

GAMBLING
PRODUCTIVITY COMMISSION INQUIRY

Submission of

AUSTRALIAN RACING BOARD

INDEX

i.	Introduction and approach.....	1
ii.	Executive Summary.....	3
	1. Relevance of the Australian Thoroughbred Racing Industry to the Commission's Inquiry into Australia's Gambling Industries.....	5
	2. Scope and Contribution of Australian Thoroughbred Racing.....	7
	2.1 Overview.....	7
	2.2 Definition of the Australian Thoroughbred Racing Industry.....	7
	2.3 Significance of Thoroughbred Racing to Australia.....	8
	2.4 International significance of Australian Thoroughbred Racing...	10
	2.5 Conclusion.....	11
	3. The Australian wagering market	12
	3.1 Wagering as a segment of the gambling market.....	12
	3.2 Race wagering vs. sports betting.....	13
	3.3 Types of racing wagering operations	15
	a. On-course bookmakers.....	15
	b. Corporate bookmakers.....	16
	c. TABs.....	17
	d. Betting exchanges.....	18
	e. Offshore bookmakers.....	20
	3.4 New wagering Channels	20
	a. Internet.....	21
	b. Mobile phone gambling.....	22
	c. Interactive Television (iTV).....	22
	4. The Wagering and Racing Nexus	24
	4.1 Wagering and Racing: a symbiotic relationship.....	24
	4.2 The totalisator model of funding.....	25
	4.3 Totalisator odds betting.....	28
	4.4 Projections of impact of wagering market changes on ARI funding	30
	(a) The Allen Consulting Group.....	30
	(b) Modelling published by TABCORP.....	31
	(c) Boston Consulting Group.....	33
	(d) Racing Victoria Limited.....	40
	4.5 Conclusion.....	45
	5. Gambling and Integrity	47
	5.1 Overview.....	47
	5.2 International experience of gambling and integrity of sport.....	47
	5.3 Victorian Sports Betting Act.....	49
	5.4 New integrity challenges for ATRI.....	52
	6. Race fields legislation	54
	6.1 Rationale.....	54
	6.2 Enactment of race fields legislation.....	56
	6.3 High Court decision: Betfair vs. WA.....	59
	6.4 Overview of strengths and weaknesses in light of Hight Court decision.....	61

6.5 Application of race fields legislation.....	62
6.6 Responses to race fields.....	63
7. New technologies and problem gambling	65
7.1 Reasons why the IGA wagering exemption is appropriate and should continue.....	65
7.2 Advertising.....	68
7.3 Credit Betting.....	69
8. National Policy Making	70
8.1 Forces shaping the racing and wagering industries.....	70
8.2 Why the States should support a national approach.....	71
8.3 National Action to strengthen a National Industry: the necessary elements of a national policy.....	73

Appendices

<u>Appendix A</u> – Experience of the United States battling internet gambling....	75
<u>Appendix B</u> – Gambling and Integrity of Sport.....	79
<u>Appendix C</u> – Information regarding “Race Fields” for Australian Wagering Operators (RNSW).....	83
<u>Appendix D</u> – Standard Conditions (RNSW).....	89
<u>Appendix E</u> – Application form for approval to public NSW Thoroughbred race fields.....	117
<u>Appendix F</u> – Racing NSW information sheet re Legal Challenges.....	131
<u>Appendix G</u> – British Racing: A case study of the impact of regulatory structures on industry development.....	132
<u>Appendix H</u> – Chronology of events relation to attempts to find a commercial replacement for the levy.....	136

i Introduction and approach

The following submission has been prepared by the Australian Racing Board Limited (**ARB**), a public company limited by guarantee, which is the national body formed by and representing the thoroughbred racing Controlling Bodies in each State and Territory of the Commonwealth (**Controlling Bodies**). The Controlling Bodies are all either established or recognised by State or Territory legislation, and each is responsible for doing all that is reasonably within its power to develop, encourage and manage the thoroughbred racing industry in its territory.

This response considers each of the following topics from within the Terms of Reference established by the Assistant Treasurer:

- The nature and definition of gambling and the range of activities incorporated within this definition; (TOR 1)
- The economic impacts of the gambling industries, including industry size, growth, employment, organisation and interrelationships with other industries, such as tourism, leisure, other entertainment and retailing; (TOR 3)
- The social impacts of the gambling industries, the incidence of gambling abuse, the cost and nature of welfare support services of government and non-government organisations necessary to address it; (TOR 4)
- The contribution of gambling revenue on community development activity and employment; (TOR 5)
- The effects of regulatory structures – including licensing arrangements, entry and advertising restrictions, application of the mutuality principle and differing taxation arrangements – governing the gambling industries, including the implications of differing approaches for industry development and consumers; (TOR 6)
- The implications of new technologies (such as the internet), including the effect on traditional government controls on the gambling industries; (TOR 7)
- The impact of gambling on Commonwealth, State and Territory Budgets; (TOR 8)
- The impact that the introduction of harm minimisation measures at gambling venues has had on the prevalence of problem gambling and on those at risk; (TOR 9)
- Evaluate the effectiveness and success of these harm minimisation measures used by the State and Territory Governments. (TOR 10).

The ARB welcomes the opportunity to contribute to the Commission's Inquiry into gambling in Australia. Our approach responds to the topics raised by the Terms of Reference, but goes into most detail on the changing wagering landscape and consequential challenges to the future of the racing sector. We first address the scope and current contribution of the Australian Thoroughbred Racing Industry (ATRI), using a broad industry definition. We then analyse the forces shaping the wagering market today, both internal and external. We analyse the most significant factors that could affect the future of the ATRI and point to several attempts that have been made to measure their probable impact. Finally we propose several policies concerning Australia's gambling industries and their influence on the future growth and sustainability of the ATRI.

Our submission is made on behalf of the ATRI because the ARB is the industry body for that racing code, though most of the issues also affect the harness and greyhound racing codes.

ii Executive Summary

The thoroughbred racing industry makes important economic and social contributions to Australia. Through direct and indirect effects, thoroughbred racing and wagering on that racing account for 0.58 percent of Gross Domestic Product, provides 48,680 full-time equivalent (FTE) jobs, and contributes over \$1.2 billion in State and Federal tax revenue (FY06). Racing is also an important part of Australia's culture and history, especially in provincial and country areas where racing is a corner stone of community life.

Australian Racing and the Australian wagering market are financially interdependent, interrelated, and structurally linked. Today wagering inflows account for 65 to 70 percent of total Australian thoroughbred racing funding. The future sustainability of racing therefore requires continued strong inflows from wagering, and any changes to the wagering market are likely to affect racing's sustainability.

The wagering landscape in Australia is currently undergoing seismic change. In particular, the rapid growth of new types of Australian wagering operators – corporate bookmakers and betting exchanges has rendered the market virtually unrecognisable from the market which existed when the Productivity Commission carried out its 1999 Inquiry. These changes pose both opportunities and threats for the Australian Thoroughbred Racing Industry.

An issue that had emerged when the 1999 Inquiry was conducted and has subsequently grown exponentially in scale is that of wagering providers 'free riding' on the resources, time, effort and money invested to conduct and promote racing events.

Telephone and later online wagering made free riding physically possible and differences in regulatory requirements, taxes and racing industry payments across jurisdictions facilitated its growth. The emergence of new technologies for the distribution of wagering products—most obviously the rapid advances in the internet, the impact of which is now being extended with the growth in wireless services, have weakened each jurisdiction's control over wagering within its borders.

Given the future funding demands on the thoroughbred racing industry and the evolution of the wagering market toward what is observed internationally (such as the growing popularity of online wagering), it is expected funding for racing will remain under pressure. While racing industry payments from wagering experienced a relatively steady period of nominal growth from 1999 to 2005, future growth is projected to at best stagnate in real dollars in the absence of positive changes to wagering's current competitive and regulatory environment, and in the worst case decline.

The race fields model has been developed as a response to free riding requiring all wagering operators to provide a fair and reasonable payment back to the racing industry for the use of its product. A race fields regime is also important for integrity reasons to guarantee the Controlling Bodies of racing timely access to betting information which may be required to fulfil their responsibilities for the integrity of racing. To succeed, however, the new race fields legislation must allow the jurisdiction's Controlling Body to independently determine the structure and levels of fees with the wagering providers and take action to promote full compliance and enforcement action by the relevant government regulator.

Responsible gambling issues that are raised by the current changes in the wagering market include the proliferation of inducements and rebates.

It is submitted that a regulatory '*laissez faire*' approach to the current changes is not in the public interest. Gambling markets are, and have always been, a creature of regulation. The current scale and nature of the ATRI is not accidental: it is the product of a set of regulatory arrangements that have existed for some 40 years. It being accepted that a viable Australian Thoroughbred Racing Industry delivers a net public benefit, then the future regulatory framework for the wagering market must be such that enables not only the consumer benefits from competition between operators but also industry sustainability to be achieved.

This regulatory framework must also be national in nature, whether that takes the form of cohesive, complementary regulation by States or Territories working together collectively, or a nationally-administered framework. The current changes represent an irreversible disintegration of the capacity of State and Territory governments to individually regulate wagering.

The elements of a national policy approach should include:

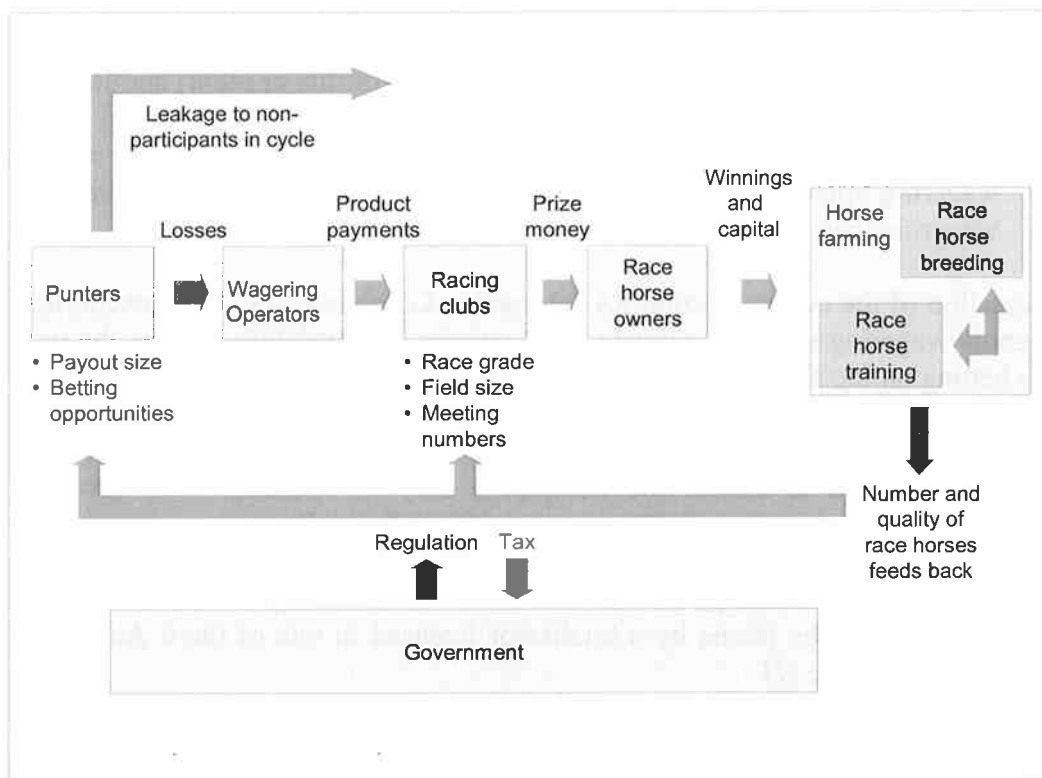
- a. National endorsement of, and if needed, supporting legislation directed to the following:
 - Strong and enforceable race fields legislation that receives recognition and enforcement across State and Territory borders and which gives the ATRI the clear power to set the basis (turnover, gross profits or other) and level of the fees payable for use of race fields.
 - An appropriate licensing regime to promote integrity and probity of the wagering operator and to enable the Controlling Bodies of racing to access wagering data to fulfil industry integrity functions
- b. Continuation of the current section 8A Interactive Gambling Act (IGA) exemption for remote wagering services maintained. Moreover, the prohibition of 'in the run' sports betting online should be maintained.
- c. Offshore bookmakers should not be permitted to free ride on the ATRI. The IGA should be amended to extend the exceptions only to operators who have the requisite approvals to use race fields, so as to prevent free riding.
- d. The IGA should be amended so that totalisator odds betting is only able to be conducted online or by phone by a totalisator licensed in one of the 6 Australian States, the ACT or the NT.
- e. The power provided by section 69A of the IGA to make regulations creating financial transactions controls to enforce compliance with the IGA should be used.
- f. All forms of wagering must ensure responsible gambling by their customers. The ATRI registers it support for:
 - A national ban on any wagering operator from providing credit to their clients.
 - A national ban on the offering of inducements and rebates.
 - A national set of advertising regulations that minimise the risk of problem gambling being exacerbated.

1 Relevance of the Australian Thoroughbred Racing Industry to the Commission’s Inquiry into Australia’s Gambling Industries

The Productivity Commission has been asked to undertake a 12 month public inquiry into Australia’s gambling industries. We submit that, notwithstanding that the Australian Thoroughbred Racing Industry (ATRI) has some facets that if taken in isolation do not consist of “organisations that provide gambling services”¹, the ATRI, taken as a whole, has all of the characteristics that qualify it as an industry that should be examined by the Commission in the course of this Inquiry.

Put another way, the Australian Racing Industry is ‘first cousin’ to several families: the agricultural sector, the entertainment sector, and the sports sector, but its closest relationship is inarguably its connection with gambling. As was identified in the course of the National Competition Policy review process, these interrelationships consist of both structural links, through legislation, and financial interdependence². Exhibit 1, which describes income cycles between racing and wagering, illustrates the point.

Exhibit 1: Income flows in the wagering cycle



The importance to the ATRI of the Commission including us within its Inquiry is that many of the issues that are the focus of the Inquiry’s terms of reference are matters which are of vital concern to the future of Australian Racing.

¹. Definition of gambling industries [Issues Paper](#) page 10

² NSW OLGR. 2001 [National Competition Policy Review of NSW Racing Betting Legislation](#). Sydney, NSW

Here we refer specifically to:

- The economic impacts of the gambling industries (TOR3)
- The social impacts of the gambling industries (TOR4)
- The contribution of gambling revenue on community development activity and employment (TOR5)
- The effects of regulatory structures governing the gambling industries (TOR6)
- The implication of new technologies (TOR7)
- The impact of gambling on government budgets. (TOR8)

We believe that examination of those issues as they affect the ATRI will also be of more general utility to the Commission's Inquiry: Australian Racing was the nation's first gambling industry and for the much of its history Australia's largest gambling industry, so that the ATRI's circumstances are a prism that yields significant insights into gambling in Australia.

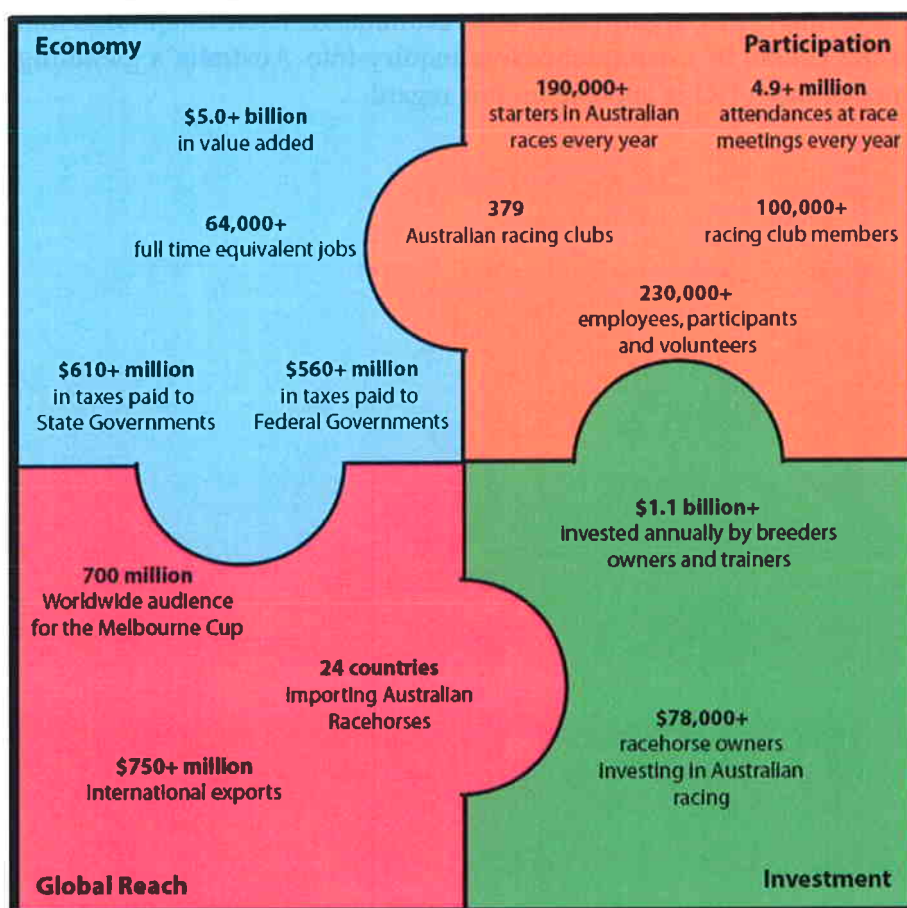
Finally, the interrelationship of gambling with sport, whilst not specifically identified in the terms of reference, is of increasing significance and recommends itself as an issue that should be examined in the course of a comprehensive inquiry into Australia's gambling industries. The experience of the ATRI is apposite in this regard.

2 Scope and contribution of Australian Thoroughbred Racing

2.1 Overview

The impact of the ATRI extends far beyond ‘declaration of correct weight’. The ATRI fills an integral place in the sporting life, cultural traditions and everyday economy of Australia. From the first official race meeting staged by Governor Macquarie at Hyde Park Sydney in 1810, Australian Racing has grown to a scale that would have been difficult to imagine two centuries ago, and has few equals anywhere in the world. Today, Australian Racing spans both the calendar and continent: over 17,000 thoroughbred races are held each year, staged in almost every part of Australia. On any given day there are between 40 and 300 races run, which as George Johnston observed “*is a pretty deafening thunder of hooves by any standard*”³. Here we provide a snapshot of the size and scope of the ATRI, illustrating the remarkable extent of its influence on Australia’s economic and social life.

Exhibit 2: An impact extending for beyond ‘declaration of correct weight’



Source: Australian Racing Fact Book; ABS attendance at sport

2.2 Definition of the Australian Thoroughbred Racing Industry

For the purposes of this submission, we have defined the Australian thoroughbred racing industry as comprising three integrated parts:

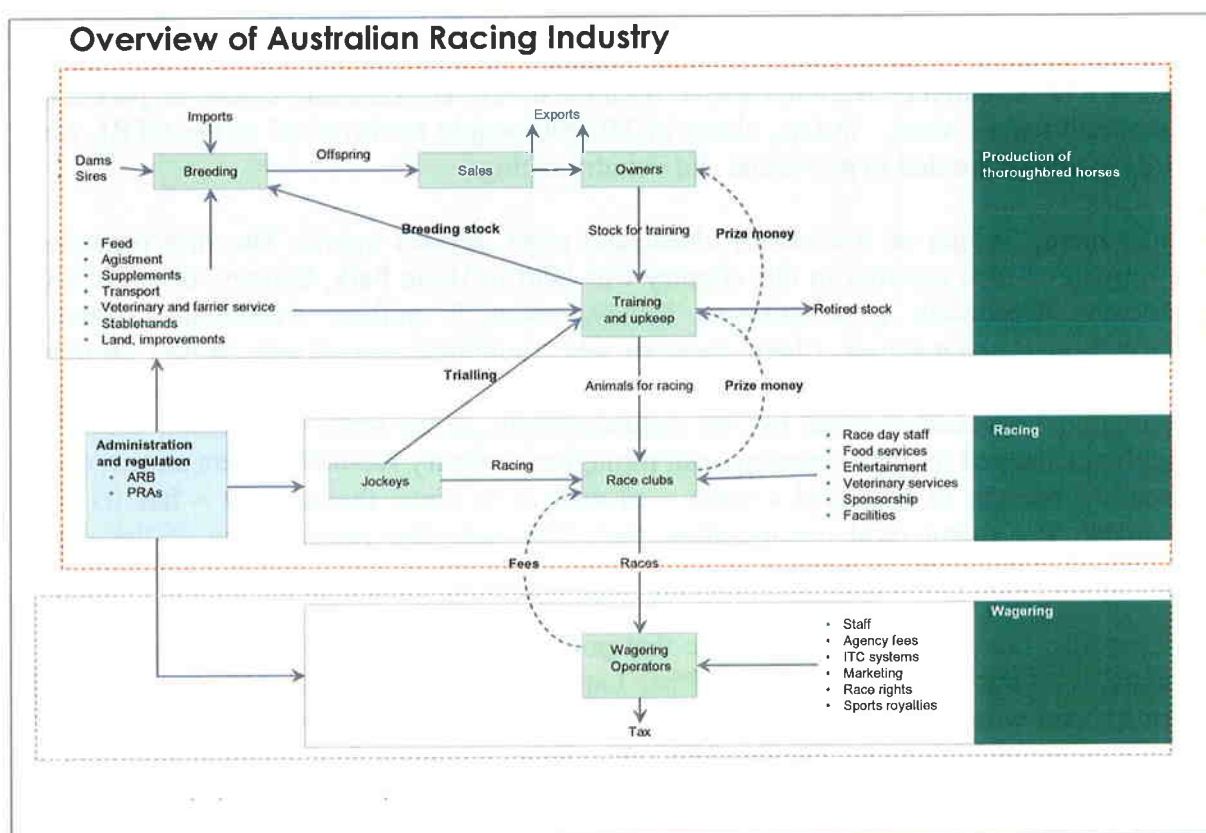
1. The production of thoroughbred horses - this includes horse breeding, bloodstock sales, horse ownership, and the training and upkeep of horses

³ George Johnston, *The Australians*

2. Racing - which entails the holding of race meetings and includes racing administration, race clubs and jockeys
3. Wagering - This involves operators such as bookmakers, TABs, corporate bookmakers and betting exchanges who accept wagers on races.

The industry also includes functions for administration and regulation. These are an integrated set of activities that have evolved together with the strongest links being between horse breeding, training and racing. Exhibit 3 illustrates this definition of the ATRI and the interrelationships between the key elements.

Exhibit 3: Industry overview



Note: Adapted from Australian Racing Board. 2003. Submission to the Review of Issues Related to Commonwealth Interactive Gambling Regulation.

2.3 Significance of thoroughbred racing to Australia

The most recent and complete assessment of the ATRI was undertaken by IER for the ARB⁴ and covers the 2005-06 year. Including the direct and indirect impacts of thoroughbred racing together with their multiplier effects, the ATRI provided approximately \$5.04 billion in value added to the national economy. This represented 0.58% of Gross Domestic Product.

Employment

IER's assessment found that the set of activities associated with Australian thoroughbred racing, breeding, training, racing and wagering, directly accounted for an estimated 48,680 full-time equivalent (FTE) jobs in 2005-06. An estimated 9,900 breeders employed 17,990

⁴ IER. 2007. *Economic Impact of Australian Racing*. Melbourne, VIC

staff, 80 percent of who were based in non-metropolitan areas. An estimated 1,280 trainers (from a total of 4,700 trainers Australia-wide) and their 3,100 staff were also concentrated in non-metropolitan Australia. 1,500 full-time staff, 12,000 part-time staff and 1,000 jockeys were employed in delivering the race day product. Bookmakers totalled 700 and they employed an additional 1,400 people. TAB wagering staff totalled an estimated 4,700. IER's study found that racing and breeding also help to sustain employment in other areas of the economy, such as feed merchants, veterinarians, farriers, transport companies, caterers, hoteliers, and the fashion industry.

Participation

People participate in the ATRI in three main ways: producing and delivering the 'racing product'; attending race meetings; and wagering on horse racing.

The total number of people involved in producing the race product is much larger than the 48,680 FTE employees recorded above because of the considerable extent of part-time, casual and unpaid work. In fact, closer to 230,000 people are involved in the ATRI, two-thirds of whom are tied to provincial and country racing.

Horse racing is one of Australia's oldest and most popular sports. The first organized thoroughbred race meeting in this country was held in Hyde Park, Sydney, in 1810, with Governor Macquarie in attendance. Today, about 2 million Australians attend a thoroughbred race meeting at least once per year, ranking it second only to AFL in terms of attendance⁵. While racing's best known event, the Melbourne Cup, is now an international spectacle viewed by 700 million people, at the same time racing continues largely unchanged in picnic meetings run throughout country Australia where almost every place big enough to be called a town – as well as in some that are not – has its own racetrack. For many rural communities, their Cup race day remains one of the social highlights of the year.

Racing also has a cultural significance that poker machines and casinos cannot begin to imitate, with our champions, such as Phar Lap and Bart Cummings, part of the national identity, and writers from Banjo Paterson, C J Denis and Breaker Morant through to Frank Hardy, George Johnston, Gerald Murnane, Peter Temple, Les Carlyon and David Williamson mining its rich lode of characters and stories or documenting its place in the national physce.

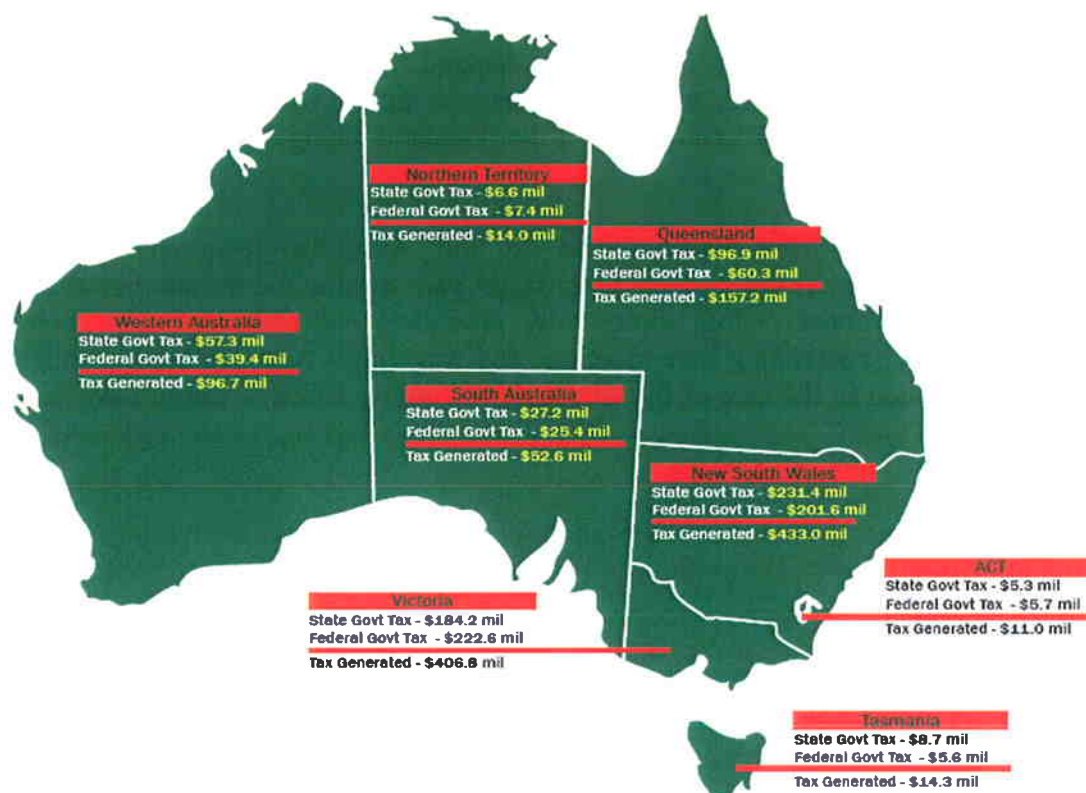
Indeed, it can be said that Australia has three truly national days: ANZAC Day; Australia Day; and the Melbourne Cup.

Taxation revenue

IER's assessment found that the ATRI generated nearly \$1.2 billion in taxes each year. Taxes on wagering comprised almost half of this amount, with GST the next largest component.

⁵ ABS Attendance of Sport.

Exhibit 4: Taxation



Source IER.

2.4 International significance of Australian Thoroughbred Racing

There are 379 thoroughbred race clubs in Australia, which is more than any other country in the world.

On a per capita basis Australia has arguably the strongest racing industry in the world. Even in aggregate terms the ATRI ranks in the top 3 racing industries in the world on all industry indicators notwithstanding its much smaller population and economy *vis a vis* competitors such as the US, Japan, Great Britain and France.

Exhibit 5: Australian thoroughbred racing on a world stage

Rank	Starts	Black type races	Prize money	Foals born
1	USA	USA	USA	USA
2	Japan	Australia	Japan	Australia
3	Australia	Great Britain	Australia	Ireland
4	Great Britain	France	France	Japan
5	France	Argentina	Great Britain	Argentina
6	Chile	Japan	Korea	Great Britain
7	Argentina	South Africa	Turkey	France
8	Italy	Brazil	Hong Kong	New Zealand
9	South Africa	New Zealand	Ireland	Brazil
10	New Zealand	Ireland	Italy	Canada

Source: ARB Australian Racing Fact Book

2.5 Conclusion

The ATRI spans a network of activities that starts with people choosing to wager on thoroughbred horse racing which creates the demand for the bloodstock industry. Wagering provides the prize money to horse owners who fund breeding and training, the success of which affects the scale and quality of thoroughbred racing events, which in turn affects wagering demand.

The ATRI makes significant contributions to the Australian economy through employment, valued added, and tax paid. A large part of the Australian population participates in thoroughbred racing, directly by producing and delivering the racing product, or indirectly by attending race meetings and wagering. Any decline in funding that led to a contraction in the size of the thoroughbred racing industry would have wide flow-on effects.

3 The Australian wagering market

3.1 Wagering as a segment of the gambling market

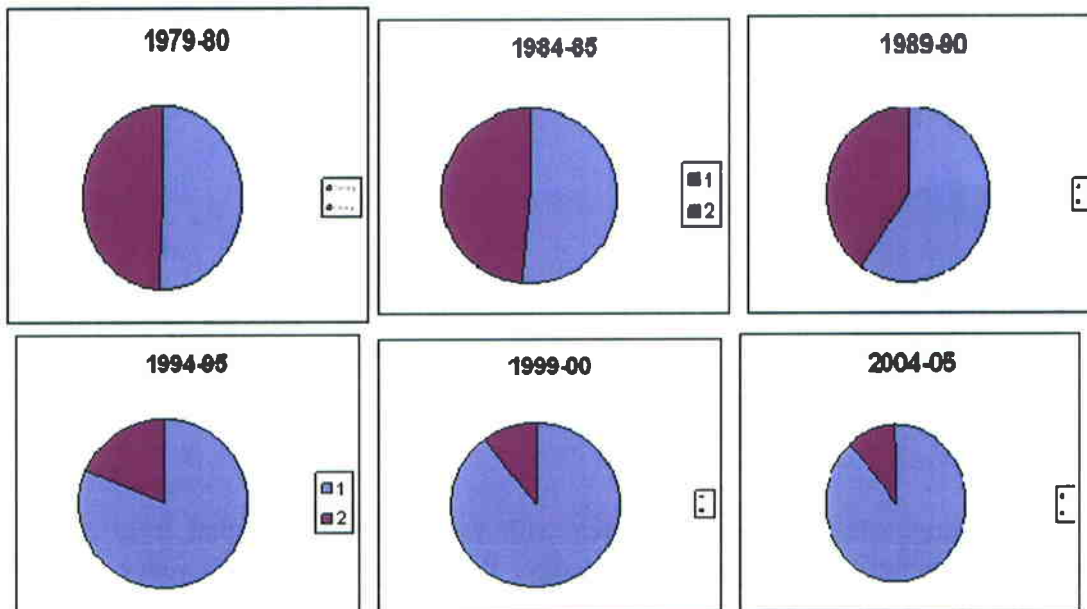
Wagering is a readily delineated subset of the gambling market. Wagering is distinguished from other forms of gambling, such as casino games, electronic machines, keno and lotteries (collectively known as “gaming”), because the probability of winning is not purely random – for example, punters can improve their chances of winning by studying the form of the participants in the event. The Australian wagering market takes in all forms of betting on both racing and other sports (sports betting).

Horse racing was the first form of organised gambling in Australia. By the late 19th century, horse racing had become a popular form of entertainment, with racetracks built in every major town. Betting activity, initially facilitated by local bookmakers, has always been closely associated with the development of racing. The totalisator was introduced by the 1890s to racecourses in several States, increasing both track attendance and interest in betting.

To counteract illegal off-course betting, State governments progressively introduced off-course totalisator agency boards (TABs). TABs grew to dominate wagering on racing in Australia and are perhaps the most identifiable wagering brand name anywhere in the world.

Up until the 1970s, race wagering was the most popular form of gambling in Australia, generating most of the gambling tax revenue collected by State governments. Since then, the liberalisation of other forms of gambling – notably, casinos and gaming machines – has reduced the market share of wagering from 40 per cent of the gambling market in 1989-90 to 11 per cent in 2004-05.

Exhibit 6: Wagering as a segment of the gambling market



Source: ARB Australian Racing Fact Book

Looking to the future, while the Productivity Commission has noted the post 1990s deceleration in gaming expenditure (attributed to a ‘maturing’ of the market for EGMs) there is a prospect of wagering on racing facing increased competitive pressure from this quarter. For example, BCG⁶ notes that whereas gambling on EGMs is at present an essentially passive activity, changes in the type of game offered could see EGMs compete much more directly with wagering in terms of involvement, excitement and the desire to win. The major EGM manufacturers have been demonstrating machines that closely parallel computer and video games and have the potential to appeal to the rapidly growing segment of the population who have grown up with computers and the internet (‘Generation Y’). In contrast to traditional EGMs:

- They are participatory and social. For example, two people may play against each other on the same machine, or a group of machines may be networked to allow groups to play among themselves.
- They entail skill, both physical and mental, that affect the chance of winning. For example, the machines will have joy sticks and other controls, and they may entail problem solving and successive levels of difficulty. The fact that they are not games of chance may pose additional regulatory issues.

For race wagering, such machines will provide new challenges in competing for the discretionary spend of the rapidly growing Generation Y.

Another imminent technology is the introduction of server-based gaming. Unlike today where games are embedded in the machine hardware, in future games will be software based and able to be updated almost instantly, and adapted to match the player.

3.2 Race wagering vs. Sports betting

Within the wagering market, while betting on other sporting events has increased significantly, particularly since the mid-1990s, racing is the predominant wagering contingency. In 2007/08 the three codes of racing represented approximately 85% of the total Australian wagering turnover, with the other sports collectively representing some 15% of turnover.

Exhibit 7: Wagering – Racing vs. Sport



Source: ARB Australian Racing Fact Book

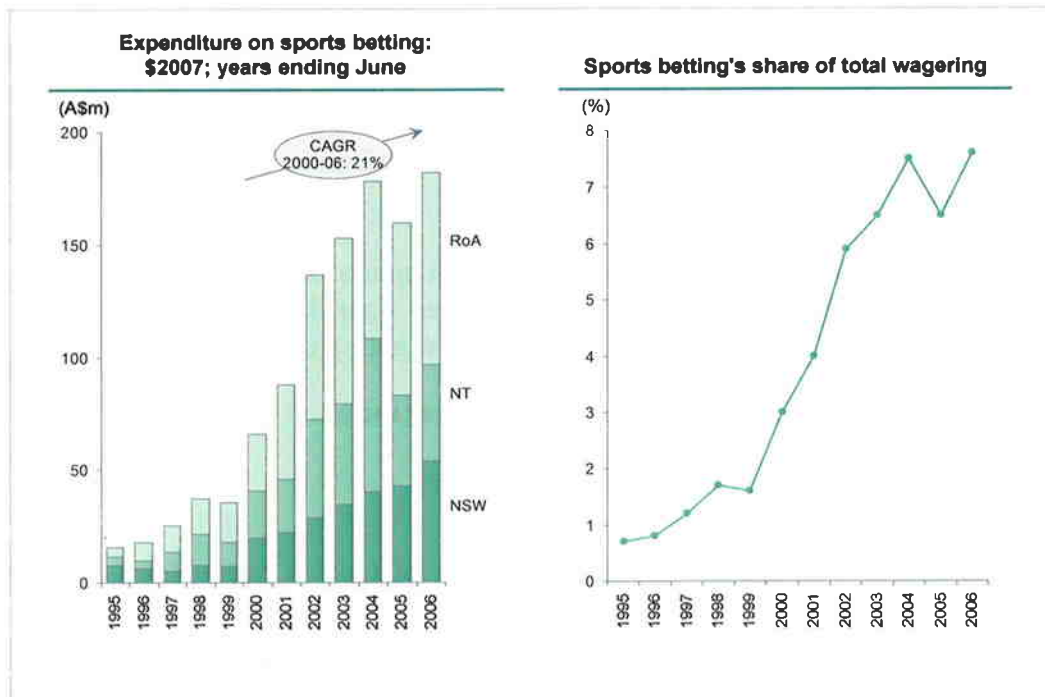
Sports betting shares some common features with race wagering in that it is active, participatory, and benefits from prior knowledge. Probably the key difference is that betting is a secondary reason for people to follow sports, whereas in racing, wagering is

⁶ The Boston Consulting Group (BCG) in its report prepared for the Cameron Review of wagering issues in NSW.

typically the main reason. Also, many more people believe they have the know-how and insight to the outcome of sporting fixtures than horse races.

Sports betting is the fastest growing area of gambling in most western countries, including Australia. Since the year 2000, expenditure on sports betting has grown at an annual compound rate of 18 percent a year in real terms, though starting from a small base (Exhibit 7).

Exhibit 8: Sports betting expenditure



Source: Queensland Treasury. 2007. Australian Gambling Statistics 1980-81 to 2005-06; missing data estimated by BCG.

BCG has identified that the key drivers of the rapid growth in sports betting include:

1. Its relative novelty, though obviously private betting on sports events is long-standing. Its growth is closely linked to the growth in sports coverage on pay TV
2. The fastest-growing segment of the population, Generation Y, is keenest on sports betting. The average age of sports bettors is about ten years younger than that for race wagers
3. The range of sports events is extremely broad and international. The past decade has seen the commercialisation of many sports codes and a rapid growth in the number of matches played or events staged
4. The proliferation of sports betting sites which are often treated more leniently by regulators than online gaming (mainly casino games).

Where it is permitted by law sports betting also offers a large variety of wagers, such as betting on the final result, the margin and events within a game such as the team leading at half-time or the first player to score.

Internationally increased levels of sports betting is also being assisted the rapid growth in two types of wager: in-play betting and spread-betting. While both types of wager are available on horse racing, there is much greater scope for there in relation to sports events.

In-play betting (or betting-in-the-run for racing) occurs after an event has started. While it is offered on horse racing in some jurisdictions, it is more attractive for sports events that last longer than a few minutes. In-play betting is the fastest growing bet-type in the United Kingdom.

In Australia, the *Interactive Gambling Act 2001* (IGA) limits in-play betting to phone and face-to-face bets and prohibits it via the internet. NT corporate bookmakers and Betfair both promote in-play betting heavily and Australian residents can still place in-play internet bets through UK bookmakers.

In spread betting, the returns or losses from a bet are calculated in proportion to the degree to which a bettor's prediction is right or wrong relative to the bookmaker's spread. The more skilled or knowledgeable the bettor is, the closer he or she is likely to be to the actual outcome. Because the potential loss or win can be exceptionally high, loss and win limits are placed on spread bets to protect the bettor.

Corporate bookmakers have a much higher profile in sports betting, in part because they have much more flexibility in the sports bids offered than do TABs. NT bookmakers account for approximately one quarter of total sports wagering expenditure.

3.3 Types of racing wagering operations

(a) On-course Bookmakers

From Archer's 1861 Melbourne Cup to the milieu of today's racing tracks, on-course bookmaking activity has been an exciting and essential part of the ATRI.

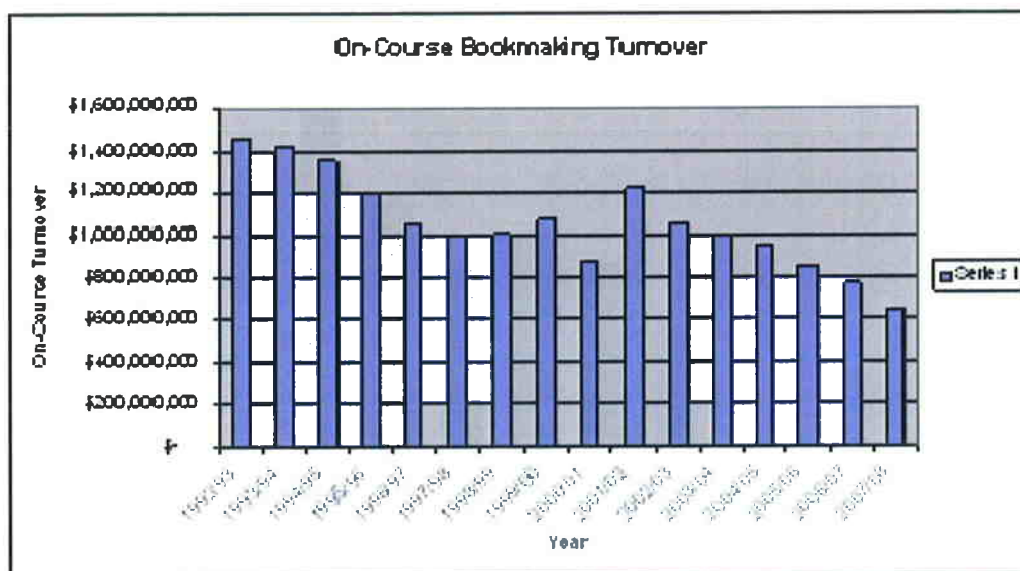
Today there are approximately 650 bookmakers across Australia. As individuals who are licensed to provide fixed odds wagering services on racing, bookmakers require approval by the relevant racing Controlling Body to operate within their jurisdiction. Apart from the terms of conditions of their licence, the major restrictions on bookmakers are minimum wagering obligations and in some jurisdictions controls on the publishing of their odds. (In terms of recent developments it may be noted that the Victorian Government is in the process of removing its long standing restriction on the publication of betting odds during race meetings in recognition of the widespread availability of this information across Australia.)

Bookmakers primarily offer fixed odds win and each-way betting, although place, doubles and other bets are also available. Traditionally, bookmakers have been restricted to providing these services whilst on-course i.e. bookmakers have been allowed to provide their services, whether face-to-face or via the telephone (and more recently via the internet), only whilst the bookmaker is on-course. More recently some jurisdictions have allowed bookmakers to provide off-course wagering via the phone and internet for racing futures and sporting events.

The on-course bookmaking market is very competitive. Providers are clustered together in a betting ring at the race-track, and on-course prices available are often better than not only starting prices, but also better than official fluctuations.

On-course bookmaking has experienced consistent decline over the past 30 years. Exhibit 9 shows this long-run downward pressure on on-course bookmaking turnover.

Exhibit 9: On-course bookmaking turnover 1992/93 – 2007/08



Source: ARB Australian Racing Fact Book

(b) Corporate Bookmakers

Recent years have seen the strong growth in wagering activities of corporate bookmakers. These bookmakers differ from stand-up bookmakers in two important respects. First, they are large businesses that operate from premises on-course on a 24/7 basis and receive their bets over the telephone and the internet. As such, they do not directly contribute to the racing experience of those attending the racetrack. Second, they offer some derivative products that stand-up bookmakers in some jurisdictions are prohibited from offering. Derivative products are generally designed to attract customers based on price, offering the prospect of guaranteed better dividends than on-course bookmakers and TABs.

Corporate bookmakers are fully incorporated, often listed companies or subsidiaries of listed companies. Today corporate bookmakers are predominantly located in the Northern Territory. In 2006/07, NT bookmakers' share of Australian race wagering turnover (the total amount wagered) is estimated to be 16 percent and for sports betting turnover, 42 percent⁷.

The rate of growth for race wagering through NT bookmakers is very high (Exhibit 10). In 2008 the entry of TABCORP into NT bookmaking through the vehicle of Luxbet underscored the seemingly ineluctable momentum of this growth.

The main competitive advantage of interstate corporate bookmakers is favourable regulation: (i) low betting duty, (ii) lower payments to the racing industry, and (iii) very few operating restrictions compared with bookmakers in other States. The freedom with which corporate bookmakers can operate on the internet also means that they have a very low-cost operating structure.

⁷ Queensland Treasury. 2007. *Australian Gambling Statistics 1980-81 to 2005-06*; Australian Racing Board, op. cit.;