

TREASURY EXECUTIVE MINUTE

Minute No.

20 September 2010

Assistant Treasurer and Minister for Financial Services and Superannuation

cc: Deputy Prime Minister and Treasurer, Parliamentary Secretary to the Treasurer

GAMBLING REFORM

Timing: For information.

Recommendation/Issue:

- That you note this minute and, in particular, your role as co-chair with Minister Macklin of the Commonwealth-State Select Council on Gambling.

Noted

Signature:/...../2010

KEY POINTS

- On 23 June 2010 the Productivity Commission (PC) publicly released its Report into Gambling. Its key recommendations include: the introduction of a nationally consistent pre-commitment scheme and a broad suite of other harm-minimisation measures for electronic gaming machines (EGMs); and the liberalisation of online gaming (see **Additional Information**).
- Concurrent with the release of the report on 23 June, the Government released its preliminary response to the report (see **Attachment A**).
 - The response included: support for the use of pre-commitment technology; support for examining broader harm minimisation measures for EGMs; and rejection of the PC recommendation to liberalise online gaming.
 - The response also announced the proposed establishment of a Commonwealth-State Select Council on Gambling to progress a national response to minimise the harm caused by problem gambling.

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- The post-election agreement with the Member for Denison signed by the ALP on 2 September included important commitments on gambling reform (see **Attachment C**). Key features include:
 - A national pre-commitment scheme (to commence in 2014, two years earlier than recommended in the PC report); support for the PC's recommendations on EGM

dynamic warning displays and cost of play displays; and a \$250 per day maximum withdrawal limit from ATMs in venues with EGMs.

- The establishment of a Select Committee of the Parliament to act in an advisory role to yourself, Minister Macklin, and the Prime Minister to progress a national response to the PC report.
- If agreement with the States and Territories cannot be reached by 31 May 2011, the Government would unilaterally seek to legislate to achieve these reforms (subject to receiving legal advice that it is capable of doing so).

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- We can provide follow up briefing, including in person, on these issues.
- The following areas have been consulted in the preparation of this minute: Personal Retirement and Income Division, Tax System Division, Commonwealth-State Relations Division, Infrastructure, Competition and Consumer Division, Corporations and Financial Services Division, and Financial Systems Division.

Contact Officer:

Manager, Children, Families and
Pensioners Unit
Social Policy Division

ADDITIONAL INFORMATION

SUMMARY OF PC REPORT FINDINGS AND RECOMMENDATIONS

The PC report examined a broad range of gambling issues, with a main focus on problem gambling and electronic gaming machines. The report also examined issues relating to the racing and wagering industries. Most recommendations in the report are directed at areas of State and Territory government responsibility.

The PC report acknowledged that gambling is an enjoyable pursuit for many Australians. The report suggested that, to the greatest extent possible, policy should aim to preserve the benefits of gambling, while targeting measures at gamblers facing significant risks or harm.

The report highlighted the significant social cost of gambling, estimated to be at least \$4.7 billion. Problem gamblers are estimated to account for around 40 per cent of electronic gaming machine expenditure, which would indicate that a small number of gamblers account for a large percentage of losses.

The gambling sector was also found to be an important industry with gambling expenditure exceeding \$19 billion and the industry estimated to support the employment of more than 145,000 people (see Attachment H for more detail).

Harm minimisation

The report found that effective harm minimisation measures for gaming machines will inevitably reduce industry revenue, since problem gamblers lose so much. However, this would not occur overnight and the report suggested that reductions could possibly (at least in part) be offset by other market developments.

Pre-commitment

Pre-commitment systems would empower people to take responsibility for their own spending behaviour, by helping them decide exactly how much they want to spend before they start playing. The Commission recommended the introduction of a partial (voluntary) pre-commitment system by 2013 in advance of a move to full (mandatory) pre-commitment by 2016.

The Commission acknowledged that the changes will likely create costs to gaming machine venues who will lose substantial revenue. This could lead to the gradual rationalisation of community gaming venues, reduced community contributions from clubs and hotels, and lower tax revenues for state and territory governments. However, in the view of the Commission this would be largely justified by reducing the very high social costs from problem gambling that exist at present, and the phased approach to the changes give venues time to prepare.

Other harm minimisation recommendations

The Commission found there are strong grounds to lower the bet limit to around \$1 per 'button push', instead of the current \$5-10. Accounting for adjustment costs and technology, this could be fully implemented within six years.

The report also found that shutdown periods for gaming in hotels and clubs should commence earlier and be of longer duration. In addition, better warnings and other information in venues would help

Relocating ATMs away from gaming floors and imposing a \$250 daily cash withdrawal limit in gaming venues would help some gamblers. But the net benefits of removing ATMs entirely from venues would be uncertain.

Governments have improved their policy-making and regulations with respect to gambling, but significant governance flaws remain in most jurisdictions, including insufficient transparency, regulatory independence and coordination. There is a particular need to improve arrangements for national research.

Online gambling

Online gaming by Australians appears to have grown rapidly despite the illegality of domestic supply. The report stated that gamblers are exposed to additional risks and harms from offshore sites that could be avoided under carefully regulated domestic provision.

The PC recommended the liberalisation of the domestic supply of online poker card games, which when accompanied by appropriate harm minimisation measures, would test whether managed liberalisation should be extended to all online gaming forms.

The Government in its preliminary response on June 23 announced that it does not support the liberalisation of online gaming, including online poker, as recommended by the Commission.

Racing and wagering

Technological developments have undermined the ability of the states and territories to maintain protected wagering markets. However, wagering suppliers can currently 'free-ride' by taking bets but providing no compensation to the industry that supplies the events on which people lay bets.

Some states have enacted 'race fields' legislation that achieves a reasonable balance between the benefits of competitive wagering and the need to ensure the racing industry is adequately funded. However, New South Wales and Queensland have enacted policies that effectively lock in anti-competitive arrangements.

The Commission recommended that the Commonwealth Government monitor competition in wagering over the next three years; if after this time the race fields legislation appears to be unsustainable it recommended the development of an alternative national funding model for the racing industry, based on a national statutory scheme with fees universally paid on a gross revenue basis.

CHALLENGES AND SENSITIVITIES

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- In the wake of the agreement with the Member for Denison, implementation of best practice pre-commitment strategies will now start in 2012 and be completed in 2014. The implementation costs associated with the newly truncated timeframes will need to be examined.

- The PC report recommended a trial of a full pre-commitment system to begin by 2013, with implementation of a full pre-commitment system by 2016. There would also be exemptions until 2018 for smaller venues with less than 10 machines that also face significant implementation costs relative to revenue.
 - : The timing recommended by the PC would allow system upgrades to align with the natural replacement cycle of electronic gaming machines, thus minimising implementation costs.

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ATTACHMENT A – GOVERNMENT RESPONSE TO PC REPORT



PRESS RELEASE

The Hon Jenny Macklin
MP
Minister for Families,
Housing, Community
Services and Indigenous
Affairs

Senator the Hon Nick
Sherry
Assistant Treasurer

Senator the Hon
Stephen Conroy
Minister for Broadband,
Communications and the
Digital Economy

PRODUCTIVITY COMMISSION REPORT INTO GAMBLING

The Australian Government today released the 2010 Productivity Commission Report into Gambling for consideration by States, Territories, industry and the wider community.

The Government has also announced its support for key reform directions to minimise the harm caused by problem gambling.

In an initial response to the 2010 Productivity Commission Report into Gambling, the Australian Government signalled it supports the use of pre-commitment technology to tackle problem gambling and is committed to working with State and Territory Governments, and industry, in implementing this technology.

The Australian Government does not agree with the Productivity Commission recommendation that the Australian Government amend the *Interactive Gambling Act 2001* to allow for a liberalisation of online gambling, starting with allowing the provision of online poker games to Australians. The existing rules will continue to apply.

The Australian Government accepts that further work can be done to improve harm minimisation measures for electronic gaming machines.

The Australian Government will now write to State and Territory Premiers and Chief Ministers to recommend the establishment of a new high-level Council of Australian Governments (COAG) Select Council of Ministers on Gambling Reform to progress a national approach to minimise the harm caused by problem gambling.

The Productivity Commission estimates that there are between 80,000 and 160,000 Australian adults suffering severe problem gambling. In addition there are between 230,000 and 350,000 people at moderate risk.

The Productivity Commission's final report highlights the significant social cost of gambling, estimated to be at least \$4.7 billion. The Productivity Commission estimates that problem gamblers account for around 40 per cent of electronic gaming machine expenditure, showing that a small number of gamblers account for a large percentage of losses.

The Productivity Commission also highlighted the gambling sector as an important industry with gambling expenditure exceeding \$19 billion and the industry estimated to support the employment of more than 145,000 people.

Pre-commitment

The Productivity Commission found that pre-commitment is the most effective way to target problem gamblers and at-risk gamblers without impacting upon the wider gambling community and that's why the Government has committed to developing a pathway towards implementation for pre-commitment.

The Productivity Commission also found that pre-commitment systems would empower people to take responsibility for their own spending behaviour, by helping them decide exactly how much they want to spend before they start playing.

The Productivity Commission found that a pre-commitment scheme is a strong, practicable and ultimately cost-effective option to minimise harm caused by gambling. This new technology will give people the tools to stick to their limit and help them keep track of their spending.

The first priority for the Australian Government will be to progress a nationally consistent pre-commitment model for electronic gaming machines.

Online gaming

The Australian Government does not support the liberalisation of online gaming, including online poker, as recommended by the Productivity Commission.

The Government is not convinced that liberalising online gaming would have benefits for the Australian community which would outweigh the risks of an increased incidence of problem gambling, particularly with the rapid changes in technology.

The current prohibition on the provision of online gaming services to Australians will continue to apply.

The Government will examine the regulatory approach taken by other countries with similar regulatory regimes in relation to online gaming, such as the United States.

In particular, we will seek to work with other countries to investigate the possibility of a more effective multilateral regulatory regime to address this form of gambling, its social impacts and its impact on the Australian gambling industry.

Harm minimisation

The Australian Government accepts that more work can be done to improve harm minimisation measures for electronic gaming machines.

The Select Council on Gambling Reform will engage with all stakeholders to ensure that any changes to harm minimisation measures are proven to actually minimise the damage caused by problem gambling and are ideally able to be applied consistently across Australia.

This will include an analysis of the possible costs and benefits of such measures and also consider their need in light of moves towards a nationally consistent pre-commitment model.

COAG Select Council on Gambling Reform

The Australian Government will recommend that the COAG Select Council on Gambling Reform includes up to two Ministerial representatives from all jurisdictions to ensure that both economic and social portfolios are represented.

The Select Council on Gambling Reform will be co-chaired by Ministers Macklin and Sherry.

Most recommendations in the report are directed at areas of State Government responsibility but the Australian Government recognises that national leadership is required and will work with State and Territory governments through the new Select Council on Gambling Reform to consider the Productivity Commission's final report.

The Australian Government is committed to a thorough process through the COAG Select Council on Gambling Reform and to consulting closely with community groups, industry and relevant employee and employer groups on the Productivity Commission's findings.

Today's report follows a request made by COAG in 2008, through the then Assistant Treasurer, for the Productivity Commission to update its 1999 inquiry into Australia's gambling industries, with a focus on problem gambling. This responded to calls from industry and community groups that the Commission should be asked to update its 1999 report.

Copies of the Productivity Commission's report www.pc.gov.au.

CANBERRA

23 June 2010

Media contacts: Joe Scavo 0413 800 757 (Minister Sherry's Office)
 Jessica Walker 0430 166 633 (Minister Macklin's Office)
 Suzie Brady 0408 258 457 (Minister Conroy's Office)

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ATTACHMENT C – EXTRACT OF AGREEMENT BETWEEN THE ALP AND THE MEMBER FOR DENISON

7. Poker Machines

- 7.1 The Parties agree that problem gambling, especially through poker machines, is an important issue which must be addressed by all governments.
- 7.2 The Parties acknowledge that given gambling is predominantly regulated by State and Territory governments that addressing problem gambling requires co-operation between the Commonwealth and State and Territory Governments.
- 7.3 The Parties also acknowledge that the Commonwealth may be able to exercise greater legislative authority, if required, and agree to commission and receive no later than 1 February 2011 comprehensive legal advice about the Commonwealth's constitutional competence and prospects for successfully legislating in this area.

7.4 The Parties also acknowledge and agree that any approach taken to address problem gambling must be evidence based and that the Government has commissioned and received a comprehensive Productivity Commission report on problem gambling.

7.5 The Government commits to adopt a Commonwealth Government position on gambling reform that will include the initial response released on 23 June 2010 to the Productivity Commission report and further commits to the following additional measures:

- a) Implementing a best practice full pre-commitment scheme – that is uniform across all States and Territories and machines – consistent with recommendations and findings of the Productivity Commission. Implementation of pre-commitment arrangements will commence in 2012, with the full pre commitment scheme commencing in 2014, working with States and Territories to achieve this outcome. The full pre-commitment scheme will include the use of technology that is expected to have the best chance of reducing problem gambling.
- b) Supporting the Productivity Commission recommendations in relation to poker machine dynamic warning displays and cost of play displays.
- c) Implementing a \$250 daily withdrawal limit for ATMs in venues with poker machines (excluding casinos).

7.6 The Parties agree that the Government should seek agreement of all jurisdictions to the reforms detailed in Clause 7.5, including a timetable, and then each jurisdiction would amend their own State and Territory laws to implement the agreement. Regulation of the gambling industry would remain a State and Territory responsibility.

7.7 In the absence of agreement with the States by 31 May 2011 on any of the reforms detailed in Clause 7.5, the Government will unilaterally seek to legislate in order to achieve these reforms, subject to the legal advice received in accordance with Clause 7.3. If required, the Government will support Commonwealth legislation through the Parliament by Budget 2012.

7.8 The Parties acknowledge the need for an evidence based approach addressing problem gambling.

- a) Therefore, the Parties agree that it is appropriate to commission an independent study of the impacts of a reduction in problem gambling on other revenue flows and individual spending behaviour to report by the end of 2011.
- b) The Parties also agree that it is appropriate to task the Productivity Commission to conduct a thorough examination of the impact of the pre-commitment scheme on problem gambling from 2014 and to determine what further harm minimisation measures may be necessary.
- c) The terms of reference for the Inquiry will be set by no later than 30 June 2013.
- d) The Government agrees that it would rely on the Productivity Commission's further advice in determining further action on problem gambling.

7.9 The Government agrees that as soon as practicable, it will seek to establish a Select Committee of the Parliament to act in an advisory role to the Minister for Families, Housing, Community Services and Indigenous Affairs, the Assistant Treasurer and the Prime Minister

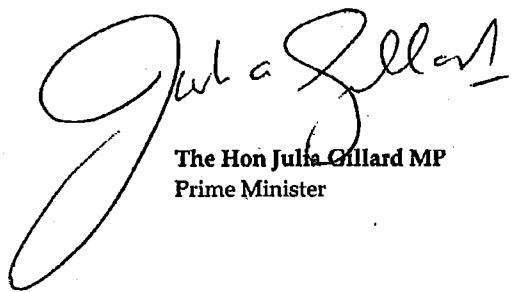
to progress a national response to the full set of recommendations in the Productivity Commission report.

- a) The Select Committee will include wide representation, including Mr Wilkie, Senator Xenophon and other parliamentarians.
- b) The Select Committee will be advised on the legal advice obtained under Clause 7.3 and will be able to inquire into the reasoning that supports the legal advice and the consequences which flow from it.
- c) The Select Committee will be able to provide direct input in to the Commonwealth position Ministers will take to the COAG Select Council on Gambling Reform.
- d) The Select Committee will inform the design of the full pre-commitment scheme outlined at 7.5 (a).
- e) The Select Committee will be able to provide direct input in to decision making about any Commonwealth legislation, the terms of reference of the further Productivity Commission process and the monitoring of the impact of the reforms detailed in Clause 7.5.

8. Administration

- 8.1 The agreement will come into effect on the day the Government is established and last for this parliamentary term of the Gillard Government.

Signed on this 2nd day of September 2010.



The Hon Julia Gillard MP
Prime Minister



Mr Andrew Wilkie MP -elect
Member-Elect for Denison

ATTACHMENT D - TAXATION

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STATE AND TERRITORY TAXES

- Gambling tax revenues account for approximately 10 per cent of States and Territories total own-source revenue and 3 per cent of total revenue (including grants).
- Of this revenue, approximately 60 to 75 per cent is derived from electronic gaming machines (EGMs).
 - These figures may understate total revenue as some states do not separately report EGM revenue attributable to casinos (such as Western Australia, which does not allow EGMs outside of the casino).

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- The PC estimates that problem gamblers share of total spending on EGMs is likely to be in the order of 40 per cent; Clubs Australia estimated that the introduction of the measures in the report would conservatively reduce their gaming revenues by approximately 30 per cent.

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- Changes to gambling tax revenue will not affect the distribution of the GST. The Commonwealth Grants Commission assesses gambling tax revenue using the 'equal per capita' method which means that a particular state's level of gambling tax neither increases nor decreases their share of GST.

COMMONWEALTH TAXES

- The majority of entities that offer gambling activities are subject to Commonwealth income tax and GST, consistent with other taxable entities.
 - Income tax is levied on the taxable income (assessable income less deductions for business expenses, including State gambling taxes).

- GST is applied to net gambling margin (revenue less payouts) for any gambling supplies made by an entity.

The principle of mutuality

- Many licensed clubs that offer gambling services are taxed concessionally relative to businesses due to the ‘principle of mutuality’. Clubs Australia estimates that there are approximately 4500 clubs in Australia, around half of which are in New South Wales. The principal aim of a club is to enhance the wellbeing of its members.
 - The principle of mutuality is a judicially-created principle of income tax law: to the extent that an organisation operates mutually for the benefit of its members, it does not derive income from its members. This is based on the notion that a person cannot make a profit from selling to themselves.
 - This means that mutual entities, such as licensed clubs, do not pay income tax on a proportion of their earnings. You have portfolio responsibility for the application of the principle of mutuality.
- Many licensed clubs accessing the mutuality principle are very large, and their relationship with the community resembles more of a customer / business relationship than a clear and close relationship between members.

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RECOMMENDATIONS OF RECENT REVIEWS

Productivity Commission report into the contribution of the not-for-profit sector

- The Commission concluded that the present tax concessions for gambling income provided to clubs breach competitive neutrality principles. [*Productivity Commission’s report into the contribution of the not for profit sector, pg 224*]
 - These concessions include the principle of mutuality and the concessional rates of State gambling taxes for clubs.
 - The PC acknowledges the argument that clubs deserve Government support because they provide significant benefits to the community in general. However, they do not consider these benefits to justify the tax concessions.
 - The Government has not yet responded to this report. We are working with the PM&C and FaHCSIA portfolios on a draft Government response, however this is unlikely to impact on gambling activities. We will provide you with a separate briefing on this shortly.

Australia's Future Tax System (AFTS) Review

- The AFTS report notes that the current structure of gambling taxes in Australia does not conform to principles of good tax design:
 - Taxes can only help problem gamblers if they understand the price they face (the odds) and respond to higher prices by reducing their losses. In most forms of gambling, the price is not easily observable and even if problem gamblers do observe changes in price, it is not clear that they respond by reducing their losses.
 - Government restrictions on the supply of gambling services mean that some gambling businesses earn economic rent ('supernormal profits'). Governments can raise revenue efficiently from these economic rents through either license fees or taxation.
 - : The growth of a competitive online gambling industry, however, may mean that the economic rents in the gambling industry decline over time.
 - But the current rates of tax on different forms of gambling differ markedly from form to form, as well as between different types of venue (e.g. hotels versus clubs) for reasons that are not clear.
 - Governments that rely on gambling revenue to a significant extent may have to make difficult choices in balancing revenue raising with regulating gambling to limit problem gambling. Ideally, the regulatory role should be separated from the collection of revenue.
- The AFTS report makes the following recommendations on gambling taxation:
 - Gambling taxes should be reviewed to ensure that they are focused on recouping economic rent generated by government restrictions on the supply of gambling services or are being used efficiently to impose such restrictions. (Recommendation 76)
 - Governments should eliminate gambling tax concessions for particular types of gambling business, such as clubs. If governments wish to subsidise particular types of businesses, they should do so through direct expenditures. (Recommendation 77)
 - Governments should consider the allocation of responsibilities for the regulation and taxation of gambling, with a view to minimising conflicts in policy making between revenue raising and addressing problem gambling. (Recommendation 78)
- In relation to clubs involved in gaming, the report recommends:
 - Simple and efficient tax arrangements should be established for clubs with large trading activities in the fields of gaming, catering, entertainment and hospitality. One option is to apply a concessional rate of tax to total net income from these activities above a high threshold. For clubs below the thresholds, no tax would be applied to income from these activities. (Recommendation 44)
- In its initial response to the AFTS review (2 May 2010), the Government ruled out implementing recommendation 44:

- [The Government will not] do any changes to the tax system that harm the not for profit sector, including removing the benefit of tax concessions, raising the gift deductibility threshold or changing income tax arrangements for clubs (see Rec 9e, 13, 41, 43 & 44).
- It did not directly respond to the recommendations on gambling taxation (recommendations 76-78).

ATTACHMENT E - MARKET REGULATION

RACING AND WAGERING

- Regulation of the racing and wagering industries falls under state jurisdiction.
- Historically the racing industry has faced the problem of free-riding, with wagering suppliers taking bets without providing compensation to the industry that supplies the events on which the bets are laid.
- Over the last 20 years the wagering industry has undergone profound change as a result of the privatisation of TABs and online wagering providers establishing a national market.
- This has led to state-based racing and wagering regulations being subject to disputes about the appropriate level of compensation wagering operators should provide to the racing industry for the use of its content, and calls for Commonwealth intervention to establish a national regulatory scheme.

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ONLINE GAMBLING

- The provision of online gambling to Australians is prohibited through the *Interactive Gambling Act 2001*. In its Report, the PC found that the ban has 'limited utility', as Australians increasingly access offshore sites beyond the governments jurisdiction.
- The PC recommended a managed liberalisation of online gambling rather than seeking to try and strengthen the existing ban. The PC stated that a domestically regulated industry would provide greater consumer protection and safeguards than offshore providers. Revenue would also be raised from corporate income tax and GST.
 - While the PC considered a range of features of online gambling that mitigate its harm to problem gamblers relative to gaming machines, it also advocated a 'closely monitored, phased approach to liberalisation' starting with online poker games. The PC envisaged extending or abandoning liberalisation, depending on its performance.
- In its 23 June 2010 Response, the Government announced that the existing prohibition would continue to apply. The Government also committed to examine regulatory approaches in other countries, such as US reforms designed to stop payments to offshore gambling sites, and investigate a multilateral regulatory regime.

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ATTACHMENT G – THE GAMBLING INDUSTRY

OVERVIEW

Employment

- The gambling industry employs around 67,000 staff directly involved in gambling activities.
 - A further 105,000 non-gambling staff are employed in casinos, hotels and clubs that offer gaming, while almost 50,000 are employed in the racing industry.

Revenue

- Around \$18 billion is spent by consumers on gambling. By comparison, Australians spend around \$11 billion on alcoholic beverages from retail outlets.
- Electronic Gaming Machines (EGMs) account for the biggest single slice of overall gambling expenditure in Australia — around 65 per cent of the total.

Industry conditions

- State Governments impose a tight regulatory regime on the gambling industry. While licensed operators face strict regulatory requirements and heavy taxation arrangements, they may have exclusive access to a particular geographic market for some period.
 - Large parts of the gambling industry, such as casinos, TABs and lotteries, are characterised by some form of monopoly or near monopoly.

ELECTRONIC GAMING MACHINES (EGMS) IN CLUBS AND HOTELS

- Among clubs, 87 per cent had gambling facilities and, of those, 94 per cent had EGMs.
- Among hotels, 73 per cent had some gambling facilities and 78 per cent of these had EGMs.
- In Western Australia, Burswood casino is the sole gaming machine operator and venue.

Employment in the sector

- Clubs with gambling facilities employ around 60,200 people.
- Pubs, taverns and bars with gambling facilities employ around 65,000 people.¹

Revenue

- EGMs in clubs and hotels account for around 58 per cent of total gambling revenue in Australia, or around \$10.6 billion.
 - Clubs with gambling facilities derived roughly 60 per cent of total business revenue directly from EGMs.

¹ Australian Bureau of Statistics, *Gambling Services 2004-05* Cat. No. 8684.0.

- Hotels with gambling facilities derived around 28 per cent of their revenue from EGMs.

Industry conditions

Barriers to entry

- Clubs and hotels must be licensed to operate EGMs.
- The cap on the number of gaming machines allowed in clubs and hotels acts as a barrier to entry for new participants who are seeking to gain access to gaming machines

Regulation

- All States and Territories impose some restrictions on gaming machine numbers. Caps are in place because of concerns about the potential social impacts of gaming machine numbers.
- There are also rules about the types of machines permitted, approval arrangements for manufacturers, and monitoring and revenue verification requirements.
- One of the main recent regulatory changes which has impacted on EGM expenditure in clubs and hotels is the ban on smoking. Most States have imposed these bans.

THE CASINO INDUSTRY

Employment in the sector

- Around 18,000 people are employed in casinos in Australia.²
 - Casinos are very large employers of labour given that most operate between 18 hours and 24 hours a day.
- Casinos are in general labour intensive, with over 29 per cent of costs being labour related, and have very high staff turnover rate³.

Revenue

- Casinos account for around \$3 billion of gambling expenditure in Australia, or around 17 per cent of overall gambling expenditure.
 - Casinos derived 32 per cent of their revenue from EGMs.
 - There has been a 14 per cent increase in the number of EGMs in casinos over the last decade — by comparison, EGM numbers in clubs and hotels had increased by 7 per cent.

² Australian Bureau of Statistics, *Gambling Services 2004-05* Cat. No. 8684.0.

³ IBIS World (2009), Casinos in Australia

Industry conditions

Barriers to entry

- The barriers to entry in the casino industry are high and increasing.
- Entry into the industry is usually via a government tender for a licence and the successful operator is usually offered an exclusive clause for a period of 15 to 20 years where no other casino licences will be issued by the government within a defined geographic area.
- Smaller casinos could possibly be established in some larger regional centres in some States, away from existing casinos once the existing casino exclusive licence and geographic area agreements expire.
- There are 13 operating casinos in Australia, owned by six different corporations.
 - The casino industry generally has a high level of concentration with the top four players estimated to account for close to 90 per cent of the available market share in 2009.⁴

Other Regulation

- The overall level of regulation surrounding activity by the casino industry is regarded as heavy with an increasing trend⁵.
- Casinos in Australia operate in a tight regulatory environment where all States casinos are regulated by Casino Authorities which include comprehensive internal auditing and inspection procedures to stop any possibility of money 'laundering' or 'skimming' and compulsory checks on persons applying for employment at a casino.

THE WAGERING INDUSTRY

- Wagering in Australia is largely based on either horse or greyhounds races, or sports events.
- Wagering services in Australia are provided by TAB totalisators as well as bookmakers and one betting exchange. TAB totalisators remain the largest providers of wagering products in Australia.

Employment in the sector

- Around 9,500 people are employed providing totalisator, betting or other gambling services in Australia.⁶
- In 2001, around 16,000 people were employed in horse and dog racing in Australia.⁷

⁴ IBIS World (2009), Casinos in Australia

⁵ IBIS World (2009), Casinos in Australia

⁶ Australian Bureau of Statistics, *Gambling Services* 2004-05 Cat. No. 8684.0.

⁷ Australian Bureau of Statistics, *Sports Industries*, 2000-01, Cat. No. 8686.0.

Revenue

- Wagering accounts for 14 per cent of gambling expenditure in Australia, or \$2.5 billion.

Industry conditions

Barriers to entry

- The industry has significant barriers to entry. A license is required to operate in the TAB component, and registration is required for bookmakers.
 - State and Territory governments issues licenses to the TAB, which give the holder monopoly rights to operate this component for a given period.
 - : This does not, however, make the wagering industry free from competition.
 - Registration for bookmakers is with the relevant State or Territory agency and is subject to meeting criteria such as financial asset assessment.

Regulation

- The industry is regulated through the use of licenses, and restrictions to the number of bookmakers at any one event.
 - Bookmakers must indicate their desire to attend a race meet, with the outcome being decided by ballot when necessary.
 - Betting online with a credit card is illegal.

LOTTERIES AND POOLS

Employment in the sector

- Around 2,200 people are employed in the lottery businesses in Australia.⁸

Revenue

- Lotteries, pools and keno comprise a small share of gambling expenditure, around 11 per cent or close to \$2 billion.

Industry conditions

Barriers to entry

- The market dominance and size of the key industry players is a barrier to entry in the lotteries market.
 - Only four players in the lotteries market account for almost 100 per cent of the market.

⁸ Australian Bureau of Statistics, *Gambling Services 2004-05* Cat. No. 8684.0.

- Significant capital costs associated with developing and maintaining a significant sales agency network also act as a barrier to entry.

Regulation

- In all States and Territories lotteries are regulated by specially legislated bodies with wide-ranging and arbitrary powers to regulate operators.
 - The industry is licensed and regulated by State/Territory governments via their Casino and Gaming Commissions
- Entry into the industry is usually via a government tender for a licence and the successful operator is usually offered an exclusive clause for a period of 10 years.

ONLINE GAMBLING

- The main forms of online gambling are online wagering and online gaming.
 - Online wagering is comprised of betting on racing, sports betting, and betting on the outcome of events.
 - Online gaming comprises of casino games, all forms of poker and virtual gaming machines. Lotteries and Keno can also be provided in an online environment.

Industry conditions

Australian Government Regulation

- The Interactive Gambling Act (IGA) prohibits the provision of online gambling services, such as online casino games, online versions of electronic gaming machines and online bingo, to customers in Australia.
 - The IGA also prohibits the advertisement of these gambling services to customers in Australia.
- The IGA does not outlaw Australians from accessing online gambling services. Nor does it prevent Australian based companies from providing online gambling services to (non-Australian) customers in other countries.

ATTACHMENT H – KEY GAMBLING STAKEHOLDERS

Clubs, hotels and casinos

Organisation	Key contact
Australasian Gaming Council	section 22
Clubs Australia	section 22
Clubs NSW	section 22
Australian Hotels Association	section 22
Leagues Clubs Australia	section 22
Tabcorp Holdings	section 22
Gaming Technologies Association	section 22

	section 22
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Wagering and racing

Australian Bookmakers Association	section 22
Australian Racing Board	section 22
Harness Racing Australia	section 22
Greyhounds Australasia	section 22

Online Gambling

Australian Internet Bookmakers Association	section 22
Interactive Gaming Council	section 22
Betfair	section 22

Key Gambling Community organisations

Betsafe	section 22
Duty of Care	section 22
Gambling Impact Society NSW	section 22
Pokiewatch.org	section 22
Responsible Gaming Network	section 22
Victorian Inter Church Gambling Taskforce	section 22

ATTACHMENT I – KEY TREASURY CONTACTS

Overall responsibility Social Policy Division	section 22
Online gaming; competition policy Infrastructure, Competition and Consumer Division	section 22
Payment systems (ATMs, EFTPOS, cheques) Financial System Division	section 22
Taxation issues (Coordination of gambling taxation issues; clubs and the mutuality principle) Personal and Retirement Income Division	section 22
Commonwealth Constitutional Powers (Use of Commonwealth's Constitutional powers to legislate for gambling reforms)	section 22
State revenue implications	section 22