent earn between \$30–\$70K);
- Gambles once a week (84 per cent; 15 per cent gamble daily);
- Wagers on racing (91 per cent), 86 per cent had bet on sports; and
- 27 per cent had gambled/wagers off-shore via the internet.

⁶¹ Mr Alan Giles, Executive Director, AHA (Vic).

⁶² EGM gamblers, observing the 'gamblers fallacy' seek to protect the machine on which they are playing. The industry acknowledges this even to the extent of providing glass walls to observe the machine while a patron is required to step outside and observe the smoking ban.

⁶³ Refer 'Evaluation of Self-exclusion Programs in Victoria: Part A', prepared for the Victorian Gambling Research Panel, SACES (2003).

⁶⁴ The 'typical' internet customer was drawn from the Australian Centre for Gambling Research: Survey of Internet Wagering Users, September 2002.

In that same submission they concur with the ARB (2003) that 'growth in interactive wagering via the internet has been almost entirely derived from transfers from other wagering distribution channels (i.e., telephone and retail outlet)⁶⁵ To the extent this switching between modes has occurred, it is still relatively small with internet wagering for TAB off-course and with bookmakers, representing \$107.6 million in 2001–02 or 1.1 per cent of thoroughbred wagering turnover. However, this does suggest that convenience factors are an important consideration for the punter. In New South Wales over the period 1999 to 2002 telephone betting on parimutuel racing and sporting events declined by one per cent to 12.9 per cent of all betting in 2002, while the share of internet betting rose from 0.6 per cent to 4.6 per cent in 2002. Total wagering grew by 11 per cent in the same period while telephone and internet betting increased by 34 per cent. The share of sports betting (in New South Wales) via the telephone relative to all telephone betting rose from 2.2 per cent in 1999 to 6.4 per cent in 2002; via the internet, sports betting rose from 8.0 per cent to 14.4 per cent by 2002. In South Australia the share of sports betting is less than one per cent.

Concerns have been expressed about the numbers of young people wagering on sporting events, the exposure to and use of internet online gambling and the use of credit cards (own or parents) to set up accounts for internet gambling sites. In the USA, the National Gambling Impact Study Commission (NGISC, 1999) reported that some 1.1 million young persons 'between the ages of 12 and 18 were considered pathological gamblers'. This equates to approximately four per cent of young people in this age group.

Griffith (2002) reported on the utilisation rate of the internet for gambling in the UK. The UK-based study was a broad prevalence study; participants were interviewed to reveal that approximately one per cent had ever gambled on the internet. However, Griffiths notes that there is a relatively low use of the internet in the UK. Overall, Griffith (2002) concluded that the anonymity of internet gambling and its accessibility had the potential to create social problems⁶⁶ including, *inter alia*, underage gambling, gambling while intoxicated, and credit card fraud.

The most recent data from the National Office for the Information Economy (NOIE) reveals that 75 per cent of adult persons 16 years and over in Australia had access to the internet in the first quarter of 2003 compared to 69 per cent in the UK.⁶⁷ A similar prevalence study conducted in Australia would almost certainly discover a higher utilisation rate. Indeed, NOIE report on their website that of the top content categories for broadband use, online gambling was visited by 15 per cent of all online users.

Griffiths (2002) speculates that the structural characteristics of future software programs 'might promote addictive tendencies'. Structural characteristics (such as design features, the variety of games, levels of interactivity) that alter states of reality may reinforce feelings of anonymity. What is certain is that media-based forms of wagering and gambling through the internet, telephone to internet and enabling computing and digital television technologies will continue to open up new forms of participation in wagering and gambling and increasingly 'constitute the new frontiers of commercialised gambling activity in the immediate and medium term future'.⁶⁸

In a study of internet gambling by adults in Ontario, Canada (Labomiteanu, 2001) internet gambling was the 'least commonly reported form of gambling' at 5.3 per cent of the adult population. Other studies on internet gambling in Canada report less than two per cent of the population has gambled online,⁶⁹ compared to 74 per cent buying a lottery ticket, 22 per cent

⁶⁵ TabLimited (2003), p. 1.

⁶⁶ Social problems as distinct from 'problem gambling behaviours'.

⁶⁷ Access to the internet by Australian households was 54 per cent, in the UK it was 52 per cent.

⁶⁸ Woolley, p. 19.

⁶⁹ See www.ccsa.ca/releases

visiting a casino in the last year and 20 per cent wagering on horse racing. The researchers found that marital status, those previously married (widowed, divorced) people were more likely to report gambling on the internet and that income, education and regional location were not significant variables. Women were also more likely to use the internet. The findings indicate that social factors such as isolation, loneliness and anonymity may be significant factors in online wagering and gambling for some groups.

It is important to note that none of the studies conclude that opportunities for wagering on the internet have given rise to problem gambling behaviours.

Emerging Technologies: Telephone Betting, Mobiles and Wagering

Telephone betting has been in operation since the mid-1960s and has developed through a succession of technological enhancements, from the traditional telephone call to a designated call centre through to telephone-internet links (e.g., Betstream in New South Wales, with annual sales turnover of \$50 million per annum). The internet is now an alternative to telephone betting, providing an alternative distribution channel.

Another technological change in wagering is through the use of mobile telephones. The technology allows people with new mobiles to place a wager via their mobile telephones. The technology is simply that a specific software application converts a website into a format that is able to be viewed on a mobile telephone (i.e., telephone to website). This technology enables 24-hour seven-days betting and, in the words of the promotional package, 'provides fast access to the internet to view odds, check latest results and place all your bets anywhere, anytime'.⁷⁰

The introduction of telephone betting via licensed bookmakers,⁷¹ albeit restricted, has opened up further opportunities to wager. Punters can now bet with a bookmaker on fixed odds, although there are restrictions on minimum bet limits in most States.

Distribution channels for wagering on racing now include:

- On-course bookmakers;
- On-course totalisator (TAB);
- TAB stand alone outlets;
- TAB in hotels and clubs;
- Telephone betting (Vic), PhoneTAB (NSW);
- Telephone to internet (Probet [Vic], BetStream [NSW]); and
- Standalone internet⁷² (NetTAB [Vic], NetTAB [NSW]).

There are a number of protections in place for telephone account betting,⁷³ principally:

- When establishing a 'provisional' account with the TAB or a sports betting agency, the customer must tick a box confirming they are over 18 years of age;
- The customer must use a credit card and can only deposit a set maximum (in South Australia it is \$200);

⁷⁰ SportOdds – mBet – Bet on the net, Anywhere, Anytime.

⁷¹ Agencies such as Centrebet, individual bookmakers.

⁷² Internet may facilitate gambling in off-shore casinos and betting exchanges.

⁷³ Telephone betting systems include the use of touch phones, mobile phones, direct to telephone operators, direct to account systems, and also utilise speech recognition technology.

- The customer has 21 days to go into a TAB agency and satisfy the 100-point check face-to-face with one of the operators;
- Until 100-point check is completed the account remains 'restricted';
- If 100-point check is not completed within 21 days the account is frozen. That is, no betting at all permitted; and
- If 100-point check is not completed with 90 days, account is closed and any balance is forwarded to Government revenue.

Licensed bookmakers also use telephone betting accounts, usually but not always, created with funds deposited into an account. It is possible for bookmakers to offer credit accounts to punters, specifically individuals known to them. However, increasingly it appears to be the norm that funds are lodged to an account.

The requirements involved in opening an account, include *inter alia*, proof of identity and the lodging of funds into an account. These requirements impose some checks and balances on wagering unlike the situation faced by problem gamblers who use EGMs.⁷⁴ A review of the internet sites for Centrebet and SportOdds reveals that it would be possible for those aged 18 years or under to open an account provided they satisfied other criteria. However, the researchers' discussions with Centrebet confirm that there are strict checks to verify an individual is over 18 years of age. There is no pay-out of winnings unless the 100 point proof of identity is able to be satisfied and those opening accounts are informed of this via letter. An example of telephone-based wagering on sports is through SportOdds which has a license to operate in the Australian Capital Territory. People must be members of SportOdds, have a wagering account and subscribe to the mobile service. Mobile wagering is covered by the same legislation as internet wagering (Lowe, 2003 p. 3).

Sports betting appears to be particularly attractive to the adolescent, particularly young males who express confidence in their knowledge of sporting events and heroes to predict the outcome. Prevalence studies conducted overseas point to familiarity with the internet, mobile telephone and exposure to gambling and wagering at an age when vulnerability is high. Overseas, a number of researchers claim that gambling and wagering 'remain popular activities among both children and adolescents' and that the popularity of all gambling is on the rise. (The same might be said for adults!) 'Large scale prevalence studies and reviews all confirm the high prevalence rates of youth gambling. In particular, it is estimated that between four and eight per cent of adolescents presently exhibit a serious gambling problem with another 10 to 14 per cent of adolescents at risk for developing or returning to a serious gambling problem' (Derevensky, 2000).

However, relatively little is known in Australia about the extent of participation in all forms of gambling by young people, nor the risk factors that may lead to problem gambling.⁷⁵ Up until very recently, while an extensive range of studies point to higher prevalence rates for young people in the 18–30 age group and the risk of lifetime gambling problems developed from early exposure to gambling, relatively few studies in Australia have addressed the gambling behaviours of young people. This is surprising. Thus, very little is known about the pattern of experimentation with gambling and, like other forms of youth experimentation whether this declines with maturity.

⁷⁴ Some casinos provide facilities to limit the amount gambled but the restriction and time lapse in regard to changing limits are relatively loose.

⁷⁵ We understand the Commonwealth Department of Family and Community Services is considering research in this area.

Vitaro (2001) analysed the possible mutual influence of gambling, delinquency and drug use during adolescents and concluded that the 'findings contradict previous findings about the influence of gambling on other problem behaviours and support the notion of a 'general problem behaviour syndrome' fed by generic risk factors'.⁷⁶ That is to say, gambling, anti-social behaviours, drug and alcohol use have concurrent links in various stages of adolescents but gambling does not influence delinquency or drug use.

A recent study of South Australian high school students (Delfabbro et al, 2003) sampled surveyed year 10, 11 and 12 students. Interestingly in this study, the authors stated that 'most adolescents did not experience gambling related problems. Problem gambling was classified as a score of 4 or higher on the DSM-IV-J. Based on this classification, 3.5 per cent of participants could be categorised as problem gamblers.'⁷⁷ This is consistent with the lower end of rates for youth problem gambling reported in the North America, Canada and the UK that are reported to range from 3.5 per cent up to eight per cent.

Moore and Ohtsuka (1997) examined problem gambling prevalence among young people aged between 14 and 25 years. Participants were volunteers from Years 10, 11 and 12 of six secondary schools and first year undergraduates from four geographically separate campuses of a university in Melbourne. The university and the schools were all situated in the western suburbs of Melbourne, a predominantly working class area. Usable responses were obtained from 757 participants in the school sample and 250 participants in the university sample. A modified version of the SOGS was used, with changes made for Australian idiom and the age of the population. The major change was that a five-point Likert scale was applied to the problem gambling statements to maintain consistency in response requirements across the questionnaire. Moore and Ohtsuka (1997) found three per cent of the young people surveyed classified themselves as problem gamblers, lower than expected given previous research.

Emerging Technologies: Digital Television

Digital interactive television is another method of wagering that is already being promoted. It is available in the United Kingdom and in New Zealand. Publishing and Broadcasting Limited (2003) states that current legislation that places restrictions on the types of gambling services that may be provided could limit the growth of digital television in Australia. The *Interactive Gambling Act* currently prohibits in-play wagers. This allows consumers to place a wager during the course of a game such as the team to lead at the end of a specified time period. While telephone betting is covered by State and Territory legislation it is likely that federal legislation will be required in regard to digital television and wagering (i.e., should in-play wagering be permitted, specific legislation for racing relative to forms of sports betting, etc.).

We note, that in Australia there is potential for further convergence of commercial interests in sports broadcasting, wagering and gambling. The most active participant in the broadcasting, entertainment, leisure and gaming sector is Kerry Packer's Publishing and Broadcasting Limited, that holds interests in casinos (gaming and wagering), sports broadcasting, print and television and is now seeking to take a half share in Betfair. TABCORP (Vic) also holds interests in racing broadcasting, casinos, gaming and wagering. Digital television will provide a further platform for wagering and sports betting similar to the internet and mobile phone.

⁷⁶ Vitaro, et al, p. 172.

⁷⁷ Delfabbro, P., et al (2003), 'The social determinants of youth gambling in South Australian adolescents', *Journal of Adolescents*, Vol. 26. p. 323.

Potential Threats to Existing Wagering

There appear to be two major threats to the wagering industry arising from technological change. These are betting exchanges and off-shore wagering and each of these is examined below.

Betting Exchanges and Sports Betting

Betting exchanges represent an emerging threat to the existing form of wagering. Betting exchanges match bets between individuals. The exchange allows individuals to set their own odds, bets are placed on the exchange by users who either wish to place a bet in the normal way (betting on a win outcome), or offer odds to other users (termed 'laying'). The exchange matches users with opposing views on the outcome of an event and is indifferent to the outcome of the event. Layers must have their maximum exposure deposited in their exchange account. The betting exchange takes commission of 2–5 per cent on net wins. A new product offered by these groups is the option of 'betting to lose'. This aspect of a betting exchange is strongly opposed by the racing industry in particular, arguing that this threatens the integrity of the racing industry and is open to abuse (see earlier discussion, Sections 3.2 and 3.3). Existing wagering outlets such as the TAB network and bookmakers have also opposed the entry of betting exchanges into Australia.

However, Australia will soon have licensed betting exchanges. The UK-based Betfair has been operating on Australian racing since February 2003. Betfair is now approaching State and Territory governments to license it following the recent decision by the Commonwealth. It has proposed to backdate product fees to the Australian Racing Board and to start paying taxes to the State Government that licenses it (Matterson, 2003, p. 33).

One concern with this new form of wagering is that it enables people to wager on a losing outcome. The Australian Racing Board *et al* (2003) claims that the ability to lay bets and profit by a horse losing could potentially undermine the integrity of the industry, as people in the industry could be tempted to ensure that a horse loses.

The Betting Exchange Task Force (2003) reports that a decrease in the perceived integrity of the racing industry would have an adverse effect on all forms of wagering. This may be so, although the Betting Exchange Task Force did not provide any evidence to support that this has systematically occurred in the UK as a result of the entry of betting exchanges.

The UK has a regulatory framework in place that addresses these issues of concern by having prohibitions on the laying of bets on horses by licensed persons and they have access to all transaction records. The researchers' assessment is that what is more likely is that the sophisticated punter using the internet will seek out a betting exchange because of the favourable odds they offer relative to current providers. In addition, because of the audit trail involved in credit account wagering there are more opportunities to trace or uncover 'cases of insider trading'. The UK experience provides some evidence of this.

The professional punter refers to sports betting as an 'impulse item' where the margins are smaller but the risks are generally lower. However, all persons the researchers interviewed agreed that sports betting had 'very significant growth potential'.

The 'growth potential of sports betting' arises from the fact that it is a relatively new form of wagering, it is readily able to 'go international to all sporting forms' via television and the internet, and most importantly, it provides for new wagering products such as wagering on the final result, the margin, in-play betting ('who will take the next wicket?') and events within a game such as who kicks the most goals, team leading at half time, etc.

Spread betting, which derives from stockmarket betting on the movement of an independent index like the All Ordinaries or the Dow Jones Index, is another new product in sports betting (see Appendix H) which is highly volatile and a high-risk form of wagering.

SportOdds, an internet sports betting firm, enables sports betting through new mobile telephones and the internet. The important implications of the use of this technology are twofold; they provide 24-hour seven-days access to wagering and they may encourage or facilitate impulse betting. In comparison, the use of the internet by bookmakers is restricted usually to a narrow band of hours before and at the close of a race meeting. It is generally between the hours of 10.00am and 5.00pm on a Saturday.

Centrebet, a licensed bookmaker operating out of Alice Springs offering 24-hour seven-days betting,⁷⁸ was set up some twelve years ago to provide online betting on racing. After expanding into sports betting in 1996 it was recently sold off and the former owner established CentreRacing. Such agencies operate like a licensed bookmaker; they put money at risk and thus operate differently to betting exchanges.

Off-Shore Wagering

The second major threat to the local wagering industry is off-shore wagering (i.e., a globalised form of cross-border wagering). Currently, internet wagering is offered by off-shore companies and is also exempted by legislation. The Australian Bookmaker's Association claims that Australians are being aggressively targeted by off-shore operations. They believe that licensed Australian operators are at a competitive disadvantage as they are complying with Australian legislative and regulatory frameworks. Another concern with off-shore wagering is they do not pay any product fee or access fee to the racing industry. TABCORP (Vic) (2003) cites several concerns with off-shore wagering including: inappropriate event coverage (for example, Iraq war), non-adherence to Australian harm minimisation/social standards, non-payment of winnings, credit card fraud and betting scams involving insider activities.

Internationally, a growing number of countries have enacted legislation designed to establish the offence of betting with an offshore wagering operator or offering wagering services to residents of the country from an overseas base (Australasian Racing Ministers' Conference, 2003).

Wagering and Crime

A question put to the researchers was how might the regulatory system be required to respond to illegal or fraudulent activity, including the operation of accounts under false names. This concern arose from two very large gambling-related cases of alleged fraud (by a bank manager in Western Australia and an accountant in South Australia).⁷⁹

In the South Australian case, the employer claimed that Sportingbet did not act diligently in confirming the source of the funds and approval to wager with the funds. The Supreme Court of South Australia agreed with the employer and ordered Sportingbet to repay \$2.7 million.⁸⁰ Sportingbet is appealing the decision. Notwithstanding, both cases suggest that by allow the alleged frauds to occur in the first instance the internal accounting and monitory systems of the respective businesses were insufficient.

⁷⁸ Annual turnover in 2001/02 was \$400 million.

⁷⁹ There has been other cases involving significant sums of money stolen from banks, large and small businesses.

⁸⁰ The employee was charged with stealing more than \$A22 million for gambling and to fund an extravagant lifestyle. The \$2.7 million was in fact an amount sitting unused in the account of the alleged fraudster.

Industry regulators, the stewards in racing, the police and state corruption and integrity commissions all have a role to play. However, ultimately the authorities for anti-money laundering (Austrac, Australian Federal Police, ATO, ASIC) are charged with overseeing compliance with the *Financial Transactions Reports Act 1988*. Under the *Act*, all cash dealers including casinos, gambling houses and totalisators are required to report suspicious transactions, cash transactions of \$A10,000 or more, or the foreign currency equivalent and international funds transfer details.

The *Act* also requires cash dealers to 'verify the identity of persons who are signatories to accounts' and prohibits accounts using false names. (See Appendix J for description of current practices and protection of minors adhered to by TABCORP).

While it is not a crime for a third party to purchase a winning TAB ticket from a ticket-holder, this practice has recently been highlighted as one method of money laundering.⁸¹

Credit-based transactions provide an audit trail and the increasing use of platforms such as the mobile phone, the internet and interactive television will provide audit trails that can be verified. Cash-based transactions above a certain limit are the responsibility of Austrac to investigate if it determines the transaction warrants investigation. Wagering operators as a condition of licence, should be required to maintain audit trails and for those to be scrutinised by an authorised regulator. Consideration may need to be given to instructions provided to operators to report activity in accounts of which they are suspicious.

One form of protection for those experiencing problems in controlling their wagering is by credits accounts offered by wagering operators that have a 'pre-determined facility' which is a maximum credit limit available in the account. This is similar to the facility that several online casinos and other casinos currently offer. Pre-determined limits have been suggested for EGM gamblers.

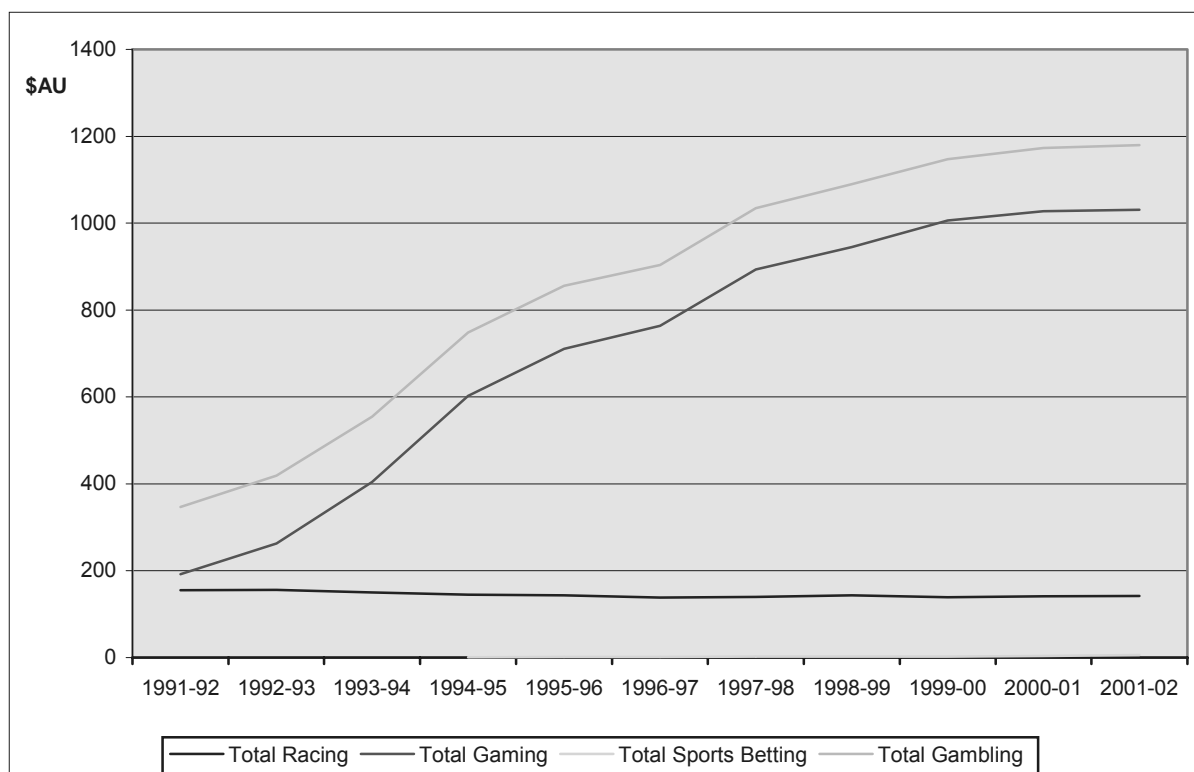
4.2 Future Directions in Wagering

Wagering business in Australia has faced relatively difficult circumstances since the liberalisation of the gambling market commenced in the 1970s, with the advent of casino development as a panacea to flagging regional economies (Tasmania and the Northern Territory). Gambling industries moved into a full cycle of commercialisation in the 1990s, as New South Wales and Victoria established the two largest casinos in the country. Poker machines, which had been present in NSW Registered Clubs since 1956, were introduced to hotels and clubs across the country with the exception of Western Australia.⁸² The subsequent growth in expenditure on gambling and of State and Territory governments' secondary taxation returns from gambling activity has been remarkable.

As has been well documented, wagering has struggled to maintain market share in the midst of this overall expansion in gambling. Victoria has exemplified this trend, with gambling expenditure growing rapidly following the establishment of Crown Casino and the introduction of 27,500 poker machines to clubs and hotels throughout the State. Figure 13 illustrates real per capita gambling expenditure in Victoria.

⁸¹ 'Tab Tickets used to launder cash', *The Australian*, 7/7/04, p. 6.

⁸² There are no EGMs in ACT hotels.

Figure 13: Real Per Capita Gambling Expenditure, Victoria 1991–92 to 2001–02

Source: TGC 2003, Australian Gambling Statistics, Table 20.

Figure 13 highlights the rapidly expanding gambling market in Victoria. This market has grown rapidly of the past decade, driven by the commercialisation of gaming. There has been a decline in real per capita wagering expenditure, both in real dollar terms and also as a proportion of the gambling market. This decline may be in part due to increased competition for the gambling dollar (see discussion in Section 2.4), though it is also a longer-running trend likely to be indicative of changed social preferences and opportunities for leisure activity. Wagering, and the racing industry which has traditionally been reliant on betting revenues, has thus not benefited directly from the commercialisation of gaming that has driven the expansion of the gambling market. However, in Victoria racing has benefited indirectly through the arrogation of a percentage of TABCORP (Vic)-owned gaming machine revenues to support the industry.

In summary, although wagering remains big business in Australia with \$1,884 billion total expenditure on betting on races in 2001–02, the key concerns of the wagering sector remain. These include perceptions of an aging ‘traditional’ client base utilising primarily off-course totalisator outlets (agencies, hotels and clubs), and a failure to attract younger customers to wagering. Increased competition, in the form of betting exchanges and sports betting opportunities available online, threatens to both eat into these traditional domestic ‘terrestrial’ client bases, and to capture younger gamblers who are prepared to ‘shop around’ in the online gambling marketplace. This may be particularly relevant in relation to the burgeoning sports betting market, likely to be the next rapid growth sector of the Australian gambling market.

The future growth of the wagering industry can thus be understood as structured by its ability to deliver both existing and new products in a manner that is most attractive to an expanded client base. The intersection of the development of the wagering client base with an enabling technological platform, including a wide range of digital media such as phones, computers and interactive television, is likely to define future wagering business. It is through this process that new and/or transformed wagering products and spaces for their consumption will be produced.

Betting on racing is likely to continue as the 'mature' stream of wagering business. However, wagering products will continue to be modified and new products introduced, in many cases these could be described as 'marginal' wagering products at best, due to a continuing convergence of wagering and gaming products. Modifications to existing race wagering streamline their commodification, eliminating perceived barriers to participation of less 'knowledgeable' clientele. An example of this is the delivery of trifecta and box trifecta race-wagering products. TAB Limited (NSW) for example, modified the format of trifecta betting slips, eliminating the confusion whereby one 'share' or unit of a trifecta pool cost \$6, by including boxes prompting the client with the question 'how much do you want to bet?'. This allows trifecta bets to be understood immediately in terms of outlay not the cost of one share of the pool (\$6). Betting slips then specify that a \$1 stake, for example, entitles a winner to 0.16 of one share of the pool.⁸³

New wagering products increasingly blur the distinction between gaming and wagering forms. An example of this trend is the TAB Limited product 'Spinner'. Modelled on the coin-tossing game 'two-up', the punter chooses whether the first two place-getters in a horse or greyhound race will be carrying two even numbers ('evens'), two odd numbers ('odds') or a combination of one even number and one odd number ('mixed'). 'Spinner' could be argued to involve some element of the traditional punters' skill in selecting winners, that is, the choosing the first two place-getters (a traditional 'quinella' bet). However, it is the 'Mystery Spinner' bet that is the key to understanding this and other such product 'innovations'. The Mystery Spinner is quite simply a random number generator (RNG) selection of one of the three possible combinations of odds and evens. This reduces the activity of betting to a 'one-click' action, the wagering equivalent of a lottery 'quick pick' or a 'spin' of a poker machine. In short, what a 'Mystery Spinner' and other like wagering products represent is the convergence of wagering and gaming products, facilitated by the technological platform of computer random number generation. This raises important questions about the appropriateness of the differential regulatory regimes governing gaming and wagering in Australian States and Territories.

The convergence of wagering products with gaming products transforms the commodification of wagering. A number of processes are involved in this transformation. First, random number generation is wholly cybernetic; that is, the 'choices' that constitute the actual bet are due entirely to a computerised process. As in the case of the 'Mystery Spinner' bet, this allows the simplification of the offer and acceptance of the wagering product and its final detachment from the act of gambling as, in effect, the consumer merely selects the form of wagering product to be purchased and not the outcome of the independent third event upon which the wager is made.

Secondly, a new technological platform for delivering many of these recreational gambling opportunities has emerged, embodied in the computerised network society. The recent decades have seen what has been described as 'a new technological paradigm, centred around micro-electronics-based, information/communication technologies', which alter 'relationships of production/consumption, power, and experience, ultimately leading to a transformation of culture'.⁸⁴ This information technology innovation has significantly altered the gambling industry landscape in the 1990s and will continue to do so in the future. The technical developments surrounding digitalisation now facilitate, in the gambling sphere, the electronic surveillance of gambling, the

⁸³ Despite the ease of calculating a one-sixth share of a betting pool accurately in the computer age, calculating one-sixth as 0.16 then provides the basis for calculating one-third as 0.32 and so on. This continues the traditional TAB practice of 'rounding down', which in the calculation of winnings is to the nearest 10 cents below (for example in New South Wales a dividend of \$1.89 is paid out as \$1.80. In Victoria the rounding down is the nearest five cents, i.e., to \$1.85). This system, whereby by punters are short-changed at least once or sometimes twice on each bet, arbitrarily redistributes legitimate wins and losses in favour of the totalisator operator.

⁸⁴ Castells, M., (2000), p. 11.

linking of jackpots, real-time gaming and wagering and continuous play⁸⁵ — effectively reshaping the gambling industry. Developments of streamlined ‘one-click’ wagering products are thus technically relatively easily integrated into other commercial services offered through these networks, for example live coverage of any racing or other sporting event taking place within the range of global networks.

Thirdly, the provision of wagering products tailored to a global smorgasbord of live racing and sporting events can be disseminated to a diverse range of platforms for accessing or ‘logging in’ to digital networks. In such a way gambling as a commodity becomes thoroughly integrated into the predominant future media of communication and financial transactability — online computerised networks — which many other commercial commodity forms, music for example, have not yet adequately achieved.⁸⁶ It can be forecast from a contemporary standpoint that there are likely to be three key sites for accessing new frontier wagering products: the home; mobile devices; and leisure/gambling venues.

The integration of live sports and racing telecasts, commercial gambling products and interactive television capabilities is likely to underpin growth in recreational racing and sports betting expenditures from the home. Access to these wagering opportunities (and casino gaming) through the personal computer in the study or back bedroom will be superseded by large high-definition screens, providing a quality interactive interface in the living room. In other words, as home networking capabilities become more sophisticated and more thoroughly integrated the same platform will facilitate live sports and race watching and interactive online betting, and the 24-hour availability of repetitive lottery or Keno products. Already in the UK a personalised and continuous bingo game for interactive television has been attracting significant participation.⁸⁷ Submissions to the review of the Commonwealth’s *Interactive Gambling Act 2001* have lobbied for increased freedom to offer online ‘in the run’ betting on sports events. Such betting opportunities are viewed as both crucial to the viability of interactive television services available through subscriber or ‘pay’ television channels and as a driver for the uptake of such services (PBL, 2003). In the far more developed UK market, interactive bets with Sky television’s gambling service provider Sky Bet totalled 6.5 million in 2001. The most popular product was in-the-run betting on the English Premier League (EPL), with 40 per cent of total of in-the-run bets reportedly being made by subscribers whilst watching live EPL matches.⁸⁸ The future ‘colonising’ of the home environment, as a node of digital leisure and entertainment networks, will thus dramatically transform wagering markets.⁸⁹

Mobile devices represent a second major platform for future wagering. The burgeoning ‘m-commerce’ market, principally through phones, but also palm- and lap-top computers for example, provides both a platform for mobile gambling and access to a potentially new, affluent and relatively young client-base. Third-generation (3G) mobile phones suit both RNG gaming products

⁸⁵ Austrin T. and Curtis, B., (2001), p. 36.

⁸⁶ As regards the ‘perfection’ of this integration, it could be argued that it is only the artificiality of spatial frontiers which inhibits this drive for perfection – the national and international poker machine network accessible from clubs, hotels, casinos and also privately, principally through the ongoing production of the home as a networked leisure and entertainment venue.

⁸⁷ Bulkley, K., (2003), Article in *The Guardian*, 10 March, www.guardian.co.uk

⁸⁸ PBL, (2003), ‘Review of Issues Related to Commonwealth Interactive Gambling Regulation’, submission to Review of Commonwealth IGA.

⁸⁹ The full integration of the home into ‘globalised’ gambling networks is likely to be only a short step away. It is not difficult to imagine that in the future Australians will be able to play virtual ‘pokies’ on their local hotel and club network from the comfort of their own homes. After all, as a mechanism to prevent the ‘loss’ of future online gaming revenues in the trans-national space of the world wide web, governments may have little alternative but to entice recreational gamblers to spend locally by opening their already sophisticated club and hotel gaming networks to ‘off-course’ pokie players. In the use of the totalisator and the off-course TAB to combat the lure of the SP bookies, there is an historical precedent that may well prove persuasive.

such as virtual poker machines and wagering and sports betting products integrated with the 'push-media' of latest odds, clips of goals or race finishes, etc. Services which send clips of the latest goal scored in an English Premier League match to a 3G mobile telephone service, for example, are integrated with in-the-run betting on who will be the first or next goal scorer. With social and spatial mobility predicted to be defining characteristics of twenty-first century living, commodities will increasingly be integrated into portable techno-communications platforms.⁹⁰ Future wagering products will thus be increasingly shaped by these conditions.

Technology in the form of networking and computerisation is also an important aspect of the process of 'desegregation',⁹¹ or the increasing situating of multiple forms of gambling within a range of leisure, entertainment and gambling venues. Computerised information technology allows the situating of TAB outlets, linked Keno games and linked jackpot EGMs in Australian registered club venues for example. In hotels, outlets for off-course totalisator betting have been commonplace for some time and are now joined by gaming machines, which are linked to centralised jackpots in most States. Casinos in all States feature 'sports bars', where betting can be done through the TAB on racing or sports, in addition to table games and linked EGMs promising substantial jackpot prizes. The co-location of these disparate gambling forms in contemporary venues reflects the fact that these forms are increasingly facilitated by a single technical media.⁹²

However, the forms of commercialised and commodified wagering described do not exhaust the possible applications in the realm of digital networks. As discussed above, peer-to-peer (P2P) applications operated on a different principle, whereby individual users are connected to each other through the facilitation or 'matching' of the P2P platform, enabling the direct sharing of files, playing of games or making of bets for example. Peer-to-peer applications are already popular in facilitating multiple-player poker, including those regulated through internet casino sites. Gambling operators such as Betfair who run P2P 'betting exchanges' will match a specific client who is willing to accept the offer of a particular bet made by another client. Thus P2P gambling is not reliant on either the traditional off-course pool wagering model or the gaming/Random Number Generated model. It can be argued that P2P applications could threaten wagering markets, due to the probability of finding more attractive odds, the opportunity to 'lay' bets and the possibility of betting on a wider range of outcomes and contingencies.

Arguments have also been put forward by wagering operators (TABCORP (Vic), 2003) and many in the racing industry that P2P betting, through betting exchanges such as Betfair, may threaten the integrity of racing. This is due to the perception that the opportunity to 'lay' bets allows gamblers to bet against a particular outcome, that is, that a particular horse or greyhound will not win. It is claimed that this may prove tempting to those involved in the racing industry with the opportunity to ensure a particular runner does not win. This is the reason that bookmakers, who systematically bet against winners, are licensed and regulated to ensure the probity of the racing industry. Given that the systematic 'laying off' of bets to hedge against risk is a global practice of bookmakers, this criticism is perhaps more a commentary on the state of financial monitoring and institutional cooperation in relation to the betting audit trail than a crucial issue of concern, perhaps even more so given the fact that racing industries wage an ongoing battle to ensure that wagering clients are betting on the basis of fair and honest competition.

A second argument, that P2P betting on racing does not contribute to the racing industry, says more about transition in the incorporation of new gambling media into fully governed regimes of

⁹⁰ See Urry, J., (1999), *Sociology Beyond Societies: Mobilities for the Twenty-First Century*.

⁹¹ Considered by Miers, D. (1996).

⁹² See Austrin, T. and Curtis, B., (2001).

taxation and other social contributions, than it does about any necessary reason why betting exchanges cannot be persuaded or required to make such a contribution. In May 1992, Betfair reached an agreement with both the British Horseracing Board for a race data licence and the Horserace Betting Levy Board in relation to its contribution to racing.⁹³ In Australia, where regulation and control of gambling is far messier due to it being a responsibility of the various State and Territory governments, this contribution is more likely to come from the payment of product fees to the 'content providers' who administer racing in each jurisdiction.

Given that the Commonwealth has chosen not to restrict the access of betting exchanges to Australian wagering customers through the *Interactive Gambling Act 2001*, from which they are currently largely exempt, then the major way in which regulators will shape the future wagering market will be through the types of bets allowed rather than through determining the media through which this gambling is provided. This course of action seems logical given that TABs are already concerned by, and actively lobbying against, their inability to offer the same suite of wagering products across all distribution channels due to current restrictions on online gambling imposed by the *Interactive Gambling Act 2001*. Of particular interest here is the distinction between 'in-the-run betting' and 'micro betting'. Currently in-the-run betting is allowed, aside from via the internet, on the outcome of longer duration events, such as Test cricket or the AFL premiership season, for example, subsequent to the commencement of a particular match or season. Whilst all interested parties in the wagering industry have pressed to have restrictions on in-the-run betting via the internet removed from the *Interactive Gambling Act 2001*, it is noticeable that the providers of subscriber and digital television services with interactive potential would like to see the further removal of restrictions on so-called 'contingency' in-the-run betting, such as next goal, wicket or try for example. This type of in-the-run betting is that described as 'micro-betting' by many established wagering businesses, in particular totalisator operators, which they oppose ostensibly due to social concerns revolving around a potential increase in the numbers or severity of 'problem gamblers'.

Perhaps the logical (but not necessarily likely) outcome of this debate would be the removal of restrictions on in-the-run betting, with State and Territory authorities responsible for the precise contours of the contingency or micro-betting markets provided by operators within their jurisdiction. It is perhaps stating the obvious to observe that the major argument for taking this course, and for the establishment of agreements with overseas wagering and betting exchange operators regarding product fees and types of bets, is due to the apparent fact that preventing Australian bettors gambling with overseas race or sports betting providers is not a technically or practically feasible option.

4.3 Summary: Technology, Markets and Trends

The researchers were able to interview a diverse range of stakeholders in the racing industry, gambling regulators, the gambling industry and to discuss likely future trends within the industry, including advances in technology and new products.

The future cannot be predicted with certainty but there is widespread agreement around broad trends and emerging technologies. We consider some of the more important issues here.

⁹³ The 42nd Levy Agreement in the UK instituted a 10 per cent levy on gross winnings of all layers with betting exchanges. The UK Department of Culture Media and Society (DCMS) also invited Betfair to take a seat on its Bookmakers' Committee. This was a further sign, following the DCMS position paper on the revamping of gambling legislation (available from DCMS website), that betting exchanges will be incorporated into the regulatory regime emerging in 2004 under the auspices of a new Gambling Commission.

Wagering appears likely to remain in a phase of relatively constant transformation in the short- to medium-term future. The final outcome of the review of the *Interactive Gambling Act 2001* will determine to some extent the future dimensions of wagering business in Australia. More broadly, the logic of commodification and the reach of global digital networks of communication and commerce will continue to shape the nature and modes of delivery of future wagering products. The advent of the home as a site of digitally networked entertainment and leisure and the potential of mobile delivery of wagering commodities will transform the social and spatial contours of the wagering market. It is likely that these parameters will shape the future of directions of wagering business, in particular the likely rapid expansion in the scale and scope of globalised sports betting.

Gambling and wagering are positioning for a 'mass appeal market' which is associated with the availability and advancement of technology.

The mass appeal market has the following characteristics:

- It seeks to provide that many people wager often, rather than a relatively few people wager regularly;
- The market is events driven, so that sports betting for example, can be expected to be incorporated into the mainstream;
- It seeks to provide for fun, entertainment, high levels of accessibility where impulse betting is facilitated; and
- Most importantly, internet and digital technology will drive the 'mass appeal' to open up that market.

Advances in technology and the take-up rate of mobile telephones, the internet and digital television will provide the platform for online wagering and gaming. Major stakeholders in the industry predict similar directions although they may differ on the speed of take-up and the impact of greater accessibility to wagering opportunities. Independent assessments (in our literature review) concur with industry stakeholders. For example:

'Mass appeal online betting and gaming is likely to be dependent on the digital TV market, the global take-up rate of satellite and cable and the next generation of mobile telephony'
(Ernst and Young UK: 2001).

'Independent forecasters predict explosive growth in global online betting. The driving force is internet and digital technology that will open up mass-market sports betting by delivering live entertainment, news and information, to internet linked PCs, WAP mobile phones and interactive television.' (Ernst and Young UK: 2001).

The 'mass appeal market' also seeks to differentiate between soft gambling with high rates of accessibility — including EGMs in hotels/clubs, X-Lotto or Powerball ticket, Keno) and 'hard gambling' which is associated mostly with casino attendance and table gambling. The latter is a relatively restricted market — both in terms of the numbers of people who regularly attend a casino, as measured by real per capita expenditure⁹⁴ and on measures of gambling participation by venue and mode. In the UK, it is observed that 'while 70 per cent of the adult population in the UK regularly participate (at least once a month) in the National Lottery, only three per cent visited a casino in 2001'.⁹⁵ Similar trends are found for Australia, where gambling rates for those who have participated in any form of gambling in the last twelve months approximate 77 per cent of the adult population. Of those who had gambled in the last twelve months, some 61 per cent reported playing a lottery or a lotto game compared to seven per cent who played a table game at the casino.⁹⁶

The necessary complimentary component of 'this future model' is high-quality regulation, licensing and taxation regimes. The consumer will expect protection and privacy — in short, a high level of security and confidence in online systems and trust in the provider and the product.

Opportunities for online wagering are expanding with the uptake of new technologies and the entry into the market of online betting operators. The internet, the mobile phone and digital television already enable betting to take place without the need to attend a betting venue such as a local TAB shop (or leave your home). Just as the TAB shop and then telephone accounts separated wagering from actually attending a race meeting and then enabled interstate betting, so these new technologies are expanding the scope of wagering opportunities.

If the next generation of mobile telephony, the increasing access to the internet and interactive television represent the platform for new wagering opportunities, then this is likely to impact on traditional venues such as standalone betting shops and other retail outlets such as hotels and clubs. Already we are witnessing the development of 'sportsbars' and specialist bars for different segments of the market. At the very least, it is likely that venues will increasingly diversify and upgrade into 'entertainment destinations' providing a suite of wagering and gambling options. The standalone betting shop will continue to upgrade, but they are likely to reduce in number.

⁹⁴ Expenditure per capita is inflated for all casinos because of the tourism component of all expenditure.

⁹⁵ Ernst and Young (2002), 'Look before you leap: Staking out a successful future in the UK gaming marketing', p. 6.

⁹⁶ Source: 2003 Victorian Longitudinal Community Attitudes Survey Draft, September 2003, Centre for Gambling Research, ANU.

5. Profile of Wagering and of Electronic Gaming Machine Gambling

5.1 Introduction

It is important to differentiate between those who engage in recreational gambling and those for whom gambling may lead to problem or uncontrolled gambling. There is a third group — those who do not wager or gamble at all. The majority of those who gamble do so in a controlled fashion. They are able to regulate their expenditure and enjoy ‘having a flutter’, the ‘thrill of beating the bookmaker’ or the hope of the ‘helicopter drop from various sized wins in X-Lotto’. Whether in a family or work syndicate or the weekly purchase of a single ticket and the occasional raffle ticket, gambling is a controlled activity. For many, participation in gambling is even more restricted to the single or special event such as the Melbourne Cup. From TAB (Vic) customer profile analysis, some 65 per cent of the Victorian adult population do not engage in wagering. A further 24 per cent are reported to bet infrequently (less than 12 days per year).

For all forms of gambling, it is estimated 77 per cent of Victorian adults participated at least once in the previous 12 months.⁹⁷ There are high participation rates for lotto and lottery games; for EGMs the rate varies between 30 and 35 per cent; for race wagering between 16–30 per cent; while a range of domestic and international surveys reveal casino gambling to involve usually less than 10 per cent of the adult population. In the following discussion the researchers consider both recreational gamblers and the problem gambler; the latter are estimated to comprise between 2.1 and 2.3 per cent of the Victorian adult population representing in the order of 73,000 to 75,000 individuals.

There are potentially an unlimited number of ways of ‘building the profile’ of those who wager and those who play EGMs including *inter alia*, by direct observation, perhaps accompanied by an interview, by analysis of users and non-users of loyalty card schemes, from data on recreational punters and EGM players provided by operators of gambling services, from existing surveys and research papers and from those who have a long association and often intimate knowledge of the wagering and gaming market (e.g., bookmakers). Player profiles can also be established from those who chose to pay a small subscriber or associates fee to access clubs for the purposes of gaming. In the discussion that follows we have used all these sources (and more) to develop player profiles.

The study ‘The Experience of Problem Gamblers, Their Loved Ones and Service Providers’⁹⁸ confirms the data on those who predominantly access gambling help services, that ‘the most dominant form of gambling for 85 per cent of problem gamblers is through EGMs at pubs and clubs’. EGMs at the Crown Casino and TAB/Sports wagering follow in that order, as contributing to problem gambling. There is a high correlation between what problem gamblers report and the estimates by service providers of the dominant form of gambling by problem gamblers.

⁹⁷ McMillen J. et. al., (2003b), ‘2003 Victorian Longitudinal Community Attitudes Survey’, Centre for Gambling Research, p. 14.

⁹⁸ ‘The Experiences of Problem Gamblers, Their Loved Ones and Services Providers’, New Focus Research, Draft Report to the Gambling Research Panel, December 2003, p. 6.

However, one cautionary note is warranted here, in that it is well known that males tend to access helping services less often than females. Combined with the profile that wagering on racing is predominantly a male activity and gambling on EGMs is slightly skewed towards females, then it is probable that males and problem gambling from wagering are under represented in help service clientele and service-wide statistics.

5.2 Who Wagers? Industry Customer Profile

Customer profile data provided by TABCORP (Vic) shows there are five per cent of regular wagers who bet at least 52 days per annum and account for 78 per cent of TAB turnover. A further five per cent are occasional gamblers who bet between 12 and 52 days per annum and account for a further 13 per cent of turnover. So 10 per cent of those who wager account for 91 per cent of TAB turnover. Within these classifications are included the professional punters and syndicate punters who are often quite sophisticated, knowledgeable and successful. Data from community surveys, attendances at gambling counselling, attendances at general financial counselling and problem gambling estimates provided by the Productivity Commission study (1999) all indicate that approximately 2.2 to 3.1 per cent of those who wager on a weekly basis are problem gamblers based on SOGS 10+. Using these estimates and the known number of regular gamblers (bet at least weekly) with the TAB and subtracting syndicates and organised punters, we estimate 2,500– 4,000 racing punters are likely to experience gambling problems. The severity of gambling problems is somewhat more difficult to comment upon. Certainly a distinguishing feature of the EGM 'problem gambler' and problem gamblers from race wagering, is that in the latter case the onset of the problem takes longer to develop, but can accelerate quickly as chasing losses is also a characteristic of those who wager. However, the traditional form of wagering relative to the button pushing of EGMs provides far more circuit breakers, more time outs and (many argue) a greater degree of social interaction.

5.3 Who Wagers? A Subjective View

On a more subjective basis, bookmakers who have been in the business a long time describe the traditional recreational punter as having the following characteristics:

- Overwhelmingly male, young age group 20–35;
- Business people, middle income earners, with disposable income who prefer to punt on-course;
- Employed male who 'grew up with racing', had an interest in racing, knew of others involved in racing, had a history of association with racing;
- Have not changed to sports betting or EGMs; and
- Attend race meetings on weekends and/or maintains an account with a licensed bookmaker.

A second classification of the punter is the:

- Professional punter, almost exclusively older male (45–64 years);
- Operates by telephone; and
- Much larger average bet (\$5,000+).

Bookmakers comment that this group of sophisticated punters are usually very knowledgeable, well organised and controlled in their betting behaviour. They sustain high losses but match with large wins.

Other classifications are the:

- TAB agency punter who bets 'on a number', a 'colour', or based on a tip from others, so that there is often no real skill is involved;
- Usually male, regular Saturday punter, never mid-week;
- The 'event punter' who only attends on certain days, maybe once a year for the special outing, punter uses no skill; and
- Member of a syndicate of owners who may attend to watch performance of part-owned horse, bet from the heart based on luck, hope and chance.

Punters are drawn from four principal groups of people:

- From the racing industry itself, including the owner, trainers and support staff, breeders and jockeys;
- The corporate sector;
- Members of individual racing clubs; and
- The recreational gambler.

From the perspective of many experienced bookmakers, the requirement for cash-based wagering on the tote, at a TAB standalone facility or PubTAB and with bookmakers provides a constraint on the punter. In addition, deposit accounts are required for internet and telephone-based betting providing additional in-built checks and balances. Breaks between racing events provided a 'natural break in play', although television coverage acts to narrow the gap and broaden exposure to race events anywhere in Australia. Picking a winner was thought to require some skill and commitment of time so there was greater involvement, participation and decision making in wagering.

Overall, the researchers concur with this assessment. Ultimately, it is the expansion in television coverage and the commodification of wagering by new wagering products, that is creating a convergence of wagering products with gaming products (i.e., 'wagering' becomes 'gaming'). Race wagering is likely to continue as the mature stream of the wagering business.

Advertising and marketing of the on-course racing product is increasingly targeted at 'theme meetings', the special event, the experience of entertainment and excitement, and is designed to attract those with discretionary income. It is indisputable that such events are a very popular form of social and recreational outings. The theme meeting is well known — ladies day, the family/picnic meeting, the special non-metropolitan event — each designed to tap into a different market segment and to encourage a younger clientele to attend a race meeting. The importance of the number of people attending a race meeting is that the entry fee goes to the club; returns to racing clubs from wagering for on-course, TAB and bookmakers may range from one cent through to ten cents per dollar spent.

5.4 Who Wagers? Social Research's Views

There have been seven surveys into Community Gambling Patterns and Perceptions in Victoria since 1992. Most recently, the Centre for Gambling Research (ANU: 2003) was commissioned by the Gambling Research Panel to undertake the 2003 Victorian Longitudinal Community Attitudes Survey. A consistent finding of these studies and others, is that the participation rate in horse racing wagering activities has declined since the early 1990s from approximately 20–21 per cent down to 13–14 per cent.

Notwithstanding the decline in racing wagering activities, this report has discussed the popularity of racing as a pastime in Australia (see: Section 2.1). Horse racing is the second most popular sporting event as measured by adult attendances in Australia and Victoria. Attendance rates in Victoria for horse racing were 15.8 per cent of adults in 2002, 4.3 per cent for harness racing and 2.1 per cent for dog racing. Australia's racing industry in an international context is very significant as measured by the number of races, prize money or wagering turnover. The decline in wagering is not generally reflected in attendances, although it is related to the popularity of newly available forms of gambling such as electronic gaming machines and the casino.

Two-thirds of all people who attended harness racing and dog racing in 2002 were male and 57 per cent of all people who attended horse racing were male. Community surveys confirm that this smaller number of race betters is male, in full-time work, are regular horse betters participating usually weekly, of which there are a higher proportion of 'committed heavy gamblers'. Overall this gambling group express a high level of satisfaction with their experience of horse race gambling — enjoying the thrill of winning, beating the odds, hoping to get lucky and believing that they had won back at least two-thirds of their gambling outlay.

The profile compiled of those who bet on races or sporting events was described as:

- Predominantly male (83 per cent)*;⁹⁹
- Aged between 35–64 years*;
- Australian born, English main language at home*;
- Full-time employment*;
- Personal income more than \$25,000 per annum;
- Household income in the range \$40,000 to \$60,000 p.a.;
- Educated up to high school*; and
- Couple with no children (i.e., no children or children not at home).¹⁰⁰

The profile of those who wager on races or sporting events is similar to those who access counselling support services for problem gambling (Gambler's Help) and financial counselling support services (Commonwealth and State-funded services). Those who access specific gambling help services in Victoria for problems arising from TAB betting or race course betting, represent 9.6 per cent of all clients.

This is consistent with other research and community surveys.

For instance, the Productivity Commission identified that the prevalence of problem gambling, while varying by mode, was highest for gaming machines and then racing, while prevalence rates were relatively low for other forms of gambling such as lotteries.

The 2003 Victorian Longitudinal Community Attitudes Survey found that 'betting on horse or greyhound races or a sporting event was the second favourite type of gambling among problem gamblers (8.8 per cent)'. Between the 1999 and 2003 surveys, participation in race betting (horse and greyhounds) 'remained steady at 28.2 per cent' with the two major forms of gambling being lotto/lottery games and EGM participation. internet gambling was very minor while sports betting accounted for less than six per cent of all those wagering.

⁹⁹ The asterisk indicates this characteristic was the same for EGM problem gamblers as reported in the ANU survey.

¹⁰⁰ Centre for Gambling Research (2003b), Table 67.

However, the 'typical' person who wagers differs from those who experience gambling problems as a result of attendance at the casino. This group is predominantly younger (18–24 years) and foreign born; they share similar low levels of education, lower personal incomes and report no child dependents. Some migrant groups are claimed by the racing industry to have been 'lost to the casinos', particularly Chinese and Vietnamese racegoers.

In the Centre's own survey on communities in Victoria and Western Australia¹⁰¹ the researchers found that wagering participation rates were higher in Western Australia (36.2 per cent) than in Victoria (33.7 per cent). Those respondents in Western Australia were more likely to have wagered at 'least once a week or more'; to have visited a local TAB or hotel to place a bet and more likely to have accessed the internet to wager. Recreational punters who had gambled once or twice in the past year or occasionally every few months were more likely to have visited the casino in Western Australia (15.3 per cent) compared to only 5.8 per cent of Victorian punters, while in both states the 'serious' punter wagering weekly had not visited the casino at all.

Of those who present to financial counsellors with gambling related financial problems there are clear differences between clients in Western Australia compared to Victoria and South Australia. Some 29 per cent of clients in Western Australia develop problems from wagering and sports betting and a further 33 per cent from casino table gaming. However, wagering in the other two States accounts for 6.8 per cent (Victoria) and 8.6 per cent (South Australia) of all clients and only 3.2 in both States from casino table gaming.¹⁰²

Those who wager on racing or sporting events report the desire 'to test their skill'; this is not the case for EGM problem gamblers who do not indicate any test of skill but usually report some factor which they believe is favourable to them (e.g., 'feeling lucky', 'the thrill of winning'). Put simply, they dupe themselves and they are duped by the gamblers fallacy.

When placing a wager the most favoured locations are a TAB agency, hotel/club, and then the racetrack, while relatively few respondents report using the telephone and finally the internet.

5.5 Who Wagers? Profile of Internet Use for Wagering

Australian researchers¹⁰³ conducted a unique and innovative Australian study to map internet gambling using pre-existing account customers with TAB websites and other specified gambling websites. While the study was undertaken with the assistance of totalisator operators, and will bias the profile of all internet users, it is particularly relevant for our purposes in understanding who are online wagering participants as we are concerned with the profile of this group of internet users.

The profile of internet users of wagering sites was;

- Overwhelming male (85 per cent);¹⁰⁴
- Age range concentrated in the 35–54 age groups for account-holding internet users, but more skewed towards a younger age range for the 'internet surfer' (18–44 years);
- 75–80 per cent of users were employed either full-time or part-time and a further 10 per cent indicated they were retired;

¹⁰¹ Preliminary results from survey of communities undertaken for the Victorian Gambling Research Panel, 'Community Impact of Gambling: A Comparison of Victorian and Western Australian Communities (forthcoming).

¹⁰² Preliminary results from survey of financial counsellors undertaken for the Victorian Gambling Research Panel, 'Community Impact of Gambling: A Comparison of Victorian and Western Australian Communities (forthcoming).

¹⁰³ McMillen, J., et al., (2000-03), ARC Grant (refer bibliography).

¹⁰⁴ Female participation in gambling sites, including internet casino has been reported as high as 50 per cent.

- The unemployed represented less than three per cent of users;
- 70 per cent were grouped into three occupations, managers and administrators, professionals and tradespersons and related workers with the first two of these representing 54 per cent of respondents;¹⁰⁵ and
- Generally earning 'above-average' or higher incomes.

In analysing the profile of internet users, the researchers conclude that the respondent profile is 'consistent with the notion of a 'digital divide' (i.e., access is determined by social and economic circumstances), with such employment and earnings characteristics likely within a sample defined initially by their participation in an activity predicated on skilled utilisation of the internet and information technology'.¹⁰⁶

The principal activities were wagering on racing (95 per cent), and sports betting (35 per cent, rising to 42 per cent in a follow-up survey) with 86 per cent betting on sports online in the group including account holders and 'net surfers'. Almost half of all account holders participate in weekly race wagering while less than 10 per cent reported engaging in sports betting on a daily or weekly basis. This finding is consistent with the surge in sports betting being principally associated with the promotion of major events (World Soccer Cup, AFL Grand Final). However, account holders for race wagering may restrict betting activities to racing as the more general survey found 45 per cent of respondents wager on sports either daily or weekly. Woolley (2003) acknowledges that Survey B (follow-up survey) 'located a sub-set of gamblers, who as well as being relatively broadly involved in online gambling, are relatively frequently involved in online race and sports betting'.¹⁰⁷

Online gamblers predominantly maintain one account, although more than 25 per cent hold two or more accounts, and tend to use one TAB website for wagering. A very small number of survey respondents maintain more than five accounts (less than one per cent).

The pattern of participation by account holders for online wagering can be characterised as overwhelming male, single account holders for wagering on racing and then sports betting. They 'participate less broadly and less frequently in online gambling activity than all gamblers surveyed taken as a whole ... there are minority groups who utilise more than one gambling account online and participate more broadly and frequently than do the "stay at home" gamblers. The data thus suggests that different modes of participation in online betting on races and sports are emerging'.¹⁰⁸

Relevant to this study, the researchers did record that a 'small proportion of racing and sports betting gamblers reported problems related to their specifically *online* participation in gambling'.¹⁰⁹

5.6 Who Gambles on EGMs? A Profile of Users

The purpose in understanding who gambles is to contrast the behaviours and characteristics of this group with those who wager. This question is an integral part of market segmentation/market differentiation, and so it could be expected that the providers of wagering and gaming services are likely to have conducted most research in this area. This in fact is the starting point for the discussion.

¹⁰⁵ This compares to 2001 Census occupational classifications in which these two categories represent 27.4 per cent of all occupations.

¹⁰⁶ Woolley, R., (2003), p. 12.

¹⁰⁷ Woolley, R., (2003), p. 14.

¹⁰⁸ Woolley, R., (2003), p. 16.

¹⁰⁹ Woolley, R., (2003), p. 19.

The Productivity Commission (1999) estimated that approximately 42.3 per cent of Australian gaming machine expenditure (i.e., losses or net gaming revenue) is accounted for by a relatively small number of problem gamblers. We noted earlier in this report that some five per cent of the total adult population of Victoria who regularly wager (approximately 180,000 adults) contribute 78 per cent of turnover. Not all in this group could be classified as problem gamblers and further, the data relates to turnover, not wagering losses. However, it is most likely that those who experience problems with wagering would be included in this five per cent of those who regularly wager.

What gaming machine operators 'know' based on their profile of users of EGMs and users of loyalty card schemes can be grouped under three broad headings:

- Demographics (gender, age);
- Patterns of visitation (spend, venue visitation/frequency, length and time of play); and
- Consumer preferences (type of machine, credit value).

The profile of users who are members of loyalty card programs analysed by one operator is described as follows:

- 15 per cent of EGM players contribute 57 per cent of revenue;
- 34 per cent of EGM players contribute 82 per cent of revenue;
- EGM players aged 36 to 65 contribute the highest player expenditure but the age range of 46 to 55 years 'provide the greatest value to business';
- All players excluding those under 25 years, spend approximately 1.5 hours playing EGMs per visit;
- 36 per cent of turnover is contributed in the hours 1.00 to 5.00pm and a further 31 per cent in the hours 7.00 to 11.00pm;
- Players on lower credit value machines play longer, at a lower spend rate and spend less than players on higher denomination machine;
- Gaming has a slight female bias, and they tend to play longer on lower credit value machines; and
- Up to 66 per cent of a venue's gaming revenue is likely to come from women.

This player profile of those who are prepared to join a non-casino loyalty scheme may bias towards women; they are more likely to seek the preferential benefits of membership such as lunches which accompany an outing. In addition, those disinclined to join such schemes are identified as not wishing to be detected in a gaming venue and/or wishing to retain such information from a spouse or partner. Keeping identity a secret to ensure the Australian Taxation Office is not able to access gaming records, (a reason provided by gamblers) may also bias males out of such schemes. The same motivation operates in favour of cash-based rather than credit or telephone-based wagering.

Young people in the age range 18–25 are estimated to contribute less than 1.4 per cent of turnover relative to the age group 46–55 that contributes 32 per cent of turnover; a further 25 per cent of turnover is attributed to the 56–65 age group.

Community Attitudes surveys provide another perspective on 'who gambles on EGMs'. The most recent survey¹¹⁰ attempted to contrast problem gamblers arising from betting on racing or sports

¹¹⁰ Victorian Longitudinal Community Attitudes Survey, Draft September 2003.

and pokies/gaming machines. The only discernable differences reported were, that those wagering tended to include more couples with no children with a more confined income range for personal and household incomes. Among problem gamblers 84 per cent experienced problems arising from playing 'the pokies'; only 8.8 per cent experienced problems from wagering. One difference which the Community Attitudes survey did not highlight is the apparent female bias in EGM participation relative to wagering. Less than nine per cent of all problem gamblers from TAB and racing are females. This contrasts with more than 50 per cent of clients who are females that access Gambler's Help services. The female bias in EGM gambling is confirmed by access to gambling counselling services in Victoria (68 per cent of gambling services, including concerned calls) and the researchers' analysis of national data on access to general financial counselling services.¹¹¹

Overall EGM participation was said to involve 33.5 per cent of all Victorians; wagering was estimated at 28.2 per cent; EGM participation involved more females (53.3 per cent) and was most concentrated in the 50–64 age group; wagering involved more males (53.7 per cent) and was heavily concentrated in the 35–49 age group. Females predominate in EGM gambling, scratch tickets and lotto whereas males are said to predominate in race betting.

In Western Australia, where EGMs are restricted to the Burswood Casino, the same gender bias is evident. Those accessing counselling services for problem gambling in the period 2001 to 2003 were:

- EGMs, 56 per cent female;
- TAB, 84 per cent males; and
- TAB on-course and general on-course, 100 per cent male.

5.7 Who's Wagering? Protection of Minors

An additional research outcome was to inquire into whether recent changes impact on any particular groups with regard to under age gambling or established or new groups which may be identified as 'at risk' of entering into problem gambling.

Changes in wagering such as greater ease in placing a bet and less reliance on skill, incorporated in the 'convenience wager' where the punter bets on a colour, number or sequence of numbers and 'mystery bets', have the potential to increase the rate of wagering. The televising of more events and re-scheduling of events (i.e., the twilight meeting) also possess a potential to encourage more people to wager. There are a number of other factors such as exposure to racing and gaming in pub venues as the venues reposition to provide a greater variety of entertainment. While these developments make gaming and wagering more accessible to young people in particular, it is not axiomatic that they contribute to problem gambling. They simply increase exposure.

The development of new technology platforms — telephone, internet, interactive television — combined with opportunities for a much greater array of wagering opportunities for sports betting, in-run wagering, etc., present greater regulatory challenges. The protection of minors is one such challenge.

¹¹¹ Analysis of FaCS data on access to Financial Counsellors confirms the prevalence of EGM related problems.

Under the *Gaming and Betting Act 1994*, a minor, defined as a person under the age of 18 years, must 'not make a bet or buy a ticket in a totalisator or approved betting competition', while an operator or permit holder must not accept a bet from, or give or send a ticket or acknowledgement in respect of a bet to a person under 18 years of age. *The Gaming Machine Control Act 1991* states that minors may not enter gaming machine areas and a minor may not play gaming machines in approved venues (Sections 90 and 91). Proof of age may be requested by a responsible person.

Telephone betting accounts are relatively easy to open and can be completed online for most betting agencies. An individual must indicate they are aged over 18 years. More difficult to circumvent is proof of age and identity when the punter is to be provided with a pay-out. At this point, proof is required in the form of a drivers licence or passport to verify age. The researchers have not identified that current systems for telephone and credit accounts, processes for opening accounts and verifying identity are deficient.

Conclusion

To summarise, in an earlier chapter the researchers made clear that the rate of growth in expenditure in gambling overall was due entirely to the expansion of expenditure of EGMs and casino gaming. In the period 1993–94 EGM real per capita expenditure has increased at an annual rate of 12.4 per cent compared to wagering at 0.68 per cent. To some extent, the racing and other gaming industries have struggled to hold onto their existing customer base when confronted by the EGM and casino industry. The percentage of household disposable income contributed by racing has fallen from 0.80 per cent in 1976–77 to 0.60 by 1991–92 and by 2001–02 was 0.46 per cent; in 2001–02 expenditure on EGMs was 2.24 per cent of household disposable income and 0.79 per cent of household disposable income for the casino.

The growing popularity of EGMs and casino gambling did contribute to a decline in popularity of wagering and that there had been some transfer of expenditure from wagering to EGMs and the casino (see Section 2.4). However, the scale of expenditure switching represented 'only a tiny fraction of the current level of expenditure on EGMs and at the Crown Casino'.

Significant growth in EGM expenditure is in part due to new entrants into the gaming market — principally middle-aged females — and the expansion of opportunities to gamble in a statewide network of hotels and clubs. Participation by younger age groups (18–25 years of age) in EGM gambling appears to be significantly less than their share of population. They play for shorter periods of time on lower credit-value machines.

An examination of industry customer profile data, a review of literature, analysis of those who participate in wagering and sports betting via the internet, the views of social researchers and informed industry participants and observers indicates that:

- Those who wager and those who attend race meetings are predominantly male, the recreational punter tends to be young (aged 20–35) than the professional punter (aged 45–64); both groups often have some prior association with racing; both groups are likely to attend race meetings and maintain an account with a licensed bookmaker and/or the TAB;
- The regular TAB punter is also most likely male; internet users for wagering were overwhelmingly male, were employed and generally earned high incomes in professional, management and trade occupations;
- Sports betting attracts a younger clientele; and

- There are large, well organised and sophisticated syndicates operating in the wagering market that are not participants in EGM or casino gambling.

In contrast to those who wager (and participate at the casino) the EGM player is:

- Middle aged (36 to 65 years) with heavy play by those aged 46–55 years (contribute 32 percent of turnover);
- They spend on average 1.5 hours playing per visit;
- Young people in the age range 18–25, contribute less than 1.4 per cent of industry turnover; and
- EGM participation involves more females (53.3 per cent) concentrated in the 50–64 age range.

Across the two groups it is estimated:

- Among problem gamblers, 84 per cent experience problems with EGMs, less than nine per cent report problems with wagering;
- Participation rates for EGMs are estimated at 33–35 per cent of all adults while participation in wagering is estimated at between 16 and 19 per cent. (Note: industry estimates suggest participation in wagering is slightly higher than this); and
- 15 per cent of EGM players who are members of loyalty card programs are estimated to contribute 57 per cent of net gaming revenue (losses) while five per cent of those who regularly wager contribute 78 per cent of wagering turnover.

An analysis of those who seek counselling for gambling problems suggests that 'wagering gamblers' and 'EGM gamblers' are different populations in many respects. For instance, 55 per cent of problem gamblers who report problems from TAB betting indicate they do not play EGMs. Some 35 per cent who report problems from on-course betting do not play EGMs (or conversely 65 per cent report they do play EGMs). While this is a limited data set (confined to those who actually seek counselling) it does tend to indicate that there is some overlap between wagering and EGM gaming. However, our analysis of the decline in household disposable income devoted to wagering and the limited extent of expenditure switching from wagering to EGMs and the casino tends to support the view that the two groups are different. Certainly, it is largely males who report problems from TAB wagering and on-course wagering.

While prevalence rates for youth problem gambling are not well documented the statistical data from Gambler's Help suggests that young people are (happily) under-represented in proportion to the size of their respective age cohorts. They may also be using this service to gain information on other services such as accommodation, interpersonal problems and for other reasons. Notwithstanding, by age of caller young people (aged 16–18, or 15–19¹¹²) represent 0.03 per cent of callers in that age range; callers in the 20–24 age range in 2003–04 represented 0.12 per cent of all persons in the age range.

¹¹² Recent changes in reporting age range for 2003-04.

6. Conclusions

Recent trends in wagering highlight the competitive challenge that the industry is experiencing. The introduction of electronic gaming machines and casinos have accelerated the longer-term decline in expenditure on wagering. The decline is also a sign of changing consumer preferences and the availability of other entertainment and gaming options. In an effort to retain market share the wagering industry has employed new technologies, sought to expand access to wagering and widen the appeal of wagering events and products.

The researchers conclude that the racing and wagering industry continues the path of modernisation through the joint contribution of the Victorian Government, the three codes representing the racing industry and TABCORP (Vic). The modernisation program is not restricted to Victoria but that Victoria is a significant player if only because Victoria enjoys a larger share of Australian prize money, wagering and employment in racing.

We refer to the three key drivers of change — enabling technology platforms, deepening access to the traditional wagering product a widening of the wagering product with the potential for the convergence of wagering and gaming.

In the following we summarise these changes, reflect on the scale of the racing industry and highlight trends in wagering, gambling and the racing industry. We provide a profile of participants, before examining the regulatory environment and consumer protections that will require consideration.

Understanding Changes in Wagering

While the basic contractual relationship and the mutuality of risk remain, there are significant changes occurring in wagering, including *inter alia*:

- Advances in technology platforms including telephone and the internet;
- Potential digitalisation of wagering utilising home-based interactive television;
- Local, state, national and international coverage of racing and special events;
- ‘Events-based wagering’ including sports-betting;
- Decline in traditional agents such as bookmakers;
- Introduction of licensed betting operators, international betting operators;
- New products and ways of customising a wager;
- Technology enabling ease of funds transfer while separating the event from the place of the wager (‘technology conquers distance’); and
- Computerised racing products for wagering.

Wagering now represents a much smaller share of national wagering and gaming turnover; in Victoria the share of household disposable income spent on wagering has declined from 0.8 per cent (1976–77) to 0.46 per cent by 2001–02 while expenditure on EGMs has increased from zero to 2.24 per cent in the same period.

The key trends in wagering and gambling are reported below. Taken together, we note the share of household disposable income spent on wagering in Victoria has exhibited a long-run decline, while that spent on gaming machines has grown dramatically. Thus the explosive rate of growth in total expenditure is attributed to the expansion of EGM and casino gaming.

A key finding is that large changes in gaming produce much smaller changes in wagering.

Some Reflections on the Scale of the Industry

The racing industry estimates that 77,755 FTE jobs were due to the Australian thoroughbred racing industry and of these 22,300 FTE are in Victoria. This study contests these estimates and considers they significantly overstate the scale and size of the racing industry. The ABS report that total employment in the national horse and dog racing industry was 15,900 persons. The researchers estimate is, that nationally there are 10,000–12,500 FTE positions in the racing industry which is more approximate to the ABS estimate than those provided by the industry.

Trends in Wagering

- In 1989–90 wagering on thoroughbred racing represented 30.4 per cent of national wagering and gaming turnover, but had declined to 7.7 per cent by 2002; harness and greyhound racing was 9.8 per cent declining to 2.6 per cent; gaming was 59.8 per cent rising to 88.6 per cent by 2002;
- Victorian wagering per adult (\$928.62) exceeded the national average (\$870.91) in 2002;
- Telephone betting in particular has increased significantly for bookmakers and the TAB and sports betting has increased rapidly in the five years to 2001–02 in a component of the industry which is dominated by bookmaking firms located in the NT and ACT;
- For Australia, the share of household disposable income spent on racing has fallen from 0.71 per cent (1976–77) to 0.43 per cent (2001–02), while the share of household disposable income spent on EGMs is up from 0.69 per cent to 2.03 per cent in the same period;
- In Victoria, the share of household disposable income spent on racing has declined from 0.8 per cent to 0.46 per cent and for EGMs, increased from zero to 2.24 in the period 1976–77 to 2001–02; and
- Participation in wagering is estimated to involve approximately 16 per cent of the adult population in Victoria and is predominantly a male activity.

Trends in Gambling

- For Australia the share of household disposable income spent on all gambling was 3.41 per cent (2001–02) up from 1.7 per cent in 1976–77, with all growth in the past 15 years;
- In Victoria, the share of household disposable income spent on all gambling was 3.81 per cent (2001–02) up from 1.28 per cent in 1976–77, again with dramatic growth in the last 15 years;
- The explosive rate of growth in expenditure is due entirely to the expansion of expenditure on EGMs and casino gaming;
- The researchers find some support for the hypothesis that the growing popularity of EGMs and casino gambling did contribute to a decline in the popularity of wagering;
- In Victoria the growing popularity of other gambling forms accounts for half of the \$21.24 per adult fall in real wagering expenditure per adult since 1989–90;

- The introduction of EGMs in most jurisdictions has preceded a larger than normal fall in real wagering expenditure. In Victoria for 2001–02, the researchers estimate the level of wagering expenditure would have been \$21 million higher without EGMs; and would have been \$33 million higher without the Crown Casino.

Trends in the Racing Industry

- The three codes have received significant financial distributions from the joint venture agreement with TABCORP (Vic) — some \$244 million in 2002–03 — with Racing Victoria receiving the major share (72 per cent);
- Racing attendances have continued to increase, confirming the popularity of thoroughbred racing. Attendances at greyhound meetings have stabilised in recent times but average attendances have fallen from 832 people (1994) to 175 people in 2002–03;
- It is observed that the wagering market continues to shift decisively off-course with 93.8 per cent of turnover for horse racing and 96.6 per cent for greyhounds coming from retail outlets and telephone and internet betting;
- Changes in the industry include ‘events management’ focussed around a high profile meeting and twilight meetings, that have helped stabilise attendances; other changes include expanded television coverage and the emergence of the social punter (the ‘convenience wager’), and simplified betting such as on a colour or ‘mystery bet’; and
- Continued expansion and improvement in facilities for off-course wagering, in large part reflecting changes in the target audience and changing consumer preferences.

Profile of Participants

The profile of wagering participants, still significantly influenced by the ‘old social structure of racing’ is dominated by male participants who increasingly access off-course betting facilities;¹¹³ this group are usually in employment in the professions or trades, earn above average incomes, while many have lifelong but indirect association with racing. Another group of punters are the well-organised, semi-professional syndicates. The recreational punter tends to be younger and is attracted to the sport by the special events, television coverage and newer forms of wagering which involve less skill and knowledge. A significant number of this group maintain an account with a licensed bookmaker and/or the TAB.

Participants in gambling, particularly via the highly accessible EGMs, have a more diverse profile; they comprise more women players who are concentrated in 46–55 age range but more broadly involve many aged 36–65 years. Young people appear to be less attracted to EGM play in part because it involves no skills.

Reflecting these two profiles, problem gamblers who report using the TAB or general on-course betting are invariably male. Problem gamblers arising from the excessive use of EGMs are more equally divided, although a slight bias is evident in support of females who access counselling services.

Sports betting is still a minor component of total wagering although it has continued to grow strongly, most noticeably when major international events (cricket, soccer or rugby World Cups) are being played. Telephone and internet wagering now comprise 23 per cent of betting sales with the TAB in Victoria (and 18 per cent in New South Wales).

¹¹³ Turnover for racing off-course: 93.8 per cent; for greyhounds 96.6 per cent.

Protections for minors are in place in regard to telephone and internet wagering principally through the requirements to establish accounts, transfer funds and verify identity before a pay-out is provided. These protections are far more substantive than any that exist for EGM play. Self-exclusion programs to control EGM play have been evaluated.¹¹⁴ They are extremely difficult to implement and administer and it is the case that in the absence of monitoring and ongoing evaluation, the effectiveness of self-banning schemes is problematic. We note that the AHA (Vic) continues to oppose the 'self-exclusion program for wagering' which was intended to be implemented in hotel venues.

Regulation and Consumer Protection

The number of problem gamblers in the Victorian population is in the order of seventy-five thousand individuals. We estimate that 2,500–4,000 persons experience problems from wagering activities. The severity of gambling problems is more difficult to estimate. The Productivity Commission (1999) concluded that some three per cent of those who wager on a weekly basis are problem gamblers based on SOGS 10+. There are more checks and balances in traditional wagering activities such as 'breaks in play', a decision requirement and deposit account balances for non-cash based wagering.

The principal risk, in the researchers' view, of an increase in problem gambling arises from the introduction and accessibility of open gambling opportunities or continuous forms of gambling. All existing evidence confirms this conclusion — rates of problem gambling are higher in those States with readily accessible EGMs; the great majority of those who report for financial assistance or counselling report problems from EGM play. An additional perspective is that wagering turnover is only 11 per cent of all gambling turnover.

The important implication of the blurring of the distinction between wagering and gaming or the convergence of wagering and gaming products, is that new products may place some individuals at risk. New technology platforms such as interactive television, the internet and the mobile phone provide a capability for the development of new products that approximate continuous gaming firms such as 'in-run wagering', and 'next-event' betting (e.g., who scores next goal, or run, etc.).

The possibility that betting exchanges will now be licensed will enable more products and ways of betting to be introduced into the marketplace. Racing wagering is likely to continue as the mature stream of the wagering business while sports betting is positioned to grow strongly.

It is likely that State Racing Ministers and regulators will be required to jointly address the licensing and regulation of betting exchanges. Certainly, in our view, these new wagering providers should be required to agree to obligations to observe responsible wagering and industry codes of practice. The racing industry and existing operators of wagering will be key participants as will the betting exchanges themselves. Appendix C canvasses some of the issues arising from the review of the *Interactive Gaming Act 2001* new forms of competition and regulation.

We find no evidence of an increase in participation in wagering by young people or an increase in young people presenting with gambling problems. While young people experience increased exposure to all gambling opportunities, telephone and internet betting accounts offer more protections than the relative ease of access into restricted gaming areas. Licensed betting operators can request proof of age (as is required in any hotel) for cash-based wagering at any facility on or off-course. The researchers contend that TABCORP as the major wagering operator

¹¹⁴ Refer 'Evaluation of Self-exclusion Programs in Victoria: Part A', prepared for the Victorian Gambling Research Panel, SACES (2003).

has strict processes and procedures in place to guard against wagering by minors and that industry codes of practice are sufficient in relation to the protection of minors.

In cases of suspected illegal activities or fraud, there is currently a legal obligation to report transactions to Austrac for investigation.

Future Directions

Future directions in wagering are reliant on new products that possess a potential to blur the distinction between wagering and gaming (i.e., the convergence of wagering and gaming products) and the utilisation of new technological platforms for delivering wagering opportunities. Another important consideration is access to the 'globalisation of racing and sporting events'.

Wagering has a more limited and precise definition than a lottery or games of pure chance. The racing industry itself views wagering as an activity that incorporates varying degrees of skill and knowledge combined with the elements of 'chance or luck'. However, the associated emphasis by the racing industry on the 'clean image and integrity of racing' with the skill of the punter, is critical to perceptions of wagering. Therefore, the industry itself must be concerned to ensure that new products do not unnecessarily blur the distinction between wagering and gaming.

The three key sites for accessing new wagering products will be the home (internet and interactive television) mobile devices and leisure gambling venues. Traditional wagering (and lottery) products over the internet or telephone represent lower risk than interactive gaming products, because wagering events are controlled by an external agent and are subject to time delays. Online internet wagering is a close substitute for other platforms for wagering.

Responsibility for racing and wagering will remain State-based. The National Guidelines for Responsible Wagering Practices should be agreed by all new entrants in the wagering and sports betting market.

Internet wagering is already a part of the service provided by existing TAB operators and is an extension of telephone betting where bets can be remotely lodged. However, prohibitions should remain on interactive gaming and casino type games as they differ from online wagering, in that interaction implies choices and decisions to affect the outcome of the game/activity. The other major difference is that the punter does not control or initiate the actual event in online wagering.

Regulators will shape the future wagering market through the types of bets allowed rather than through determining the media by which wagering and gaming opportunities are provided.

Sports betting provides for new wagering opportunities some of which are volatile and high risk. Spread betting is one example where the punter must be highly informed. Harm minimisation measures such as stop/loss or stop/win options should always be incorporated in these betting products. This illustrates how regulators will shape the market through the types of bets and protections available to punters.

Regulators will also be required to incorporate wagering through betting exchanges into State and Commonwealth spheres of taxation, plus require that a contribution is made via the payment of product fees or access fees to those who administer racing.

Regulators will also require credit wagering audit trails as the use of mobile, internet and interactive television platforms gain in popularity. Operators of wagering and betting exchanges will need to have in place early warning and detection systems to minimise wagering that is undertaken as a result of illegal or fraudulent activities.

Currently there are restrictions on 'in-the-run-betting' or micro-betting imposed by the *Interactive Gambling Act 2001*. While it is outside the scope of this inquiry to make recommendations to the *Interactive Gambling Act 2001*, regulators will need to satisfy themselves that forms of micro-betting do not possess the potential to increase the number or severity of problem gamblers.

Regulators should ensure that online gambling services provide mechanisms to limit harm from wagering. Credit and account-based facilities provide two obvious mechanisms:

- The ability to set bet limits and total pre-commitment for any account; and
- Account statements to inform players of activity, wins/losses over specified time period; while
- Sports betting products such as spread betting should also provide pre-commitment limits and bet/loss limits as important harm minimisation measures.

Regulators might in future require operators of wagering and betting exchanges as a condition of license, to provide more detailed analysis of client characteristics and wagering participation to satisfy themselves of the integrity of the products offered and to inform consumer protection advertising and policies.

The industry and any new entrants such as betting exchanges will need to ensure:

- That strict identification checks are in place to protect against minors accessing wagering for racing and sports betting;
- Potential key sites for accessing wagering products — the home and mobile devices — will require stronger consumer protection, privacy, a high level of security and confidence in online systems and trust in the provider and the product;
- That participation in wagering remains distinctly different to participation in gaming; and
- National Guidelines for Responsible Wagering Practice are universally agreed and promoted.

Finally, the principal risk of increasing problem gambling behaviours arises from introducing and making accessible, open gambling opportunities. The researchers have noted the dramatic expansion of open or continuous forms of gambling opportunities in recent times through the introduction of casinos, EGM venues and State and privately run lottery games. They are different from the customised wager that is linked to a specific event and specific outcome. This is no better illustrated than by wagering and gaming turnover figures for Australia in 2001–02:

- All wagering¹¹⁵ \$14,171 million;
- Gaming \$110,485 million;
- Wagering as a proportion of all betting 11.3 per cent.

¹¹⁵ Includes Thoroughbred Racing, Harness and Greyhound Racing and Sports Betting.

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Appendix A

Terms of Reference

Changes in Wagering Within the Racing Industry

Objectives

The primary objective of this study is to identify the implications of key changes which have been occurring to the operation and organisation of the Victorian wagering industry, including those related to the emergence of new technologies and the co-location of gaming facilities with wagering and in particular the current and likely future impact of these changes on the industry itself. Gambling groups within the industry and problem gamblers will be examined with a view to identifying any at-risk groups and what measures, if any, might be appropriate from a government, industry or community perspective to protect them.

Scope

It is expected that the report will:

- examine the available literature and current Australian research on trends in the racing industry in terms of its impacts on gamblers;
- describe the changes which have taken place, or are likely in the near future, in terms of co-location of wagering and EGMs (electronic gaming machines) and accessibility to wagering products, including telephone and internet wagering;
- determine trends in the age, gender, ethnicity and social-economic status of those for whom wagering is a significant component of their expenditure on gambling and to identify any groups, including those under age, who are at risk;
- determine the differences in the profile of gaming and wagering gamblers, the factors behind their choice (including advertising and other promotional measures) and their propensity to be engaged in behaviour conducive to risking unaffordable gambling losses;
- draw on a range of research methods and innovative research strategies; and
- examine by observation and/or survey whether the co-location of wagering facilities with EGMs changes the patterns of gambling expenditure for 'recreational', heavy and, if feasible, problem gamblers.

Deliverables

The outcomes of the research will include a final report that:

- describes the wagering industry and changes which have, and which in the future are likely to impact on gambling behaviour;
- describes the characteristics of those gamblers for whom wagering is their major form of gambling expenditure or time spent gambling, the characteristics that differentiate them from those mainly involved in gaming, and the interaction between wagering and EGM gambling;
- describes the impact of changes to venues, promotions to target audiences, technology (telephone and internet particularly) have brought about to total gambling outlays and the relative expenditures on different types of gambling by gamblers;
- analyses whether recent changes impact on any particular groups with regard to under-wage gambling or established or new groups which may be identified as 'at risk' of entering into problem gambling; and
- identifies any measures the industry might adopt, or any matters on which government might regulate, in order to minimise the risk of increasing problem gambling behaviours or of attracting vulnerable (particularly young) people to gamble when gambling would not otherwise be of interest, or available to them.

Appendix B

Granger Causality Testing of Racing Expenditure vs. EGM and Casino Gaming Expenditure

The purpose of this statistical exercise was to comment on the validity of the hypothesis that the increase in gaming opportunities in most jurisdictions across the country, particularly since the early 1990s, has caused a decline in racing expenditure. We find that it is likely that the increased availability of EGM and casino gaming has caused wagering expenditure to decline to an extent, although the State-level data provide only weak evidence and a significant degree of uncertainty remains.

Ideally, we would like to estimate demand curves for gambling based on measures of the full price of each form of gambling, which would include the expected rates of return, the availability of gambling opportunities and potentially also indicators of the social stigma (and criminal penalties where illegal) associated with the activity. In the absence of reliable data, we use consumption of other forms of gambling as crude indicators of the availability of gambling, and look for an association between consumption behaviour.¹¹⁶

While statistical analysis is commonly capable of detecting a correlation between variables, finding evidence that a change in one type of behaviour (for example, increased EGM expenditure) *causes* a change in another type of behaviour (for example, decreased racing expenditure) is more difficult to establish. In particular, there are no simple ways of identifying the causal relationship between current consumption of two different products, because the individual's consumption decisions are intimately connected. From the point of view of annual aggregated data, all consumption decisions are essentially made simultaneously, so that changes in the availability or price of any one product (for example, by allowing EGMs or by proscribing off-course bookmaking) affects the level of consumption of most other products. Hence, it is difficult to determine the nature of the relationship driving the correlation between expenditure on any two different items. The two methods of addressing this problem are, first, to explicitly model the consumption decision of all goods and services consumed in the economy (or at least all goods and services that are *a priori* considered by the researcher to be close complements or substitutes in consumption to the product of interest), which is an Herculean task. Second, by looking at correlations between *past* changes in consumption of one product and *current* changes in consumption of another. The second method is far simpler than the first, and is the essence of the Granger causality test.

In particular we statistically estimate the following panel regression equation (where 'i' indicates the State, and 't' indicates the time period):

$$\Delta RacingExp_{i,t} = \sum_{j=1}^k \alpha_j \Delta EGMExp_{i,t-j} + \sum_{j=1}^l \gamma_j \Delta CasExp_{i,t-j} + \sum_{j=1}^m \delta_j \Delta RacingExp_{i,t-j} + x_{i,t} \beta + e_{i,t}$$

Here the expenditure data used are annual changes in real expenditure per adult (that is, net losses adjusted for inflation using the relevant capital city consumer price indices). We choose to consider the changes in expenditure rather than the level of expenditure since both intuition and statistical analysis (the Dickey-Fuller test) suggest that the level of expenditure may not have a constant mean.¹¹⁷ The $x_{i,t}$ is a block of dummy variables, one for each state and one for each year, that allow the average change in racing expenditure to vary between states and over time. By including these dummy variables, we consider the ability of the expenditure data to explain variation in racing expenditure between states in a given year and within states over time, but not variation over time at the national level or persistent differences between states (which may, for example, reflect differing consumer preferences).

¹¹⁶ Regressions were also performed including a dummy indicator of whether a casino existed in the previous year, and whether EGMs were available in the previous year, though the results were not qualitatively different.

¹¹⁷ The problem here is that if we were to use a non-stationary series as our dependent variable, for example one which follows a trend over time, and regress it against another non-stationary variable which also follows a trend over time then the model will almost certainly 'explain' a good deal of the variation in the dependent variable. But we are simply picking out the trend in the dependent variable, not a meaningful causal relationship between the variables. The normal statistical analyses are not valid and if interpreted literally, as though they were valid, would grossly overstate the strength of the relationship between the variables.

The Granger causality test asks the data whether there is any evidence that the set of coefficients α_j are not all zero, so that past changes in EGM expenditure have some effect on current period changes in racing expenditure. If there is significant statistical evidence then we say that changes in EGM expenditure *Granger-cause* changes in racing expenditure (or say that EGM expenditure causes changes in racing expenditure in the sense of Granger-causality). Notice that given any two time-series variables, it may be the case that neither Granger-causes the other (for example, if different people bet at racecourses and played EGMs then the consumption decisions would be essentially made independently), or it may be the case that both variables Granger-cause the other (for example, where the same gamblers like to bet on races and play EGMs, and consider these activities to be close substitutes).

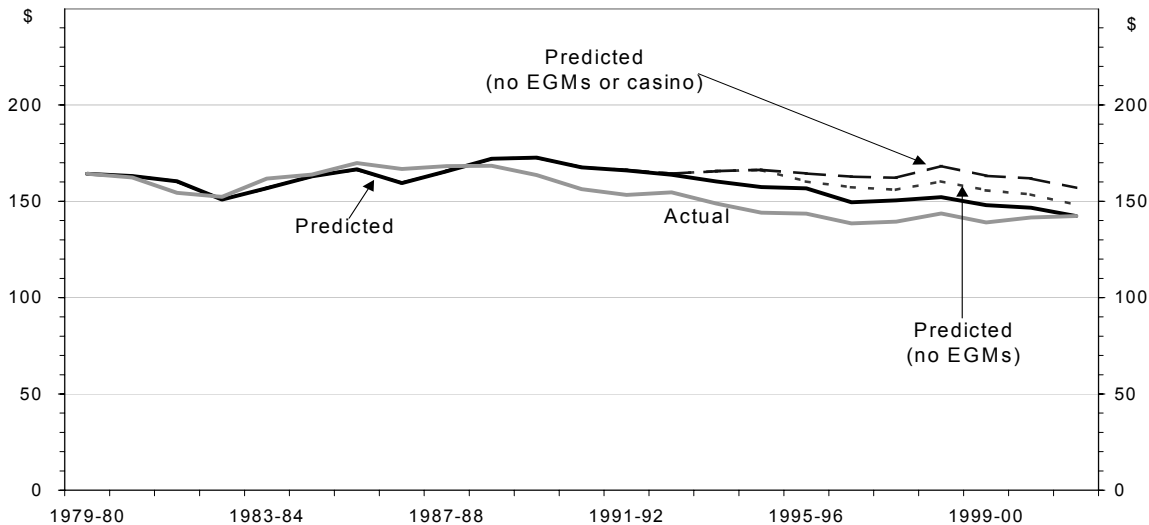
Summary regression results are displayed below. We have chosen to exclude Queensland and the Northern Territory due to volatility in the data (though the results are practically unchanged if we retain the Queensland data except for those data affected by the blip in racing expenditure in 1993/94). This leaves six States and Territories each with expenditure data available from 1976/77 to 2001/02, for a total of 156 observations on the level of expenditure. We chose to start with three possible lags of the changes in expenditure (hence 132 usable observations), subsequently reducing the number of lags in the regression where coefficients were found to be highly statistically insignificant. We have presented regression results in the table below (omitting from the tables the coefficients on the state and time dummy variables, the latter were anyhow insignificant). The quality of the fit of the model to the data is only modest: more than half of the variation across States and years in the growth of wagering expenditure per adult is not able to be explained by the model.

Table B1: Granger-Causality Test With State and Time Dummy Variables

Dependent variable is annual change in real per adult racing expenditure (\$ 1989/90)			
132 observations, 31 coefficients estimated, R ² = 0.434			
EGM expenditure			
	Coefficient	Calculated t-statistic (1 restriction, 101 degrees of freedom)	Prob (t > calc t)
$\Delta \text{EGMExp}_{t-1}$	-0.0657	-3.16	0.002
$\Delta \text{EGMExp}_{t-2}$	0.0793	3.42	0.001
$\Delta \text{EGMExp}_{t-3}$	-0.0231	-1.10	0.273
Long-run	-0.0094	-0.34	0.735
		Calculated F-statistic (3 restrictions, 101 degrees of freedom)	Prob (F > calc F)
Joint significance of lags of EGM expenditure		5.21	0.0022
Casino expenditure			
	Coefficient	Calculated t-statistic (1 restriction, 101 degrees of freedom)	Prob (t > calc t)
$\Delta \text{CasExp}_{t-1}$	-0.0331	-1.45	0.150

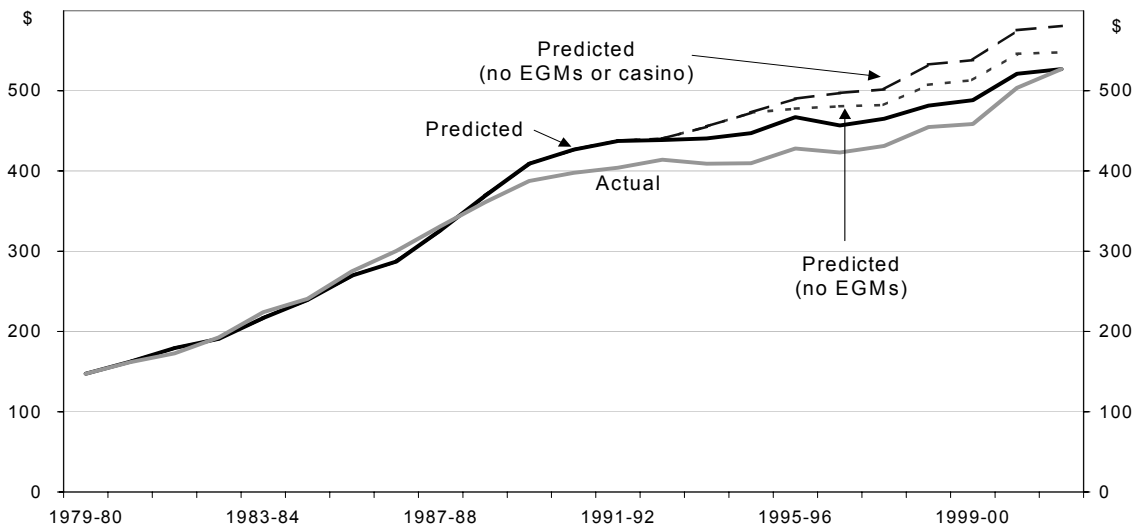
The Granger-causality test provides some statistical evidence that changes in EGM expenditure cause changes in racing expenditure; though there is a significant degree of uncertainty about the magnitude and direction of this effect, our best guess is that every \$1.00 increase in EGM expenditure (which might, for example, follow from easier access to gaming venues, better rates of return or more effective advertising) typically causes a change in wagering expenditure of around -\$0.01 within three years (a 50 per cent confidence interval is between -\$0.03 and +\$0.01). Interpreted literally, this suggests that in the absence of gaming machines in Victoria, wagering might have been around \$6 higher per adult in 2001–02 (an increase of four per cent). On the other hand, there is weak evidence that rising casino expenditure (for example, following the opening of the Crown Casino complex) may cause some decline in wagering expenditure. Our best guess is that a \$1.00 increase in casino expenditure may cause a change in wagering of -\$0.03, though again we emphasise that there is a wide degree of uncertainty about this estimate (a 50 per cent confidence interval is between -\$0.02 and -\$0.05). Interpreted literally, this would suggest that in the absence of the Crown Casino in Melbourne, racing expenditure in Victoria might have been a further \$9 higher per adult in 2001/02 (an increase of six per cent). These predictions for Victorian racing expenditure are illustrated on the graph below. The graph also illustrates that a substantial component of the slowing growth in racing expenditure from about 1990 cannot be predicted by the model (so does not simply reflect availability of EGMs or casinos, nor an Australia-wide change in preferences) though this gap has closed in the past year or so.

Figure B1: Actual and Predicted Real Racing Expenditure Per Adult — Victoria Estimated Effects of EGMs and the Casino, 2001–02 \$ per adult



Source: SACES calculations; and, Tasmanian Gaming Commission, 2003, Australian Gambling Statistics 1976–77 to 2001–02.

Figure B2: Actual and Predicted Racing Expenditure— Victoria Estimated effects of EGMs and the Casino, \$ million



Source: SACES calculations; and, Tasmanian Gaming Commission, 2003, Australian Gambling Statistics 1976–77 to 2001–02.

Appendix C

Licensing of Wagering and Gaming, Competition and Regulation

Government issues licences and regulates both the wagering and gaming industry in Victoria. It is also a beneficiary of wagering and gaming turnover. The Victorian Government has announced a review of the following licences:

- licence for lotteries, currently held by Tattersalls with a decision expected in 2005;
- licence for wagering, currently held by TABCORP (Vic) until 2012, with a decision expected sometime in 2007; and
- licence for gaming, currently held by TABCORP (Vic) and Tattersalls to 2012, with a decision expected sometime in 2007.

In relation to wagering the Victorian Government has a beneficial interest in the tax-stream derived from individual bookmakers, racing clubs and profits from wagering earned by TABCORP (Vic). Obviously, the value of the wagering licence is important to a publicly listed company such as TABCORP (Vic), its shareholders and the financial markets assessment of future earnings and dividends. The racing industry, through the joint venture agreement (JVA) with TABCORP (Vic) receives 25 per cent share of profit from TABCORP's wagering and gaming business. The racing industry (as indeed are each of the parties) is free to promote the industry, to enhance attendances and to boost wagering turnover. The industry operates within a regulatory regime built up over a considerable length of time as well as industry codes of practice. The forum of Racing Ministers is an important forum for individual State Ministers to coordinate and collaborate on cross jurisdictional and intra-State policy matters. The researchers note that not all State Ministers are opposed to the Commonwealth's decision on betting exchanges.

It is unsurprising that the States, the racing industry and the holder of a wagering licence might find mutual ground on which to oppose the entry of a competitor. The potential entry of internet based betting exchanges represents a challenge to the existing licences and regulatory regimes. The Commonwealth in announcing that they would not prohibit betting exchanges specifically noted the 'potential for enhanced protection measures to be introduced in an online gambling environment [while they] found no compelling evidence to suggest that betting exchanges were likely to contribute to an increase in the level of problem gambling'.¹¹⁸ The decision of the Commonwealth invited all State Ministers to review their licensing regimes across all wagering services.

For their part, operators of betting exchanges claim that betting exchanges will offer improved returns for punters, that wagering is more sophisticated and this is where the growth in wagering turnover has come from in recent times (i.e., new products, sports betting) and that existing providers have failed to pass on to customers the benefits of cost savings from technology. The transactions costs for betting exchanges are much lower than for existing providers, and this is an important difference between betting exchange and TABs. It is likely that high stakes, large volume punters will seek out betting exchanges in preference to TABs.

In essence, the betting exchange operators challenge the existing relationship between government, the racing industry and the monopoly licence holder. Each side to the debate has championed its own cause — the 'integrity issue', 'fleecing of the punter', 'failure to pass on cost savings' — yet the reality is that new technology platforms (i.e., internet) are providing new mediums for wagering.

Certainly one immediate implication is how State regulators deal with new entrants into the marketplace.

While it is difficult to predict the future with any certainty, the entry of betting exchanges into wagering and sports betting could have a number of potential effects, including *inter alia*:

- dilute the value of the existing wagering licence on the assumption of lower than expected returns from wagering;
- impact on the revenue base and final profit, thereby potentially reducing the distribution to the racing industry;
- encourage TABCORP (Vic) to seek tax relief from government;
- encourage more aggressive cost cutting for product fees, for PubTABs, etc;
- encourage the promotion of telephone and internet account betting that have lower overheads per wager;
- reduce distributions to the racing industry will put pressure on race meetings that are uneconomic to run;
- the racing industry may need to seek out higher levels of sponsorship if distributions were to fall.

¹¹⁸ Minister for Communications, Information Technology and the Arts, News Release, 12 July 2004, 106/04.

When licensing betting exchanges State Governments will seek to:

- provide for a tax revenue stream (as with existing operators);
- support product fees for the racing industry;
- obtain the highest price for operating licences;
- regulate to ensure access to credit audit trails and that operators meet industry codes of practice, including responsible gambling;
- regulate to require adherence to financial reporting requirements (i.e., to Austrac, AFP, etc.);
- retain authority to approve new wagering products and to ensure harm minimisation procedures are in place.

All these 'future scenarios' reflect the need for greater efficiency, for cost savings and reform in response to competition. These same challenges have been required of other industries in Australia, so it is difficult to argue that the wagering sector should be immune from competition.

Competition in the form of new products is likely to intensify and this poses the most significant threat to problem gambling. Sports betting is the most likely arena for immediate competition. Spread-betting, so popular in sports betting is a particularly volatile form of betting with the capacity for the punter to lose heavily (or win heavily).

Products such as 'spinner bet option' where a punter is effectively playing a game of two-up in nominating odds/even/or one of each, in the number of the horses finishing first and second, is a further example of wagering converging to gaming. A responsible gambling regulatory framework will be required to respond to wagering products that are actually 'lottery or RNG products' to provide appropriate warnings, to ensure information on the products is available and to approve any new products.

Finally, much has been made of the 'integrity issue' to oppose the introduction of betting exchanges on the basis that 'betting to lose' will prejudice the integrity of the sport. It is ultimately the responsibility of the sport to look after the stewardship of that sport. In sports betting, with binary outcomes, the effect of betting on team A to win is the same as betting on team B to lose. More sophisticated betting opportunities are then introduced into what is a betting to win/betting to lose situation. In racing the stewardship of racing rests with the industry, race stewards and investigators, etc. The ability to audit credit accounts and to investigate betting trails in many instances provides for greater regulatory control, supervision and inspection than currently exists in race wagering.

Appendix D

List of Interviewees/Organisations

Victoria

Racing Victoria Limited	Mark Close Manager, Government Relations
Harness Racing Victoria	Duncan McPherson General Manager, Strategic Planning and Product Development
Greyhound Racing Victoria	John Stephens Chief Executive
Victorian Bookmakers Association	John Clancy Chief Executive
Australia and New Zealand Greyhound Australia	Neil Brown Chief Executive (Director of Sandown Greyhound RC)
Australian Harness Racing Council Inc	Rod Pollock Chief Executive
Moonee Valley Racing Club	Paul Brettell Chief Executive
Country Racing Victoria	Mark O'Sullivan Group General Manager
Victoria Racing Club	Dale Monteith Chief Executive
Sandown Greyhound Racing Club	Jeff Davies Chief Executive Officer Matthew Corby Marketing Manager
Radio Sport 927	David Campbell Research Manager
TABCORP (Vic) Holdings Ltd	Michael Piggott Executive General Manager – Wagering Neale Wheat Group Financial Manager Charles Read Executive General manager Strategy and Development
Department of Justice	Ged Prescott Manager, Office of Gaming and Racing
Office of Gambling Regulation	Phillip Shelton Acting Assistant Director Gambling Operations and Audit Phillip Bennett Manager, Gambling Products
Interactive All Sports Betting (IASbet)	Mark Read Executive Chairman Roger Smeed Chief Executive
Department of Human Services	Tony Carr Research & Data Gambler's Help
South Australia	
SA TAB	Bruce Houston General Manager
SA Bookmakers' League Inc	John McBain Secretary
Thoroughbred Racing SA	John Cameron Chief Executive Officer

Appendix E

Interview questions

I have a series of questions to guide the interview. They cover:

- perceived changes in type and style of wagering, and access to wagering;
 - impact on, and role of, the industry in responding to or bringing on these changes;
 - impact on, and role of, punters;
 - the role of government with respect to these changes from the perspective of control and regulation, ongoing support of the racing industry, and the tracking of existing and emerging demographics of users.
1. I should like to begin by asking you to say who you are, which organisation you represent, and what your organisation does.
 2. The internet and the many options it offers in the form of off-shore betting, betting exchanges, online telephone betting etc, presents perhaps the biggest new change in wagering. Can you suggest other changes to wagering that are confronting your industry?
 3. Are you and your organisation at all concerned about the introduction of betting exchanges and other forms of online and phone wagering. If so, why? If not, why not?
 4. We hear a lot about problem gamblers, but usually only in relation to electronic gaming machines. Would you say this is a problem in wagering too? Will problem gamblers be affected by the industry changes we've spoken of today?
 5. Are there any variations in attitude to these changes between city/country, or between states?
 6. Are there any tensions arising because of these differences? I have in mind here interstate rivalries. But also tensions within and between the racing and wagering industries.
 7. Consider implications of merger and takeover proposals between TABCORP (Vic), TabLimited (NSW) and UniTAB. Comments about possible course and meeting closures as part of an overall rationalisation process – how do you respond to these comments? Also benefits of larger national wagering pool following rationalisation?
 8. Could the changes taking place affect the provision of races at traditional times, places, horses and venues?
 9. With specific regard to punters have you seen any recent changes in their demographic or to their preferred mode of wagering?
 10. To what extent do you think punters will accept new forms of betting linked to the internet and other forms of digital technology?

11. Ignoring the financing of racing and other such factors for the moment – would easier access to wagering and betting through the use of new technologies offer any real advantage to the punter or the industry?
12. Do you have any thoughts as to whether the introduction of these new modes of wagering will have any impact on the number, or type of problem gamblers?
13. How does the industry currently identify the demographics of punters, and would changes in the wagering industry make this easier or harder?
14. Some industry analysts have questioned TABCORP's approach to wagering. They say that it no longer regards it as an ongoing growth market, and might be happy no longer to be a player in the interests of pursuing other gambling industry options such as gaming and casinos. Is this a fair assessment? If so, is this likely to be a problem for the racing industry?
15. Can TABCORP's claims that betting exchanges will be bad for racing be sustained?
16. Can the Government regulate wagering in an appropriate way. Or is government dependency on gambling taxation making it difficult for it to act like this?
17. Do you think that the government, or the industry for that matter, have any real chance of banning, or even regulating, internet wagering either onshore or offshore?
18. Should companies like Betfair be given government approval?
19. The expiry of TABCORP's license in 2012 opens up many opportunities for re-organising the industry which are being openly spoken about by industry analysts. What would your organisation like to see put on the table as we approach this important date?

Appendix F



MEDIA RELEASE

Wednesday

26 November 2003

RACING VICTORIA LIMITED ADOPTS RESPONSIBLE WAGERING CODE OF PRACTICE

The Racing Victoria Limited Board has adopted a *Responsible Wagering Code of Practice*, as part of its commitment to the promotion of responsible wagering.

RVL is dedicated to adhering to high standards in all wagering-related activities, especially in the areas of betting supervision and communications about wagering.

RVL's *Responsible Wagering Code of Practice* is based on the seven objectives contained in the Australian Racing Ministers' Conference National Guidelines for Responsible Wagering Practices. RVL has added two new objectives to its Code of Practice (Objectives 8 and 9).

RVL Executive Chairman Graham Duff said:

"RVL recognises the importance of promoting responsible wagering practices to protect the Victorian community and minimise harm associated with problem wagering. RVL is committed to a Responsible Wagering Code of Practice, which promotes responsible wagering practices and minimises the difficulties faced by people who are problem wagerers."

The objectives of RVL's *Responsible Wagering Code of Practice* are:

- Objective 1:** To provide consumers with the information required to make considered and informed decisions in relation to wagering products.
- Objective 2:** To provide consumers with the information likely to prevent the development of wagering-related problems or to assist consumers at risk of, or experiencing, such problems.
- Objective 3:** To provide wagering services in a manner that encourages responsible wagering patterns and behaviour.
- Objective 4:** To ensure all appropriate personnel are capable of delivering the responsible provision of wagering.
- Objective 5:** To require that service providers act in an ethical manner.
- Objective 6:** To provide that advertising and promotion is conducted in a responsible manner.
- Objective 7:** To require that the performance of responsible wagering practices are evaluated.
- Objective 8:** To encourage and support responsible wagering practices by racing industry stakeholders.
- Objective 9:** To support research into problem gambling.

As part of the *Responsible Wagering Code of Practice*, RVL will seek to ensure racing clubs conduct their race meetings with full regard to responsible wagering practices. Both TABCORP and the Victorian Bookmakers Association have their own responsible wagering code of practice and RVL encourages and supports TABCORP and Victorian bookmakers in their conduct of responsible wagering.

The proposal to adopt a *Responsible Wagering Code of Practice* was strongly endorsed by the RVL Board and Member Shareholders.

Appendix G

Statement from William Angliss Institute of TAFE on TAB Accreditation and Training

TABCORP and William Angliss Institute of TAFE have worked together for a number of years under a joint venture arrangement between the Institute and the gaming industry to provide TAB accreditation and training. TABCORP has been active in designing and promoting a responsible service of wagering program which is a component of the Responsible Gambling Code related to wagering.

The Institute offers courses that are compulsory for people who want to work in a Hotel or Club, in a licensed gaming area and in wagering facilities such as PubTAB, ClubTAB, Kiosk or TAB Agency. Training is conducted at William Angliss and occasionally at TABCORP Head Office.

The Wagering courses offered are TAB for Beginners (3 hours), Seller Accreditation (2 days), Cash Control (one day) and PubTAB Management training (3 days). All of the courses do not have Responsible Wagering modules. Comments from Institute staff indicate that approximately 1200 people per annum attend some form of wagering training.

There are also two other options for people who are working in wagering. They are able to undertake on-the-job training and once they have completed approximately 72 hours of employment, then they are able to sit the Seller test. After the same amount of employment they are able to sit the Cash control test. The testing is both practical on the terminals as well as theory — generally takes about three hours to complete (depending on levels of competency per individual).

Over the history of the joint venture, a number of short courses have been developed for existing staff from TABCORP, Tattersalls, and Crown Casino. One such course is that for Responsible Wagering. The Centre for Economic Studies was informed of these courses when it was undertaking the research into the Self-Exclusion Program and is aware of a number of short courses developed for existing employees. Training is provided in relation to the AHA and industry sponsored Self-Exclusion program. Evidence of training is required to work in the industry. The employer, the employment agency where it is deemed necessary to help with employment placement and sometimes the individual, most often meet the cost of training.

Appendix H

Spread Betting Products

Spread betting products originate from the financial sector and stockmarket and have been applied to sports betting. The ACT Review of Race and Sports betting noted that 'spread betting represents a unique, highly volatile and high risk form of wagering which the Commission considers can be distinguished from other forms of gambling ...'.¹¹⁹ Essentially it involves the bookmaker predicting the outcome of an event and the punter either 'buys' (predicts the outcome of the event or index will be above prediction) or 'sells' (predicts lower than quote). The punter decides on the size of the betting stake. If you win then the return is your stake times the eventual margin you predicted above or below the bookmakers spread.

Conversely, if you lose, you lose an amount of your stake times every run or goal you were above or below the bookmakers spread. Unlike fixed odds betting you do not know how much you could win or lose. The punter can place limits on losses/wins through stop/loss arrangements which are an important harm minimisation measure and place successive bets ('in-running') to offset losses. The single protection a punter has is the punter/client arrangement where sufficient funds must be in the account to cover the margin exposure.

Further explanations and examples drawn from the internet are set out below.

Source: <http://www.online-spread-betting.com/sports.htm>:

What is Spread Betting on Sport?

Spread betting can be applied to a huge range of sporting events and matches. There are three basic categories into which bets fall: Total Number Bets, Supremacy and Match Bets and Performance Index Bets. These are decided by the totals of certain numbers in sporting events from which winners are declared, i.e., goals in football; runs in cricket; points in rugby; shots in golf. The key idea underpinning all bets is the spread, representing the difference between the prices at which you can back your selection to do well and badly.

How does it work? Imagine the First Test between England and the West Indies. How many runs will England score in their first innings? Example: Total Runs The quote might be 260–280. This means England are expected to score between 260 and 280 runs. If you think the pitch is full of runs, and that a total of 400 is likely, you should BUY at the higher quote i.e., 280. If, on the other hand, you think England will get nearer 200, you should SELL at the lower quote of 260. You specify your unit stake, i.e., the amount per run you wish to bet, when you open the bet. You always buy at the higher quote and sell at the lower quote. Say you think England will do well, and BUY for £2 per run at 280. This means for every run above 280 that England score, you win £2. If they make 400, you win $(400-280) \times £2 = £240$. But for every run below 280 that they total, you lose £2. If they are all out for 200, you lose $(280-200) \times £2 = £160$. If, instead, you were confident England would do badly, you could SELL for £2 per run at 260. So for every run below 260 that England total, you win £2. A final score of 200 nets you a profit of $(260-200) \times £2 = £120$. But every run above 260 loses you £2, and a total of 400 means a loss of $(400-260) \times £2 = £280$.

¹¹⁹ ACT Gambling and Racing Commission, Discussion Paper. 2004. Review of Race and Sports Bookmaking.

This demonstrates the key difference between spread betting and fixed-odds betting. Profits, and losses, are made in proportion to whatever unit stake you choose, but the stake is not the limit of your financial risk. With a £10 bet with a High Street bookmaker, that £10 is all that can be lost. A £10 per run bet on cricket can win, or lose, many times more than the £10 unit stake. With supremacy and match bets, the chief interest is not simply in who will win, but by how much. Betting takes place on the margin of victory, or supremacy, of one team or performer over another.

What is Financial Spread Betting on the Stock Exchange?

Spread Betting is a form of trading in which you bet on the price movement of a share, index, bond, commodity or currency in the same way as described above. It is a way of participating in the stock markets without actually owning any shares.

Appendix I

Victorian Racing Industry's Joint Venture with TABCORP

In 1994, the Victorian racing industry (VRI) and TABCORP Holdings Limited formed an unincorporated joint venture for the operation of a wagering and gaming business in Victoria. This coincided with the privatisation of the former Totalisator Agency Board, the public float of TABCORP and the issuing of a wagering and a gaming licence by the Victorian Government under the *Gaming and Betting Act 1994*. The joint venture agreement and licences are in place until 2012. The *Act* specifies that the VRI will be no worse off under the business arrangements relating to the renewal of those licences.

The VRI's participation in the joint venture is conducted under the auspices of VicRacing Pty Ltd and Racing Products Victoria Pty Ltd. Both companies have six directors (four nominated by RVL, one nominated by Harness Racing Victoria and one nominated by Greyhound Racing Victoria).

VicRacing Pty Ltd and TABCORP have one vote each on the Joint Venture Management Committee. All decisions by the Committee must be unanimous, thereby giving both parties equal control over the conduct of the joint venture.

VicRacing holds the VRI's equity interest in the joint venture and is entitled to a 25 per cent share of the joint venture's total profit (incorporating the net profit arising from TABCORP's wagering and gaming businesses).

Racing Products Victoria supplies racing services to TABCORP in return for the following fees —

- (i) a \$50 million per annum racing program fee (indexed from 1997-98 to growth in wagering profit) for supplying the racing product;
- (ii) a product supply fee of 18.8 per cent of wagering revenue (equating to around three per cent of turnover); and
- (iii) a \$2.5 million marketing fee (indexed from 1997-98 to growth in wagering profit).

In turn, VicRacing and Racing Products Victoria distribute this income to the three codes based on the following formula -

- joint venture profit, marketing fee and 25 per cent of the product supply fee are allocated to the codes based on off-course wagering market share
- racing program fee and 75 per cent of the product supply fee are allocated on a fixed basis of 73 per cent thoroughbred code, 18 per cent harness code and nine per cent greyhound code.

Appendix J

Wagering Facilities, Process and Protections for all (including minors)

Following from comments raised about wagering and crime TABCORP provided the following description of the terms and conditions related to the use of credit card accounts and deposit facilities.

TABCORP has stringent terms and conditions placed on the use of credit card accounts as a deposit facility. There are a number of stages to opening accounts and there are in place checks and balances related to the operations of those accounts. These are as follows:

TAB account holders wishing to use their credit card to deposit betting funds into their TAB account must return the completed Application Form to TABCORP. Account holders should allow approximately five working days for applications to be processed.

TAB account holders may apply to make credit card deposits with one credit card only. The credit card must be in the same name as the TAB account holder.

Credit card deposits into TAB accounts may only be made by telephoning Customer Service. Credit card deposits may not be made at TAB retail outlets.

Credit card deposits will be limited to one per day per customer.

The minimum credit card deposit that may be made by TAB account holders is \$100, subject to the account holder having sufficient credit available. The maximum deposit is \$10,000 unless a request to exceed the maximum deposit is made in writing to TABCORP and TABCORP confirms its acceptance in writing. TABCORP reserves the right, at its sole discretion, to reject any applications.

Subject to the account holder having sufficient credit available, the maximum deposit that may be made is the lower of the amount nominated by the TAB account holder in writing and \$10,000. TABCORP shall not be held responsible, however, in the event that credit card deposits are accepted by TABCORP in excess of the maximum amount nominated.

In accordance with legal requirements, funds transferred from a TAB account holder's credit card to a TAB account will not be available for betting until the funds have been received by TABCORP from the credit provider. At no time will TABCORP provide any credit to the TAB account holder.

An administration fee of up to \$3 may be charged by TABCORP in respect of each credit card deposit made by a TAB account holder. This fee is subject to change.

Funds deposited from a credit card to a TAB account that have not been used for betting are not available for withdrawal. Funds transferred from a credit card into a TAB account cannot be transferred back unless an error has been made by TABCORP.

The interest free period (if applicable) that applies on funds deposited from an account holder's credit card will be determined by the terms and conditions set by the credit card issuer.

TAB account codes must be kept in a safe, secure place. Identifying a TAB account code to TABCORP gives TABCORP authority to place bets and to deposit funds from an account holder's registered credit card into his or her TAB account. TAB account holders must notify TABCORP immediately in the event that an account code is lost or stolen. Prior to this notification all responsibility and liability for any loss occurring as a result of any misuse rests solely with the TAB account holder.

Lost or stolen credit cards must be reported to the credit card issuer immediately. Prior to this notification all responsibility and liability for any loss occurring as a result of any misuse rests solely with the TAB account holder.

TAB account holders may withdraw TABCORP's authority to deposit funds from their credit card into their TAB account at any time by giving written notice to TABCORP.

TABCORP reserves the right, at its sole discretion, to withdraw access to its credit card deposit service to any TAB account holder at any time without notice. TAB account holders currently held in detention in Australian or foreign prisons are not eligible to use the credit card deposit service.

The TABCORP Rules relating to Betting Transactions in Victoria, and the Sportsbet Rules, form part of these conditions. Conditions as at February 2000. TABCORP reserves the right to vary these conditions and the administration fee referred at any time, at its sole discretion.

Finally, in relation to unusual, suspect and/or large transactions TABCORP has in place procedures to detect and report all such activities.

All cash transactions of \$10,000 or more must be reported to Austrac. These procedures are considered sufficient.

Protections Against Betting By Minors

TABCORP has a stringent process for guarding against betting by minors. Outlined below are the major points of control already in place to prevent gambling by minors via the internet or over the phone:

- An account must be opened to allow an individual the ability to bet via the telephone or via the internet. Opening of an account by a new customer may only be approached in two ways: within a TAB retail agency or via the internet;
- When *opening an account via a retail agency*, visual identification and at least one form of photo ID must be presented. However all agents strongly urge customers to present the full 100 points of ID;

Changes in Wagering Within the Racing Industry

- When *applying for an account Online*, prospective customers must confirm their age and are advised they must be 18 years of age or over, which they must confirm via ticking a specific field. Even if they do go ahead and complete this process when not of legal age, they must still place funds into their account;
- Majority of people place funds into their account via a TAB retail agency or via credit card. The credit card must be registered with TABCORP (via sighting of credit card along with 100 points of ID), or it may only be used for a one-off, \$100 deposit over the phone;
- With TAB racing accounts, withdrawal of funds from accounts opened via the internet can only take place once 100 points of ID has been produced and recorded in the TAB system.

With TAB sports betting accounts, steps have been taken to implement the same withdrawal inhibitor.

The researchers view is that these arrangements are appropriate and demonstrate a commitment to ensure the integrity of the product that TABCORP offers