

**Call for a national approach to the regulation of
the Australian wagering industry**

Submission to the Productivity Commission's Inquiry into Gambling

April 2009

Index

Index	2
Executive Summary	3
Chapter 1 – Context	
1.1 Significance of the Australian racing industry	5
1.2 Reliance of the racing industry on totalisator wagering	6
Chapter 2 – Emergence of a national online wagering market	
2.1 National wagering market emerging over time	8
2.2 Technology	9
2.3 Emergence of corporate bookmakers	10
2.4 Growth in TOTE odds betting	11
2.5 Emergence of betting exchanges	12
2.6 Emergence of totalisator competition	12
2.7 Diminished capacity of states/territories to regulate wagering	13
2.8 Breakdown in advertising restrictions	14
Chapter 3 – Outdated state-based funding and regulatory models	
3.1 Wagering tax differences	15
3.2 Racing industry product fee differences	16
3.3 Different approaches to harm minimisation / responsible gambling	17
3.4 Free-riding on totalisator provided support services	17
Chapter 4 – Impact of distortions	
4.1 Impact on taxpayer returns	18
4.2 Impact on racing industry funding	18
4.3 Impact on consumer protection	21
4.4 Impact on wagering operators	23
Chapter 5 – The solution: national regulation of wagering	
Recommendation 1: Achieve national consistency in wagering regulation	26
Recommendation 2: Prohibit TOTE odds betting by bookmakers	26
Recommendation 3: Implement a uniform national wagering tax	26
Recommendation 4: Implement uniform national racing industry fees	27
Recommendation 5: Apply a uniform national approach to regulation, including consumer protection	28
Appendices	
Appendix 1	30
Appendix 2	31
Appendix 3	33
Appendix 4	34
Appendix 5	36
Appendix 6	37
Appendix 7	38
Appendix 8	42
Appendix 9	45

Executive Summary

- The racing industry is an important industry for Australia involving well over 160,000 direct participants, many of them in regional and rural communities, and generating significant economic activity.
- The Australian racing industry is supported by totalisator wagering that provides the industry with between 70% and 90% of its funding. Tabcorp estimates that the racing industry receives approximately \$850 million per annum in funding from wagering operators.
- There are a number of distortions occurring in the wagering market that, if left unchecked, will have serious consequences for the efficient operation of the wagering market, for racing industry funding and for the protection of consumers.
- Wagering is evolving from a series of state/territory-based markets to a national market as a result of:
 - Growth of online technologies
 - Emergence of corporate bookmakers and betting exchanges
 - Breakdown in advertising laws and other state-based regulations.
- Industry funding and regulatory models have not changed to reflect the growth of the internet and the emergence of a national market. This is evidenced by:
 - Different tax treatment of wagering operators
 - Different approaches to racing industry funding
 - Different approaches to responsible gambling.
- This situation is leading to significant market distortions as:
 - Customers and wagering operators “jurisdiction shop”
 - Some governments offer lower fees and taxes and regulatory regimes that allow operators to offer broader services such as credit betting
 - States and territories are legally restricted in their ability to regulate wagering operators outside of their borders.
- The impact of these distortions is now material:
 - Provides a tax arbitrage opportunity and reduces the tax collected by states that retain relatively high wagering tax rates
 - Undermines racing industry funding, which relies on returns from totalisators, with broader economic risks including unemployment and curtailment of capital investment
 - Reduces consumer protection in the areas of responsible gambling and integrity
 - Imposes a substantial and uneven regulatory burden on operators.
- Tabcorp estimates that the annual funding loss to Victoria and New South Wales is now:
 - Tax loss in Victoria of \$18.9 million and New South Wales of \$29.8 million
 - Racing industry funding loss in Victoria of \$45 million and New South Wales of \$58 million.
- If these distortions are not addressed, Tabcorp estimates that racing industry funding could fall by 25% to 30% over the next ten years.

- The solution is to agree consistent financial arrangements and regulations across states and territories, possibly by “lifting” such arrangements to a national level, consistent with the emergence of a national market in online wagering.
- Tabcorp makes five recommendations:
 1. Achieve national consistency in the administration of wagering taxes and racing industry product fees, and the responsibility for consumer protection. This may involve transferring these responsibilities from the states and territories to the Commonwealth.
 2. Prohibit TOTE odds betting by bookmakers, with the totalisator offer being limited to licensed parimutuel operators.
 3. Apply a uniform national wagering tax of no more than 1.6% on turnover.
 4. Apply uniform national racing industry product fees, set at:
 - 5.2% of turnover on parimutuel wagering
 - 1.5% of turnover on fixed odds and exchange betting.

Distribute the fees collected to the racing codes in each jurisdiction based on the wagering turnover on their racing product.

Retain retail exclusivity to justify higher parimutuel product fees.

5. Implement a uniform national approach to regulation, including a consistent approach to the regulation of credit betting, advertising and the use of account opening inducements. The Commonwealth Government should use its powers to ensure that offshore operators do not target Australians with unacceptable practices.

Chapter 1 – Context

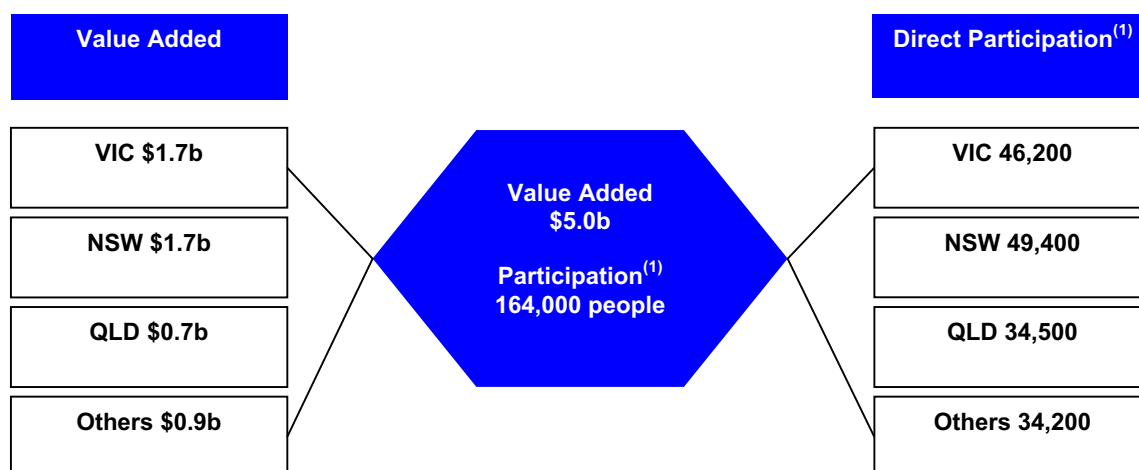
1.1 Significance of the Australian racing industry

The racing industry has an important place in Australia’s cultural and economic life.

The racing industry provides entertainment to hundreds of thousands of people annually, and supports community activity in Australia’s cities, regional centres and rural areas. Australia’s racing participation rate is one of the highest in the world with current funding arrangements enabling low cost access to the industry at the track, at licensed venues, TAB agencies and at home.

The racing industry is a significant contributor to the Australian economy. Thoroughbred racing alone contributes some \$5 billion to the economy, with participation of more than 160,000 people, working in jobs or as volunteers. Indirect participation increases the number to 230,000. And if we add harness racing and greyhound racing the number becomes larger again.

Figure 1: Contribution of thoroughbred racing to the Australian economy



Note (1): Includes full-time, part-time and casual workers and volunteers participating in directly producing racing thoroughbreds (e.g. breeders, owners, trainers) and directly producing racing product (e.g. wagering staff, bookmakers, jockeys, clubs); Total people involved includes 65,500 directly employed, 98,900 volunteers, 67,300 indirectly employed.

Source: Economic Impact of Australian Racing (IER, 2007)

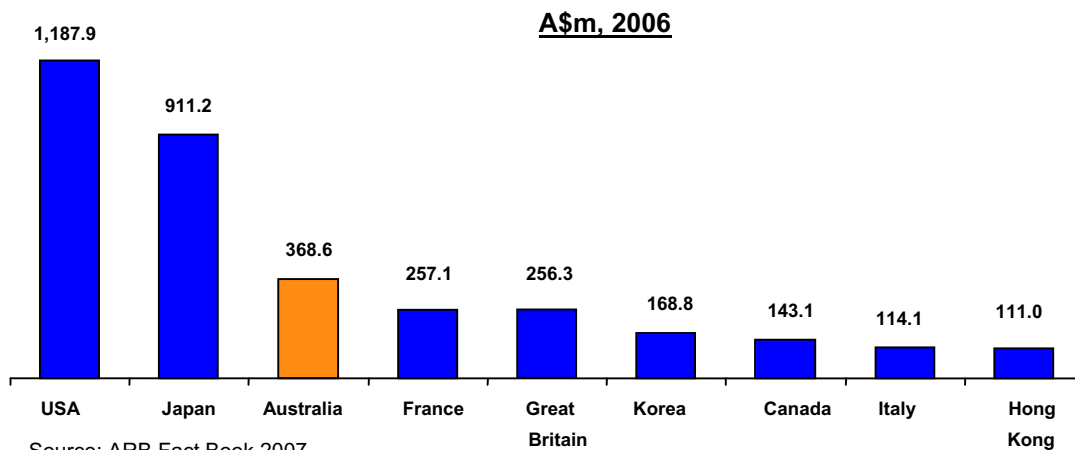
The export value of the Australian racing industry is also increasing, facilitated by the national racing broadcaster, Sky Channel. Australian racing is now broadcast to 18 countries.

The equine influenza (EI) outbreak in 2007 demonstrated how significant the racing industry is to Australia’s economy. Australia’s totalisators largely managed to insulate the racing industry from the financial impacts of EI. In Victoria, Tabcorp distributed a record amount of funding to the racing industry in 2008, totalling \$300 million. And in New South Wales, Tabcorp distributions were down only 4% to \$214 million, which is modest in light of the halt to racing for one full quarter of the year.

EI also illustrated that racing is a national activity. While racing stopped in NSW and Queensland, it continued in other states, including Victoria. This gave all Australians a product to wager on and helped to mitigate the impact of EI across the country.

The Australian racing industry is one of the most successful racing industries in the world. Prize money is a leading indicator of the success of a racing industry. As Figure 2 demonstrates, Australia is third in the world in prize money despite having the smallest population base of the top five racing nations.

Figure 2: Thoroughbred prize money



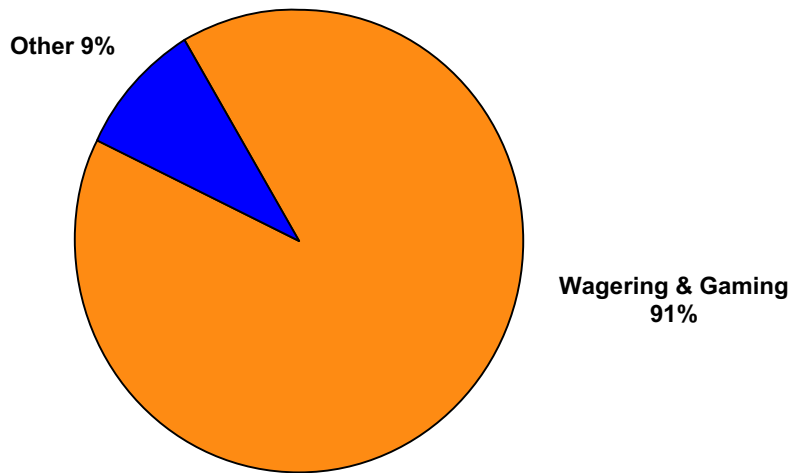
While the above statistics relate to thoroughbred racing, the other two codes of harness racing and greyhound racing produce equally impressive results by world standards.

There is no doubt the racing industry is critical to Australia.

1.2 Reliance of the racing industry on totalisator wagering

The success of the Australian racing industry is based on wagering. In Victoria, more than 90% of racing funding comes from wagering, and the vast majority of this from totalisators. This is in contrast with other sports such as the Australian Football League that derives the vast majority of its income from broadcasting. And while racing provides around ten days each year that attract broad spectator interest, its funding depends on the wagering income on more than 60,000 races run over 363 days of the year.

Figure 3: Funding sources for Racing Victoria Ltd



Note: Funding is for peak body only, in 2007
Source: Racing Victoria Limited

The funding model demonstrates the symbiotic nature of the wagering and racing industry relationship. Wagering operators rely on the racing industry to put on the show and the racing industry relies on the totalisators to fund their growth.

The most successful racing industries in the world all have funding models based on returns from totalisators.

Chapter 2 – Emergence of a national online wagering market

2.1 National wagering market emerging over time

The Australian wagering industry is undergoing the most significant change in its history.

Historically, the industry has consisted of:

- State/territory-based totalisators, offering wagering services on-course, in retail shops, over the telephone and, more recently, over the internet, and
- Bookmakers, offering fixed odds wagering services on-course and more recently, over the telephone and internet.

As noted by the Productivity Commission in 1999, governments have implemented exclusivity arrangements in totalisator wagering. Notwithstanding the findings of the Productivity Commission in relation to TAB exclusivity, the performance of the last decade demonstrates that a strong and exclusive totalisator underpins one of the most successful racing industries in the world.

Two significant changes are now putting the funding model at risk. First, the internet has led to a breakdown in state-based exclusivity. Second, the regulatory environments established by states and territories to enforce local arrangements are under legal challenge.

Whereas wagering has previously operated as a series of state-based markets, it has evolved to become a national market by way of online wagering – a Victorian punter can now bet with a Northern Territory bookmaker on a South Australian race or sporting event.

The regulatory approach of state and territory governments has not evolved as the national market has emerged and, as a consequence, distortions are occurring. If left unchecked, these distortions will have serious consequences for the operation of the wagering market, for the funding of the racing industry (with significant knock-on effects) and for consumer protection.

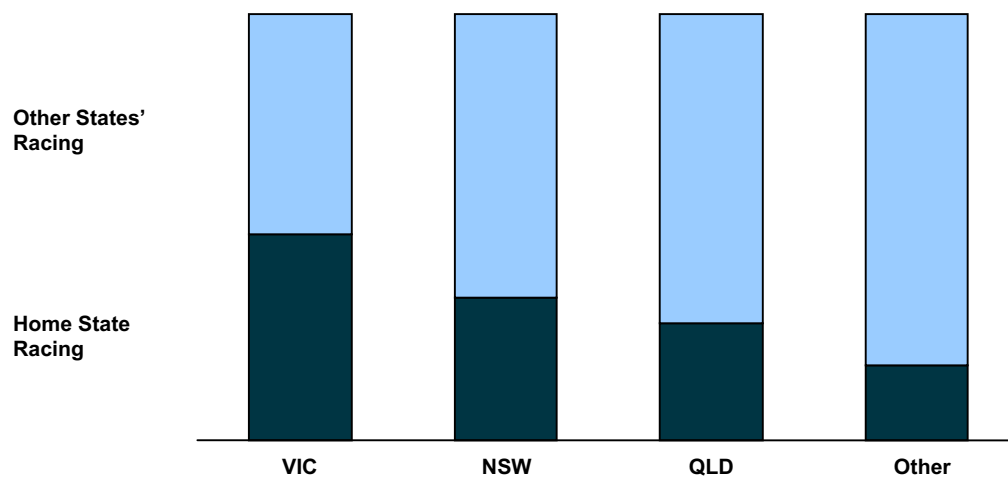
A national approach to wagering that addresses funding and regulation is the most appropriate method of dealing with these distortions and mitigating their impacts.

Some aspects of wagering have operated nationally for a long period of time:

- A national race broadcaster has driven growth in wagering turnover since Sky Channel was established in 1985
- Race scheduling is nationally coordinated to optimise racing industry revenues, with races occurring every four to five minutes on most days of the week
- Wagering on races outside the state/territory in which the customer resides is well established.

Today, the state-based racing industries work together to create a national racing calendar. As a result, all racing industries derive more than half of their wagering income from interstate racing. In other words, the individual racing states are dependent on each other to create an attractive product for the punter. This is illustrated in figure 4 below.

Figure 4: Source of TAB wagering turnover (%) by state



Source: Australian Gambling Statistics; Australian Racing Board Fact Book; Tabcorp analysis

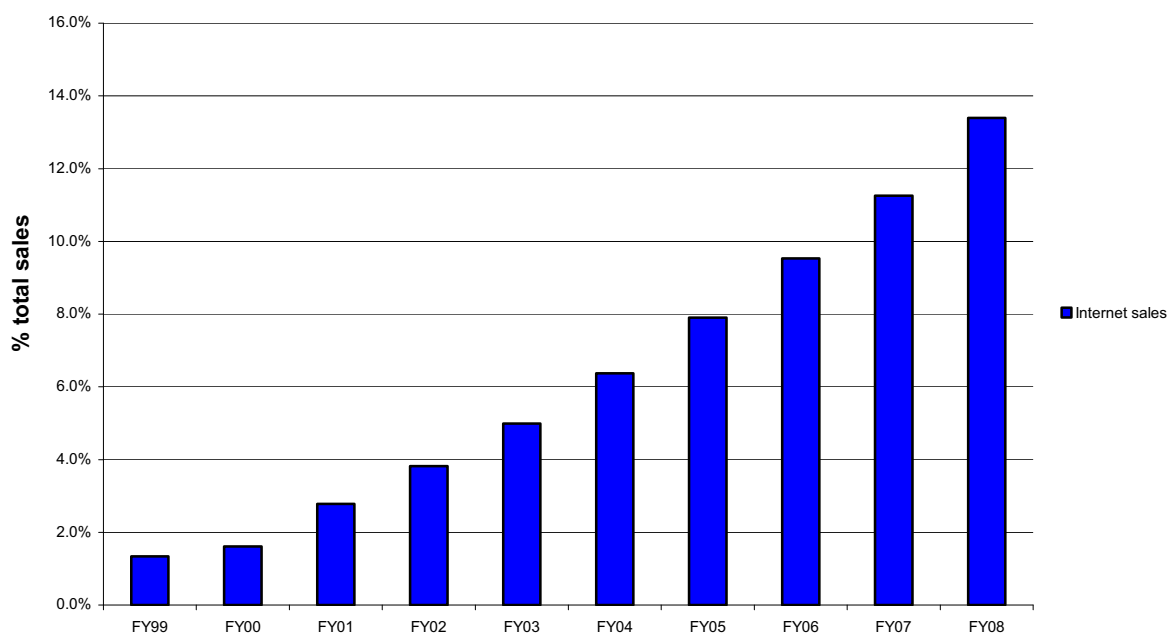
2.2 Technology

Traditionally, wagering customers have bet in retail betting shops, on-course or over the telephone.

The borderless nature and immediacy of the internet means that Australians can now place bets with wagering operators not licensed in their home state much more readily than before. For example, Victorian and NSW residents can now easily locate and place bets with interstate corporate bookmakers and betting exchanges, or with international operators established to target customers in Australia. These operators are not precluded from accepting such bets. The immediate nature of the internet has enabled customers to compare products offered by wagering operators and choose the product that best appeals to them.

The graph below demonstrates the increase in popularity of the internet in relation to Tabcorp's Victorian and NSW betting operations.

Figure 5: Tabcorp's internet wagering turnover as % of total turnover



Source: Tabcorp

2.3 Emergence of corporate bookmakers

The internet has allowed wagering providers to achieve wide distribution and raise their profiles at very low cost. It has enabled them both to enter the wagering market in the first instance and to be very competitive once they have entered it.

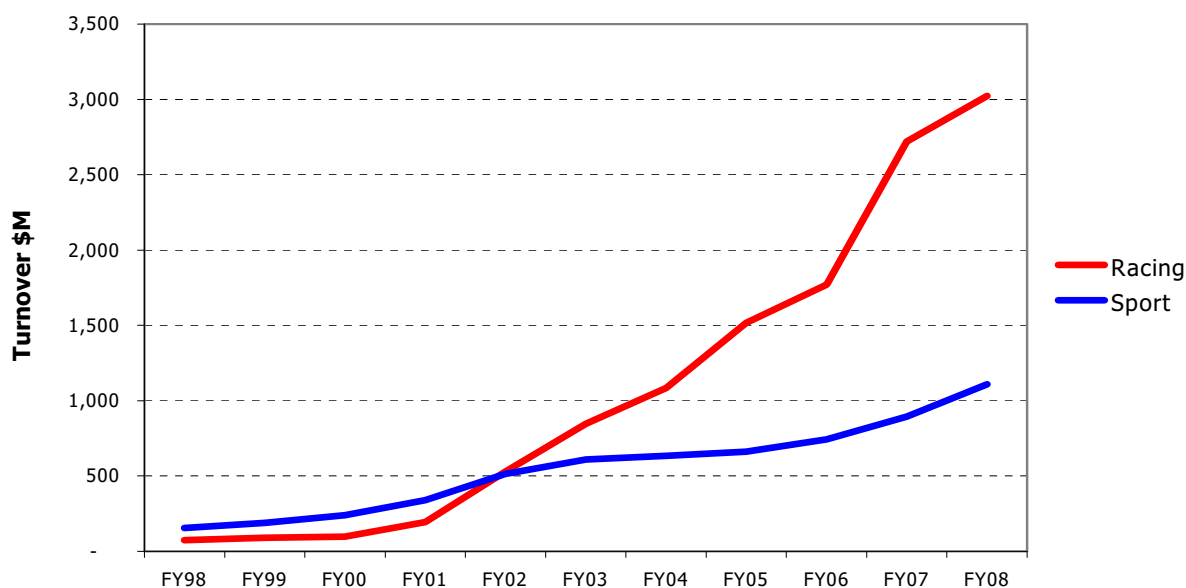
Corporate bookmakers have taken advantage of the growth of the internet by establishing businesses that offer wagering services online to a national audience.

Corporate bookmakers have established their online businesses in jurisdictions that charge little or no wagering tax and racing industry fees, and have regulatory structures that allow them to offer products and services not permitted in other jurisdictions. The Northern Territory is one example of a jurisdiction with a flexible regulatory structure, and Tasmania has recently announced reforms that will reportedly also increase the attractiveness of that State for bookmakers. Such environments enable corporate bookmakers to:

- Offer better prices to customers because of the relatively low tax and racing industry contributions required
- Offer a broader product suite to customers, including the ability to bet on novelty events and on credit.

This “arbitrage” of taxes, product fees and regulation has fuelled growth in the corporate bookmaking market. Figure 6 shows the growth in Northern Territory corporate bookmaker turnover over the past decade.

Figure 6: Growth of Northern Territory corporate bookmaker turnover



Source: Tabcorp analysis

Since the vast majority of corporate bookmaker turnover is channelled over the internet, Tabcorp estimates that more than 30% of the Australian wagering market is now online.

The success of corporate bookmakers can also be explained by the inability of state governments to enforce regulations that seek to maximise racing industry funding and protect consumers. These issues are explained in more detail below.

2.4 Growth in TOTE odds betting

The business of traditional bookmakers involves setting a book and managing risk. Rather than operating in this traditional manner, corporate bookmakers now offer “TOTE odds”. They do this by simply duplicating (copying) the odds created by the various Australian totalisators, including NSW TAB, SuperTAB and UNiTAB. In some cases, bookmakers use their tax and product fee advantage to add a premium to this price, for example “TOTE odds plus 5%”.

TOTE odds betting is now the lifeblood of corporate bookmakers, accounting for the majority of their sales. Appendix 1 provides examples of the online offering of this product.

TOTE odds betting by corporate bookmakers is purely a tax and fee arbitrage with no value add to the totalisator product. Corporate bookmakers can offer a premium because of the lower wagering tax rates and lower racing industry fees they pay. In many cases, offering of TOTE odds by corporate bookmakers is an almost risk free exercise as the entire amount of bets received can be “bet back” with one of the totalisators. And any premium offered to customers can be offset by volume rebates paid by totalisators.

TOTE odds betting raises significant integrity issues, which are outlined later in this submission.

For these economic and integrity reasons, TOTE odds betting is prohibited in a number of jurisdictions. However, breaches of the law generally go unprosecuted. TOTE odds betting is not common in other mature international wagering markets, including ones that are substantially deregulated.

Tabcorp considers that the practice of TOTE odds betting by corporate bookmakers involves an infringement of Tabcorp's intellectual property rights. Accordingly, Tabcorp has recently commenced proceedings in the Federal Court for copyright infringement against a corporate bookmaker, Sportsbet.

2.5 Emergence of betting exchanges

Betting exchanges are a relatively new form of wagering, allowing customers to bet against each other on a variety of events at mutually agreed odds.

Betting exchanges were introduced in Great Britain in 2000. In January 2006 the Tasmanian Government licensed the conduct and operation of Betting Exchanges in Tasmania under the Gambling Control Act (TAS) 1993. The package of legislative reforms included provisions designed to provide a probity and integrity framework.

The Tasmanian-licensed betting exchange, Betfair, now matches bets on racing and sporting events in all Australian jurisdictions and across all codes.

Whilst customers from around Australia are able to use the services of the Tasmanian betting exchange, Tasmania is the only jurisdiction with regulation in place that attempts to address the use of betting exchanges¹.

2.6 Emergence of totalisator competition

In recent times, there has been an increase in online competition between the state-based totalisators. In doing this, totalisators that operate from favourable jurisdictions leverage some of the same tax arbitrage opportunities that bookmakers use to compete.

Others, who are located in more expensive jurisdictions, compete by offering improved service and new innovative products, and respond to the price arbitrage by reducing their operating margins. Examples of recent price driven activity include:

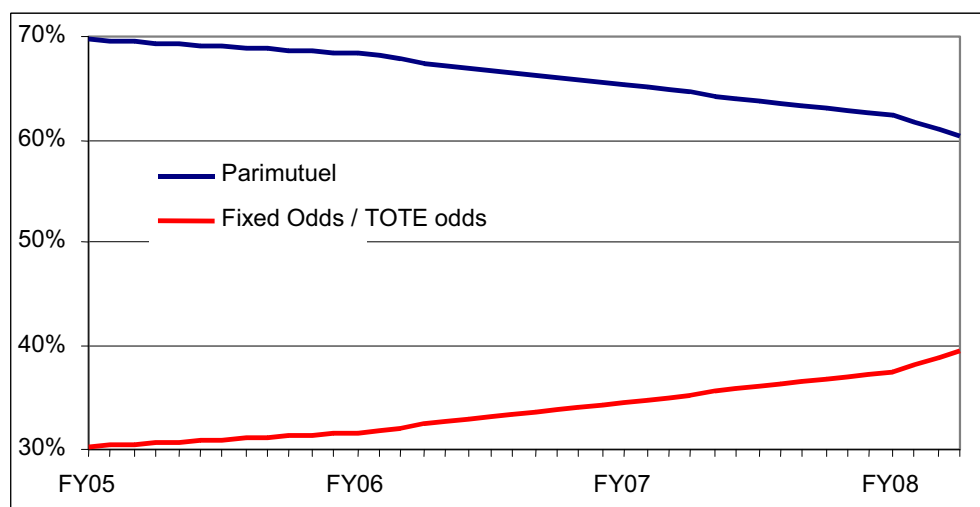
- Promotions (including price promotions involving a reduction in the usual commission rate charged by the relevant TAB on particular race days)
- The provision of rebates and/or discounts for high value punters
- Competition for bet back revenue from corporate bookmakers.

Competition plays out in the broader wagering market where all types of wagering operators, namely totalisators, traditional and corporate bookmakers, and betting exchanges, compete with each other for punters' turnover.

The effect of this competition is demonstrated in the growing share of fixed odds / TOTE odds wagering at the expense of parimutuel wagering, which is illustrated in Figure 7.

¹ The Gambling Regulation Amendment (Licensing) Bill 2009 (Vic) currently being debated in the Victorian Parliament contemplates integrity standards for the operation of betting exchanges. As at the date of writing, this is not yet law.

Figure 7: Australian wagering market share by product



Source: Tabcorp analysis

Tabcorp expects the trend illustrated in Figure 7 to continue now that state laws controlling advertising have broken down.

2.7 Diminished capacity of states/territories to regulate wagering

In the past, state and territory governments controlled the regulation of wagering in their respective jurisdictions. It was deemed appropriate that states and territories determine what betting services should be available to their residents, and that they should determine taxation and funding arrangements appropriate to maintaining vibrant racing industries within their borders.

In 2007, the *Betting and Racing Legislation Amendment Act 2007* (the Act) was passed by the Parliament of Western Australia. In addition to prohibiting residents of WA from placing a bet with a betting exchange, and prohibiting the establishment of a betting exchange in WA, the Act prohibited making a WA race field available without approval. In effect, the legislation did not permit the Tasmanian licensed betting exchange, Betfair, to publish WA race fields.

The Act was challenged in the High Court under section 92 of the Australian Constitution. The High Court held that some elements of the Act imposed discriminatory and protectionist burdens on interstate trade and were therefore unconstitutional.

The consequence of the High Court decision is that many of the laws established by state and territory governments with the intention of protecting consumers, racing industry funding and taxpayer returns are now open to challenge. State and territory governments are restricted in their capacity to regulate the operation of wagering within their borders.

Therefore, the only effective way to now regulate the market is to “lift” the consumer protection, tax and product fee rules to a national level.

2.8 Breakdown in advertising restrictions

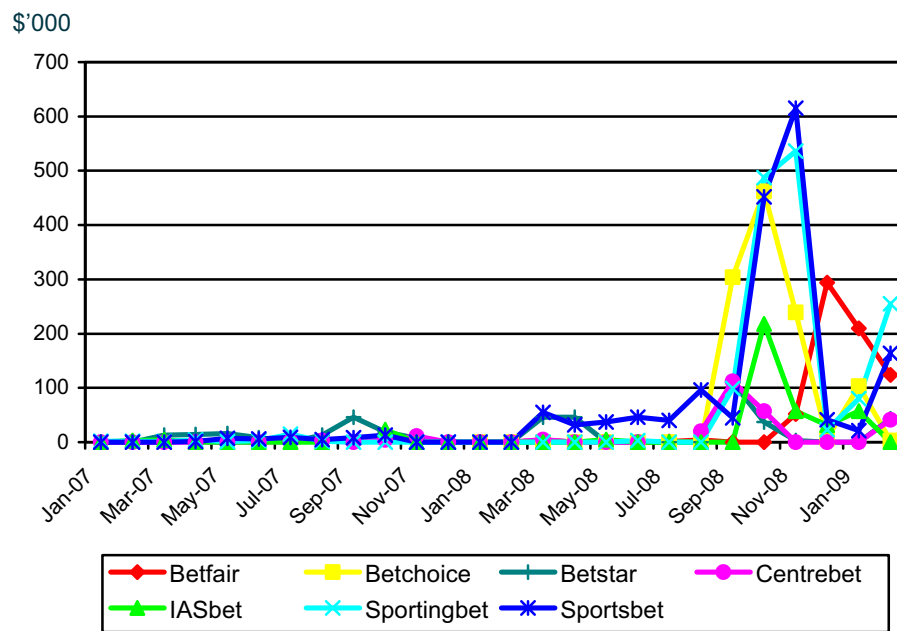
State and territory governments have sought to protect consumers and control state-based wagering activity by regulating advertising and retail betting presence.

Whilst Australians can lawfully bet across state/territory borders, the capacity of wagering operators to advertise in states/territories, other than that in which they are licensed, had previously been restricted.

These advertising laws were openly flouted by some wagering operators and some regulators had an unofficial position that they would not prosecute such breaches.

In September 2008, governments in both NSW and Victoria indicated that the advertising restrictions applying in those states would be repealed, and, until such time as they were repealed, existing laws would not be enforced. This opened the door to an advertising onslaught from corporate bookmakers during the 2008 Spring Racing Carnival, as they attempted to recruit customers from NSW and Victoria.

Figure 8: Estimated advertising spend by corporate bookmakers and betting exchanges



Source: Nielsen AIS – industry measurement for competitive ad spend

South Australia has also repealed its advertising laws, and Western Australia and Queensland have made announcements that reduce the impact of existing advertising restrictions.

Chapter 3 – Outdated state-based funding and regulatory models

Whilst the Australian online wagering market has evolved to a national one, state and territory governments and racing industry authorities continue to regulate the industries as if they were still state/territory based markets. Each jurisdiction has its own approach to:

- Racing industry funding, including race fields fees
- Wagering taxation
- Integrity management
- Products approved
- Regulatory approval processes
- Harm minimisation / responsible gambling requirements.

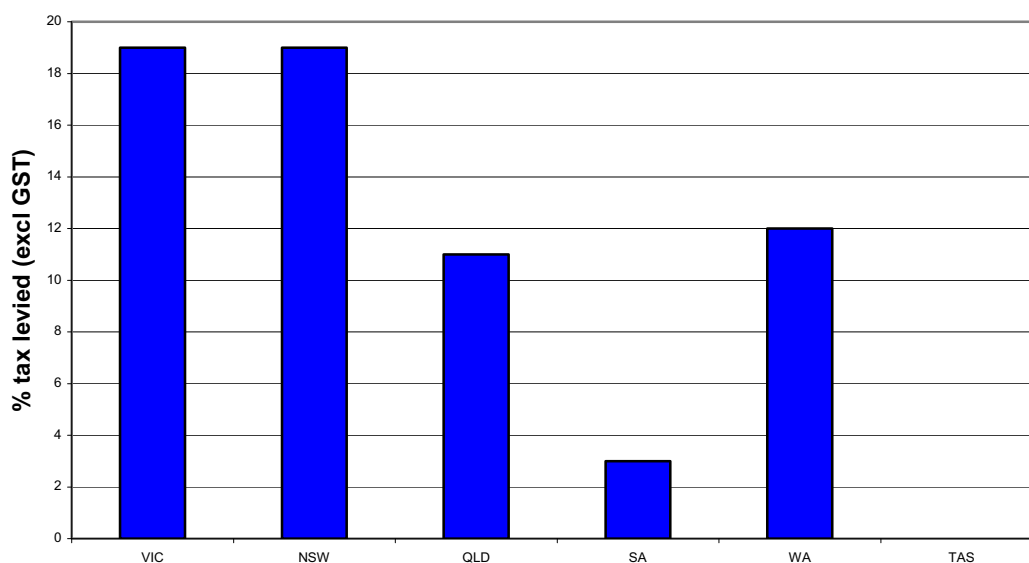
Wagering customers will seek out wagering opportunities that provide the best price, product offering and suite of complementary services. Wagering operators will seek out a business environment that enables them to maximise returns. Where a non-level playing field exists, customers and wagering operators will “jurisdiction shop” to find the environment that best suits them.

Before considering the distortions created by the different regulatory regimes and their impacts, it is worth looking more closely at the key inter-state/territory differences. This chapter provides a snapshot of these differences and appendices 2 to 8 provide more detail.

3.1 Wagering tax differences

State-based totalisators pay significant wagering taxes. The rate of tax paid differs markedly between jurisdictions: in Victoria and NSW, the totalisator pays 19.11% tax, while in Tasmania the totalisator pays no tax. Figure 9 demonstrates the differences in tax rates applied to totalisators in the Australian states.

Figure 9: Totalisator wagering tax rates



Note 1: Victorian parimutuel wagering tax will decrease to 7.6% post August 2012

Note 2: SA parimutuel wagering tax will decrease to 0% by FY12

Note 3: Wagering taxes set out above are levied on gross revenue

Source: Tabcorp gambling submission 2006

The distorting effect of taxation becomes more stark when considering the taxation levied on fixed odds products. In general a wagering tax is levied on TAB operators offering fixed odds betting on racing and sports. In Victoria and NSW the tax rate is 10.91%. In contrast, in the majority of situations, no or marginal wagering tax is levied on bookmakers.

The differences in the tax rates applied to wagering operators according to jurisdiction and type of operator allow some operators to offer better prices to their customers, not based on their business model or efficiency, but purely as a result of lower taxes.

3.2 Racing industry product fee differences

Racing industries receive the majority of their funding from the totalisator in their home state. The racing industry funding model is outlined in more detail in section 4.2.

Recently, racing industries in most jurisdictions have been given legislative authority to charge fees to all wagering operators that use their product. The idea is that the racing industry should receive a fee from everyone that wagers on its product, including interstate and online operators.

The problem with each jurisdiction introducing these “race fields” fees is that there are significant differences between the fee models. Rather than creating a level playing field in the wagering market, the new race fields fees are increasing the current distortions:

- Race fields fees differ not only between jurisdictions but also within jurisdictions according to the racing code levying the fee and the different type of wagering operator onto whom the fee is levied.
- Some racing industries have sought to levy fees based on revenue rather than turnover. This practice leads to significant distortions as it further advantages bookmakers and betting exchanges over totalisators.
- The fragmented nature of race fields fees presents a significant administrative burden for wagering operators. In Tabcorp’s case, each of its three wagering businesses – Victorian TAB, NSW TAB and Luxbet.com – has to comply with different race fields fee arrangements for each racing code across each jurisdiction. There may be up to 72 domestic race fields agreements with which Tabcorp will need to comply, each with different charging methods, compliance and reporting requirements.

3.3 Different approaches to harm minimisation / responsible gambling

There are eight regulatory frameworks that govern the operation of racing and wagering in Australia.

Of particular note are differences relating to harm minimisation. Credit betting is one area in which different states and territories have different approaches between bookmakers and totalisators. While totalisators in general cannot provide credit to their customers, bookmakers are free to offer credit betting services, even whilst betting TOTE odds. Tasmania recently announced reforms that will allow the totalisator, when privatised, to offer credit facilities.

Between jurisdictions, differences also apply to wagering advertising and the capacity of operators to offer account opening inducements to wagering customers. For example, in NSW the government has issued stricter rules around advertising and the ability to offer inducements for account opening. Tabcorp's wagering business, Tab Ltd, complies with these new rules across all distribution channels as it is licensed in NSW. However, corporate bookmakers who are licensed elsewhere can ignore the new standards. While the idea of tighter standards is positive, the application is uneven and disadvantages the operator that is licensed in the State.

Regulators also take a different approach to determining the suitability of particular events for betting purposes. The Northern Territory offers the most comprehensive schedule of declared sporting events upon which operators licensed within its borders can accept bets and also provides a very responsive licensing and betting approvals regulatory environment. Other states are restrictive in what they allow and take a significant amount of time – up to three months in some cases – to approve events for betting purposes.

Customers who wish to take advantage of credit betting, account opening inducements and a broad product offering are taking their business to jurisdictions with regulatory environments that allow wagering operators to provide these services. And bookmakers can win their business, not because of a superior set of skills or product offer, but because of differences in state-based regulations.

3.4 Free-riding on totalisator provided support services

Traditionally, state-based totalisator operators have subsidised and/or funded the provision of wagering support services such as vision, audio, form and data. Wagering customers need this information in order to bet and it therefore drives wagering turnover.

Operators such as corporate bookmakers and betting exchanges do not contribute to the provision of these services to the same extent as the state-based totalisators, yet their businesses rely on their customers having access to these services to support betting activity. For example, in FY08, Tabcorp contributed over \$40 million to these support services, including provision of racing vision in TAB agencies and on pay TV, newspaper form guides and funding to racing radio stations.

Chapter 4 – Impact of distortions

4.1 Impact on taxpayer returns

The tax rates imposed on Tabcorp in Victoria and NSW are the highest of any wagering operator in Australia.

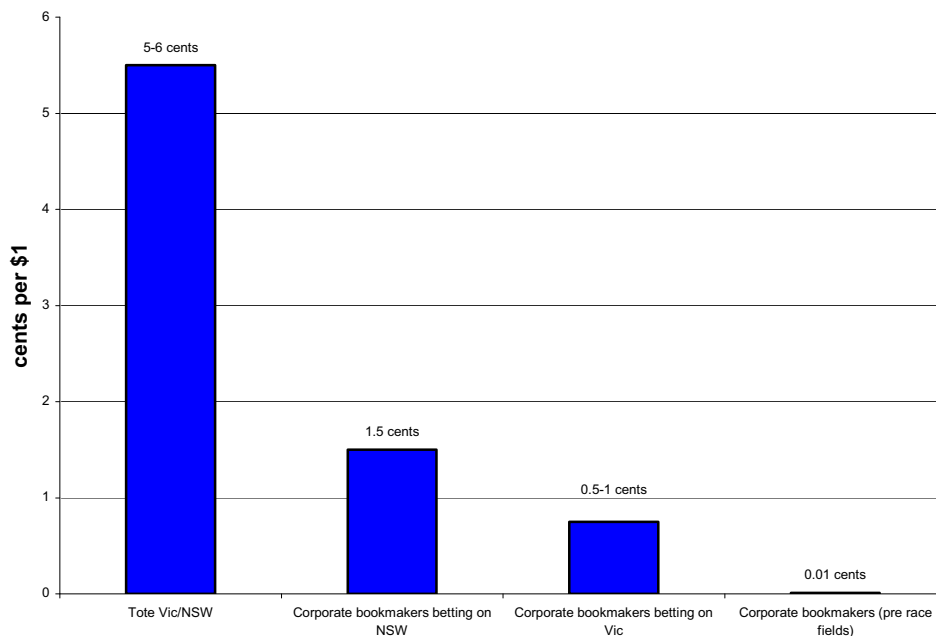
Anomalies in wagering taxes across state and territory borders disadvantage operators in those jurisdictions where tax rates are high. Interstate totalisators currently leverage their lower tax position to offer rebates and other inducements to encourage Victorian and NSW customers to bet outside these states and to take bet backs from corporate bookmakers offering TOTE odds services. And corporate bookmakers leverage their lower tax position by offering rebates and other inducements to customers in Victoria and NSW.

Independent analysis commissioned by Tabcorp estimates that Victorian and NSW governments lost \$18.9 million and \$29.8 million (excluding GST) respectively in 2007-08 as a consequence of revenue leakage.

4.2 Impact on racing industry funding

Parimutuel betting through the totalisator contributes approximately 5-6 cents in every dollar of turnover to the racing industry. Corporate bookmakers contribute a fraction of this level. In the case of the revenue based fee model adopted in Victoria the effective contribution can be less than 0.5 cents for every dollar bet.

Figure 10: Contribution to the racing industry by wagering operations for every \$1 bet



Source: Tabcorp analysis

Wagering operators who make little or no financial contribution to the racing industry have an increased capacity to solicit customers through pricing offers, rebates, incentives and other promotions. The offering of TOTE odds underpins a business model that enables bookmakers to attract customers to their businesses without contributing the 5-6 cents per dollar wagered.

The future impact on racing industry funding is likely to be severe. In effect, racing industry funding suffers as revenue transfers from states/territories in which operators are required to make a relatively high contribution to the local racing industry to state/territories in which they are not.

As a substantial contributor to the Australian economy in terms of employment and value added, a loss of funding to the racing industry will have serious knock-on effects.

4.2.1 Racing industry funding model

The wagering and racing industries have a symbiotic relationship: each depends on the other. Without racing, the wagering industry lacks a significant product on which to take bets. Without wagering, the racing industry does not have the money to conduct its activities and produce wagering product.

The racing industry depends most heavily on totalisators for funding. Although bookmakers make a small contribution to racing industry funding, between 70% and 90% of the racing industry's funding comes from TAB operations, depending on the state or territory. Tabcorp alone contributes more than \$500 million to the racing industries in Victoria and NSW.

Figure 11: Racing industry funding by operator FY08

Operator	\$m to Victorian racing industry	\$m to NSW racing industry
TAB		
- Wagering	226	212
- Gaming	74	-
Local bookmakers	5 [^]	7 [^]
NT corporate bookmakers	5 ^{*^}	0
Betting exchanges	0	0

* Estimated return via race fields fees

[^] Based on Tabcorp estimates

Even under the new race fields regime, corporate bookmakers and betting exchanges, which currently hold more than 22% of the wagering market, will contribute less than 5% of industry funding. This equation does not work in the interest of a well regulated market and well funded racing industry.

Internationally, racing industries that derive the majority of their wagering revenue from totalisators are proven to be the best funded. The four leading thoroughbred racing countries in the world, as rated by the International Federation of Horseracing Authorities in terms of prize money paid, all adopt this funding model.

Figure 12: Comparison of Leading International Thoroughbred Racing Countries

International Prize money Ranking	Country	Prize money Paid FY06 \$AU	Betting Turnover FY06 \$AU	Totalisator Take Out Rate ²
1.	United States of America	\$1,187.8m	\$18.7b	21.0%
2.	Japan	\$911.2m	\$33.9b	26.0%
3.	Australia	\$368.6m	\$11.6b	16.0%
4.	France	\$257.1m	\$13.8b	27.0%

Source: Australian Fact Book and International Federation of Horseracing Authorities

Hong Kong, Singapore, Korea, South Africa and New Zealand also adopt this model.

Funding models that involve a reduced dependence on the totalisator as a funding source do not optimise racing industry growth. Britain is one such example where a large number of wagering operators provide low cost products with low returns to the racing industry. In FY07 the entire British thoroughbred racing industry paid aggregate prize money of \$203.7 million³ (£98.4 million⁴) compared to Australian thoroughbred prize money of \$375.5 million^{5,6} during the same period.

Deregulation and taxation reforms of the British wagering market initially increased race wagering turnover and reduced operator margins. Between 2004 and 2007, however, race wagering turnover and industry funding contributions declined.

The Chief Executive's report in the British Horse Racing Levy Board 2006-07 Annual Report stated:

*"From the peak of £102m in 2003/04, the yield has already fallen to £90m, with Racing's market share under continuing heavy pressure. The new landscape following the full implementation of the Gambling Act in September 2007 and changes to the betting shop picture market also have the potential to lead to further declines in Levy revenues, which cannot but concern the Racing Industry."*⁷

Tabcorp acknowledges that the growth in fixed odds betting, facilitated by the growth of the internet and corporate bookmakers, has stimulated the market over the last five years. However, the current racing industry funding model means that growth in fixed odds betting at the expense of parimutuel betting would need to stimulate the overall wagering market by at least 30% to maintain returns to the racing industry. Such growth on top of normal market growth is not realistic, particularly in a country where turnover is already amongst the highest in the world on a per capita basis.

Left unchecked, there is a risk that the Australian racing industry will move from being one of the top three in the world to one that will languish.

² <http://www.horseracingintfed.com/wageringDisplay.asp?section=14&CK=E&YR=2006&key=56>; and Figure 7.1 Comparison of Take-Out Rates, The Plan for Lifting Economic Performance in the Racing Industry, New Zealand Racing Board, Jan 2005, page 52.

³ Exchange rate 1 AUD = 0.42959 GBP as at 24 June 2008.

⁴ British Horserace Betting Levy Board at www.hblb.org.uk/document.php?id=12&printable=yes.

⁵ Australian Racing Factbook 2006/07, page 47.

⁶ NSW prize money was \$104.0m in FY07 refer Racing NSW Annual Report 2007, page 4

⁷ British Horserace Betting Levy Board 2006/07 Annual Report, page 9.

The impact of the distortions on industry funding will not be immediately evident. In the 2009 financial year, the racing industry is likely to receive record funding from the totalisator, and in addition will receive product fees from corporate bookmakers. It will seem that Tabcorp's assessment is exaggerated, with the industry being drawn into a false sense of funding security.

4.2.2 Decrease in racing industry funding

The impacts of a non-level playing field in the areas of taxes, racing industry fees and regulation leads to leakage of wagering revenue to jurisdictions in which wagering operators pay little or no contribution to the racing industry.

Tabcorp estimates that in 2008 the magnitude of this leakage was:

- \$987 million of turnover leaked from NSW to the Northern Territory
- \$592 million of turnover leaked from Victoria to the Northern Territory.

For the NSW and Victorian racing industries, this loss of turnover translates to a loss of \$58 million and \$45 million in annual funding respectively.

As online wagering continues to grow, this leakage will continue. It is unclear how much of this loss to local racing industries can be balanced by the imposition of race fields fees. It is likely that there will be a substantial shortfall in the medium term.

The impact of this leakage on employment and economic activity generated by the racing industry, particularly in regional areas, will be material. It is therefore urgent that the distortions be addressed.

4.3 Impact on consumer protection

4.3.1 Accessibility

In its 1999 report, the Productivity Commissions suggested that a connection exists between accessibility to gambling opportunities and problem gambling prevalence.⁸

Online technologies have significantly increased accessibility to gambling opportunities, notwithstanding the introduction of the Commonwealth's Interactive Gambling Act 2001 (from which wagering has some exemptions).

The internet provides more opportunities to gamble because:

- There is significant access to the internet in Australia. At the end of the June quarter 2008, there were 7.23 million Australian subscribers to the internet comprising 1.02 millions businesses and government organisations and 6.21 households⁹
- Online wagering sites have relatively few barriers to entry.

Multiple studies have cited greater convenience, comfort and ease of access as the primary reason people choose to gamble online.¹⁰

⁸ Productivity Commission 1999, *Australia's Gambling Industries*, Report No.10, AusInfo, Canberra, page 8.31

⁹ Australian Bureau of Statistics, 8513.0 *Internet Activity, Australia June 2008*, released 22 September 2008

¹⁰ Monaghan, S., *Internet and wireless gambling – a current profile*, a paper prepared for the Australasian Gaming Council, May 2008, pp 16 and 17

The breakdown in advertising restrictions outlined earlier has led to a significant increase in the advertising of online wagering services.

Appendix 9 provides examples of advertisements placed by corporate bookmakers and betting exchanges. It is important to note references to free bets to open accounts and the absence of responsible gambling messages in these advertisements.

In the past, states and territories have deemed it appropriate to regulate retail wagering by offering exclusive off-course wagering licences. In 2004-05, 53% of Australia's pubs, taverns and bars and 46% of clubs had TAB wagering facilities.¹¹

VenueNet is currently being promoted by a Northern Territory-based corporate bookmaker as an internet kiosk appropriate for installation in hotels and clubs to provide customers with wagering opportunities. The first VenueNet kiosk has been installed in a Victorian hotel, with more expected to be rolled-out in coming months. Tabcorp understands other corporate bookmakers are also investigating the installation of similar devices into licensed venues.

If states and territories are unable to enforce retail exclusivity, and the installation of such terminals in hotels and clubs proceeds, there will be a significant increase in wagering opportunities available, and associated issues for consumer protection.

4.3.2 Approach to responsible gambling

Wagering operators take different approaches to the responsible delivery of their gambling products.

Tabcorp believes the responsible service of its gambling products is key to customer care, industry sustainability and its reputation as a credible operator. The company has taken a leadership position in the development of voluntary codes of practice, employment of responsible gambling managers and customer care programs such as the BetCare wagering self-exclusion program, the first of its kind in Australia. The Dow Jones Sustainability Index has named Tabcorp world leader in the promotion of responsible gambling in recognition of its efforts.

In an online environment where wagering services can be so readily accessed, responsible service is of paramount importance. Unlike retail environments where employees are present and can be trained in customer care and responsible gambling policies, no such safety net exists for online gamblers.

Research suggests that problem gambling prevalence is higher amongst samples of internet gamblers than samples of land-based gamblers.¹² Canadian research has found that internet gamblers are three to four times more likely to be problem gamblers than non-internet gamblers¹³. Further, greater availability, ease of play and anonymity are cited as features of the internet that may lead to problem gambling behaviour.¹⁴

¹¹ Australian Bureau of Statistics, 8687.0 *Clubs, Pubs, Taverns and Bars*, Australia 2004-05

¹² Monaghan, page 23

¹³ Wood, R. and Wylie, R., *Internet Gambling: prevalence, patterns, problems and policy options*, 2009, page 90

¹⁴ Monaghan, page 23

4.3.3 Integrity

A considerable part of corporate bookmaker turnover is comprised of TOTE odds betting.

Integrity issues arise from the practice of TOTE odds betting by bookmakers because it carries with it a risk of pool manipulation. For example, pool manipulation occurs when a punter places large bets with the TAB on all runners in a field except the favourite (or their preferred runner). This artificially inflates the dividend payable on their preferred runner. The punter will then place a large bet with a corporate bookmaker on their preferred runner, at TOTE odds, which have been artificially inflated. If the runner is successful, the punter will receive a large pay-out.

The losers in such instances are the other regular punters betting into the tote pool whose dividends are unfairly manipulated. An example of this occurred in December 2005 when there was a betting sting on a greyhound race at the Gold Coast. Punters placed \$16,000 on each of Lucy Light's rivals to push Lucy Light's price on the UNiTAB tote to \$13, for what should have been a short-priced favourite. The punters then placed bets at TOTE odds with a South Australian bookmaker, which cost the bookmaker a reported \$700,000.

TOTE odds betting also carries the risk that bookmakers may bet back into the tote pools in order to adjust the risk of bets they are holding on a TOTE odds basis, thus manipulating the final price at which they will be required to pay out to customers. This practice is difficult to track as bet backs may be made through agents. There are also incentives for bookmakers to bet back into tote pools with some totalisators offering volume rebates.

Some jurisdictions have legislation that restricts or prohibits TOTE odds betting by bookmakers. Unfortunately, these states/territories are limited in their capacity to enforce these prohibitions.

4.4 Impact on wagering operators

The distortions described above have an impact on the profitability of totalisator operators in particular, and other operators in jurisdictions from which wagering activity is leaking because of high taxes, high racing industry fees and relatively prescriptive regulatory regimes.

The regulatory burden is also significant for operators in a national market who must comply with different requirements in each state and territory. Race fields is one such example.

The separate and different race fields regimes implemented by the racing codes of each state and territory require wagering operators to:

- Apply for use and publication of race fields
- Make an economic contribution under race fields agreements
- Comply with integrity obligations under such agreements
- Reapply each year at different dates to continue to publish race fields data.

In Tabcorp's case, there are potentially 72 separate arrangements with which it will need to comply.

Regulatory uncertainty may force wagering operators to curtail or defer investments in their businesses, for example, in the areas of retail network upgrades and product development. Similarly, third party distributors such as hotels and clubs may be reluctant to make investment decisions relating to their wagering facilities when regulatory uncertainty persists.

Chapter 5 – The solution: national regulation of wagering

Tabcorp welcomes competition. As a wagering operator, we are ready to compete. But in some circumstances, we cannot compete because the playing field is not level. We believe this situation needs to be rectified, in the context of delivering adequate funding to the racing industry and providing wagering in a responsible manner.

In relation to the distortions outlined in this paper, the solutions lie in a national approach to the regulation of wagering, including a single national approach to taxation and funding of the racing industry. We note that the preference for a national solution is also recommended by Alan Cameron AM in his report to the New South Wales Minister for Racing in *Correct Weight? A review of wagering and the future sustainability of the NSW Racing Industry*.

Tabcorp acknowledges that a national approach to wagering regulation will involve a significant structural adjustment for wagering operators and governments alike. However, it is important that this adjustment occurs now, before the distortions we outline have more serious consequences for employment and economic activity.

Tabcorp acknowledges that the solutions below will require an adjustment by corporate bookmakers, including Tabcorp's own corporate bookmaking operation, Luxbet.com. Essentially, bookmakers will have to adjust their businesses to take into account a sustainable level of racing industry funding and taxation. And while the adjustments may be considered material, it should be recognised that fixed odds margins are currently unsustainably low by both Australian and international standards.

The customer impact is important to consider in making these adjustments. If funding to the racing industry declines, the quality of the racing product declines. The benefits to wagering consumers of a world-class racing industry outweigh any short term adjustments experienced by the wagering market, particularly where the adjustments are the result of a removal of an arbitrage that should not have existed in the first place. Customers will still benefit from competition where wagering operators provide better products, better services and lower prices to customers based on their own (and true) capabilities.

Tabcorp makes five specific recommendations.

Recommendation 1: Achieve national consistency in wagering regulation

Tabcorp recommends the Commonwealth and state/territory governments work towards achieving national consistency in the administration of wagering taxes and racing industry product fees, and the responsibly for consumer protection. There are various ways this could be achieved, for example, through the Racing Ministers' Conference or COAG. However, given the varying impact of the proposed changes on individual jurisdictions, a solution that transfers these responsibilities from the states and territories to the Commonwealth may be needed.

If the Commonwealth Government were to assume responsibility for the administration of wagering taxes and racing industry product fees by "lifting" the financial administration to a national level, there is a greater likelihood that a uniform set of taxes and fees can be applied to all wagering operators.

Tabcorp also recommends that the Commonwealth uses its powers under the Interactive Gambling Act 2001 (IGA) to ensure that consumer protection policies apply consistently to all online wagering operators. Examples of policies that require alignment and consistency are credit betting and the offering of inducements to open new betting accounts.

Recommendation 2: Prohibit TOTE odds betting by bookmakers

This submission has outlined that TOTE odds betting is nothing more than a tax and fee arbitrage. In addition to the integrity risks the activity poses, it undermines the racing industry funding model.

Tabcorp recommends a national prohibition of TOTE odds betting, to be enforced by the Commonwealth Government. Again, this could be achieved through the IGA.

Recommendation 3: Implement a uniform national wagering tax

Tabcorp recommends a uniform tax rate be established and applied to all wagering activity.

In principle, wagering tax can be levied on either turnover or revenue. However, a levy on revenue is likely to be complex, so for the sake of simplicity, the solution Tabcorp has modelled is based on turnover.

The tax rate should be determined by reference to the current wagering tax take across all jurisdictions of approximately \$331 million per annum (excluding GST), meaning that any change will be at least revenue neutral to governments overall.

If applied to turnover, a tax rate of 1.6% would raise \$331 million in taxation revenue. There would be no change to the application of GST.

In transition, there will be winners and losers at a state/territory level. Transition arrangements between the Commonwealth and state/territory governments will be necessary to account for this.

Tabcorp suggests this recommendation be referred to the review of Australia's tax and transfer system currently being undertaken by Dr Ken Henry for further consideration.

Recommendation 4: Implement uniform national racing industry fees

Tabcorp recommends the development of a single set of charges for the use of the racing industry's product by wagering operators. These charges would replace the current arrangements including race fields fees, profit share and other funding arrangements applying to totalisators and bookmakers.

The racing industry today receives funding of approximately \$850 million¹⁵ and the aim of any new system must be to keep the industry whole from day one.

In order to retain this base distribution, Tabcorp recommends the following product fees:

- 5.2% racing industry fee on parimutuel wagering turnover
- 1.5% racing industry fee on fixed odds betting and betting exchange turnover.

These recommended charges are contingent on two key conditions:

- First, that TOTE odds betting is prohibited as per Recommendation 2. If this were not the case, then TOTE odds betting has to attract the same product fee as parimutuel wagering.
- Second, that retail exclusivity is maintained for the totalisators. This exclusivity allows for the materially higher product fee of 5.2% to be levied. Without exclusivity, all product fees would have to be aligned to ensure a level playing field between competitors. And with the vast majority of funding for the racing industry coming from the totalisators, such an alignment would have significant adverse consequences for industry funding.

The recommended racing industry fees are to be paid by the operator taking the bet. They represent a fixed input cost for all wagering operators. It is recommended that the Commonwealth Government distributes this income to the product provider, which is the racing industry in the jurisdiction in which the racing event is held. For example, if a NSW bookmaker accepts a \$100 bet on a Western Australian race, then the product fee of \$1.50 is paid by the NSW bookmaker and subsequently transferred to the Western Australian racing industry that organised the race.

Racing industry fees should be levied on turnover rather than revenue. The size of the racing industry requires funding certainty that is not dependent on the operator's business model. This is one of the fundamental problems with racing industry fees being based on revenue or gross profits. Wagering operators should view racing product fees as a fixed "raw material" cost to their business. A nationally applied set of turnover based charges is the only way the racing industry can have funding certainty.

An additional problem with racing industry fees based on revenue is the inherent complexity of calculating what is "revenue". The current race fields regimes introduced by Victorian thoroughbreds, Victorian greyhounds, the three codes in South Australia and NSW greyhounds are all based on a revenue model, however, all have differences in formulation of what is "revenue".

In setting turnover based product fees, it is important to establish a clear definition of "turnover" for a betting exchange, recognising that each individual bet has two sides.

¹⁵ Figure excludes race fields fees. It is unclear how much these fees will net for the racing industry.

Whilst the rates may be subject to debate, the clear imperative is that they apply equally to like wagering offers.

Tabcorp's recommendation does not mean that the shift from totalisator wagering to fixed odds betting will stop altogether. The shift will continue and normal market forces will decide the winners and losers.

The transition to a national product fee regime is complex and yet it is urgent. Amongst other things, transition arrangements will need to account for the agreements currently in place between racing industries and totalisators. Tabcorp recommends that the application of a single set of product fees replaces all existing agreements between totalisators and racing industries.

The only trade-off that could be considered is to set the parimutuel product fee below the proposed level of 5.2% of turnover, and supplement racing industry funding with a modest profit share in each jurisdiction. The rationale for such a profit share arrangement would be to align the financial interests of the racing industry and the exclusive retail operation of the totalisator.

Recommendation 5: Apply a uniform national approach to regulation, including consumer protection

Tabcorp recommends a national approach to the regulation of wagering, including:

- Consistent regulation of credit betting and account opening inducements
- A single Code of Conduct dealing with responsible gambling, with which all wagering operators licensed in Australia will comply
- A single and mandatory integrity framework covering racing and sports, as well as all forms of betting and all operators.

The current inconsistent approaches applied to credit betting and account opening inducements should be reviewed urgently. The regulations should be made consistent across all jurisdictions, in line with a national approach to responsible gambling and consumer protection. In other words, either these practices should be allowed in all jurisdictions or they should be prohibited nationally.

Once an appropriate integrity framework is in place, the foundation will exist for controlled expansion of wagering in response to technology and consumer demand. A good example is "in the run" betting, which is a popular form of online betting on sports in overseas markets.

We recognise that it is difficult for any government in Australia to control the online activities of offshore gambling operators as they seek to offer their services to Australian citizens. Yet, such activity raises many serious issues for consumer protection. Governments in other jurisdictions, such as the United States of America, have successfully dealt with this issue by making it illegal for US banks, credit card companies and other financial institutions to make payments to online gambling sites that are made available to US residents by offshore operators.

We believe the Commonwealth Government has the capacity to control such activity, firstly by amending the IGA to exclude offshore operators from the wagering exemption and, in support of this, by making regulations under section 69A of the IGA that invalidate payment for supply of illegal online gambling services, to protect Australian gamblers from unregulated offshore gambling operators.



Tabcorp does not suggest that a transition to a national model will be easy for any stakeholder. However, Tabcorp believes that the recommendations in this submission are in the best long-term interest of all stakeholders.

A strong racing industry is vital to Australia's communities and its economy. This is why taking action is no longer optional. Urgent action is needed to secure the funding of the racing industry over the next ten years.

The screenshot displays the Sportsbet website interface. At the top, there are navigation links for 'HOME', 'BANKING', 'MY ACCOUNT', 'OFFERS', 'BETTING INFORMATION', 'GENERAL INFORMATION', 'CONTACT US', 'ENJOY UP TO \$100', 'REFERRAL FRIEND', 'CREDIT FACILITY', 'REDEMPTION FREE BETS', and 'FREE BETS'. A prominent banner for 'City Best Plus' offers 'Win and Each-Way' on all metropolitan meetings. Below this, there are sections for 'ALL RACING' (Horse Racing, Harness Racing, Greyhound Racing, Melbourne Cup, Specials), 'RACING RESULTS', 'AUSTRALIAN RULES' (Basketball, Bowling, Cricket, Darts, Entertainment, Golf), and 'AUSTRALIAN RULES' (Basketball, Bowling, Cricket, Darts, Entertainment, Golf). A 'Racing Results' section shows details for 'Crabtree Race 1 - MC Trainers Ball Central Main 1000m' and 'Crabtree Race 2 - The Hovels 87 Main Plain 1000m'. A 'JOIN NOW' banner is visible on the right side. The bottom of the page features a 'BETSTAR' logo and a 'CALL 1300 BETSTAR' banner. A table of 'TODAY'S RACING' is also present, listing various races and their start times.

Crabtree Race 1 - MC Trainers Ball Central Main 1000m

1	5. Octavian Range	4.80	4.60	5.80	2.40	4.80	2.00	5.10	2.20
2	2. Coloured	5.00	4.80		2.20	1.80			2.20
3	3. Neptune	7.00	7.00						

Scratchings: None (Quoted 2.0) 13.80 (Trifecta 2.0) 87.40 - Track Good

Crabtree Race 2 - The Hovels 87 Main Plain 1000m

1	7. Refrain	5.50	4.80	4.50	1.60	4.40	1.80	3.70	1.50
2	2. O'Brien's Jay	11.00	11.00		2.70	3.70			2.70
3	3. Four Amigos	20.00	20.00		4.80	3.50			4.10

Scratchings: 6, 12 (Quoted 2.0) 24.90 (Exact 2.0) 45.50 (Trifecta 2.0) 473.80 - Track Good

Crabtree Race 3 - CPDU Yearlings @ Wuch Main 1000m

1	13. Murrumbidgee	7.00	7.00	8.90	2.10	6.90	2.00	8.10	2.50
2	3. Dragon	12.00	9.00		3.30	3.50			3.10
3	8. Murrendy	7.50	7.50		2.80	2.50			2.50

Scratchings: 14, 16, 17 (Quoted 1.10) 41.90 (Exact 1.10) 99.10 (Trifecta 1.10) 34.40 (Trifecta 1.10) 33.30 41.80 - Track Good

Appendix 2 – Wagering tax

Victoria	New South Wales	Queensland	South Australia	Western Australia	Tasmania	ACT	Northern Territory
Totalisator – Off-Course Racing							
19.11% of gross wagering revenue ^{Note 1}	19.11% of gross wagering revenue	10.91% of gross wagering revenue	3.00% of gross wagering revenue ^{Note 2}	11.91% of gross wagering revenue	Zero	Zero (ACT Government financial beneficiary of all profits after racing industry payments)	40% of licensee commissions (less GST)
Totalisator – Off-Course Sport							
19.11% of gross wagering revenue ^{Note 1}	19.11% of gross wagering revenue	10.91% of gross wagering revenue	3.00% of gross wagering revenue ^{Note 2}	5.0% of gross wagering revenue	Zero	Zero	20% of licensee commissions (less GST)
Totalisator – On-Course							
19.11% ^{Note 1}	19.11%	10.91%	Nil	11.91%	Zero	Zero	40%
Fixed Odds (Bookmaker) - Racing							
10.91% of gross wagering revenue for totalisator licence holder Zero for other bookmakers	10.91% of gross wagering revenue for totalisator licence holder Zero for other bookmakers	10.91% of gross wagering revenue for totalisator licence holder Zero for other bookmakers	Zero	2.00% of monies paid to RWWA for fixed odds racing	Zero	Zero	0.33% of wagering turnover

Victoria	New South Wales	Queensland	South Australia	Western Australia	Tasmania	ACT	Northern Territory
Fixed Odds (Bookmaker) – Sport							
10.91% of gross wagering revenue for totalisator licence holder Zero for other bookmakers	10.91% of gross wagering revenue for totalisator licence holder Zero for other bookmakers	10.91% of gross wagering revenue for totalisator licence holder Zero for other bookmakers	Zero	0.5% of monies paid to RWWA for fixed odds sports	Zero	Zero	Zero Australian customers 0.25% turnover international customers

Source: Wagering Background Paper, Independent Review of Wagering in NSW, June 2008, page 8; as updated by Tabcorp based on Victorian and South Australian Government statements; Tabcorp management information

Note 1: Victorian totalisator wagering tax will be reduced from 19.11% to 7.6 from FY13

Note 2: South Australian totalisator wagering tax will be phased out to nil by FY12

Note 3: Victorian fixed odds wagering tax for the totalisator operator will be reduced from 10.91% to 4.38% from FY13

Appendix 3 – Racing industry funding arrangements by state/territory

Victoria	New South Wales	Queensland	South Australia	Western Australia	Tasmania	ACT	Northern Territory
Totalisator							
Program Fee + Racing product fee + Marketing fee + 25% of Joint Venture Profit	21.9965% of net wagering revenue including fractions + 25% notional wagering earnings + Other fixed dollar Product Fees	39% of net wagering revenue	39% of net wagering revenue	Beneficiary of RWWA operational surplus	Beneficiary of TasTOTE operational surplus	4% of wagering turnover	Fixed dollar funding allocation from NT Government
Other licensees (bookmakers other than totalisator operators)							
1% of wagering turnover for bookmakers payable to applicable controlling body	1% of wagering turnover for bookmakers operating at metropolitan thoroughbred racecourses Fixed price stand fee is payable by bookmakers operating from harness, greyhound and non-metro thoroughbred racecourses	Fixed price stand fee is payable by bookmakers operating at a racecourse Some clubs impose 0.33% of wagering turnover	20% of gross proceeds	2% of wagering turnover for bookmakers payable to applicable race club on racing 0.5% of wagering turnover for bookmakers payable to applicable race club on sports	1% of wagering turnover for bookmakers payable to applicable race club on racing 0.5% of wagering turnover for bookmakers payable to applicable race club on Australian sports 0.25% of wagering turnover for bookmakers payable to applicable race club on international sports events	1% of wagering turnover for bookmakers payable to applicable controlling body	Nil

Source: Wagering Background Paper, Independent Review of Wagering in NSW, June 2008, page 12-13

Appendix 4 – Race fields fees

Victoria	New South Wales	Queensland	South Australia	Western Australia	Tasmania	ACT	Northern Territory
Legislation							
Legislation in operation	Legislation in operation	Legislation in operation	Legislation in operation	Legislation in operation but not being enforced since challenge in the High Court. The Government intends to introduce new legislation.	Legislation not proclaimed	No known plans to introduce race fields legislation	No known plans to introduce race fields legislation
Method of calculating fees							
Thoroughbreds: 10% of gross revenue and 15% during Spring Racing Carnival Harness: 1.5% of turnover Greyhound: 10% of gross revenue	Thoroughbreds and harness: 1.5% of turnover Greyhounds: lower of 1.5% of turnover and 10% of gross margin	Thoroughbred, harness and greyhounds: 1.5% of turnover	Integrity & Contribution Agreement sets fee at 10% of gross proceeds for all betting operations from 1 September 2008. Retrospective fees (unless otherwise agreed): Totalisators = 1.5% of gross turnover	As set in contract or arrangements with RWWA.	Percentage of gross revenue (percentage amount to be determined)	Do not apply	Do not apply

There are numerous other differences in the administration of race fields fees by race controlling bodies. For example, the length of approvals differs not only across state borders but also according to different race codes within states. Payment requirements and reporting methods also differ. For example, in NSW payment by Tabcorp's wagering businesses are required:

- Thoroughbreds: monthly – within 7 days after the end of the month *plus* supplementary quarterly payments – payment within 28 days following end of the quarter *plus* final fee payment – within 6 weeks after the end of the Approval Period;
- Harness: quarterly – on the 15th day following the end of each quarter;
- Greyhound: monthly – within 10 business days after the end of each month *plus* final fee adjustment – within 30 business days after the end of the Approval Period.

In Victoria, not only do different payment and reporting requirements exist between each code, in the case of thoroughbreds the requirements are different for different wagering businesses in the Tabcorp Group ie TAB Limited and Luxbet.

This demonstrates the administrative effort of complying with race fields requirements is significant for wagering operations.

Appendix 5 – Product fees for non-racing sports

Victoria	New South Wales	Queensland	South Australia	Western Australia	Tasmania	ACT	Northern Territory
<p>In relation to sporting events held wholly or partially within Victoria, a sports betting provider must come to an agreement with the relevant sports controlling body prior to accepting bets on sporting events.</p> <p>Among other things, such an agreement provides for the payment of fees by the sports betting operator to the sports controlling body and the sharing of information, to facilitate integrity management, between the parties.</p>	Nil	Nil	Nil	Nil	Nil	Nil	Nil

Appendix 6 – Integrity management (TOTE odds betting)

Victoria	New South Wales	Queensland	South Australia	Western Australia	Tasmania	ACT	Northern Territory
Bookmakers operating at race meetings can offer "tote odds" pricing by s4.7.2(1)(b) of Gambling Regulation Act (VIC) 2003 Otherwise prohibited	Prohibited under s88 of Totalizator Act (NSW) 1997	No legislative restriction Prohibited under LR 118(1) of the Queensland Racing Local Rules	Bookmakers can provide best price odds or SA TAB or home jurisdiction TAB prices under s3A of the Authorised Betting Operations Regulations (SA) 2001 and s34 of the Authorised Betting Operations Act (SA) 2000	Prohibited under s51 of Rules of Wagering 2005	Prohibited under s68 of Racing Regulation Act 2004	No legislative restriction	No legislative restriction

Source: Tabcorp management information.

Appendix 7 – Fixed odds product offering

	Victoria	New South Wales	Queensland	South Australia	Western Australia	Tasmania	ACT	Northern Territory
American football or gridiron	✓	✓	✓	✓	✓	✓	✓	✓
Athletics incl triathlon events	✓	✓	✓	✗	✓	✓	✓	✓
Australian Rules Football	✓	✓	✓	✓	✓	✓	✓	✓
Australian of the Year	✗	✗	✗	✗	✗	✗	✗	✓
Backgammon	✗	✗	✗	✗	✗	✗	✗	✓
Badminton	✗	✗	✗	✗	✗	✗	✗	✓
Ballooning	✗	✗	✗	✗	✗	✗	✗	✓
Baseball	✓	✓	✓	✓	✓	✓	✓	✓
Basketball	✓	✓	✓	✗	✓	✓	✓	✓
Billiards, snooker, pool	✗	✓	✗	✗	✗	✗	✓	✓
Boxing	✓	✓	✓	✓	✓	✓	✓	✓
Chess	✗	✗	✗	✗	✗	✗	✗	✓
Cricket	✓	✓	✓	✓	✓	✓	✓	✓
Cycling	✓	✓	✓	✗	✓	✓	✓	✓
Darts	✗	✓	✗	✗	✗	✗	✓	✓

	Victoria	New South Wales	Queensland	South Australia	Western Australia	Tasmania	ACT	Northern Territory
Elections	✓ US Presidential only	✗	✗	✗	✗	✗	✓	✓
Equestrian	✗	✓	✗	✗	✗	✗	✓ Showjumping	✓
Extreme sports	✗	✗	✗	✗	✗	✗	✗	✓
Futsal	✗	✗	✗	✗	✗	✗	✗	✓
Floorball	✗	✗	✗	✗	✗	✗	✗	✓
Gaelic football	✗	✗	✗	✗	✗	✗	✗	✓
Golf	✓	✓	✓	✓	✓	✓	✓	✓
Greyhound racing	✓	Restricted from betting within 30 mins of the jump	✓	✓	✓	✓	✓	✓
Handball	✗	✗	✗	✗	✗	✗	✗	✓
Harness racing	✓	Restricted from betting within 30 mins of the jump	✓	✓	✓	✓	✓	✓
Hockey (ice & field)	✓ (ice hockey only)	✓	✓ (ice hockey only)	✗	✓ (ice hockey only)	✓ (ice hockey only)	✓	✓
Horse racing	✓	Restricted from betting within 30 mins of the jump	✓	✓	✓	✓	✓	✓
Iron man events	✓	✗	✓	✗	✓	✓	✓	✓
Jockey competitions	✓	✓	✓	✓	✓	✓	✓	✓
La Crosse	✗	✗	✗	✗	✗	✗	✗	✓

	Victoria	New South Wales	Queensland	South Australia	Western Australia	Tasmania	ACT	Northern Territory
Lawn bowls	x	✓	x	x	x	x	✓	✓
Literary & arts awards	x	x	x	x	x	x	x	✓
Motor racing	✓	✓	✓	x	✓	✓	✓	✓
Nobel Peace Prize	x	x	x	x	x	x	x	✓
Netball	✓	✓	✓	x	✓	✓	✓	✓
Power boats	x	x	x	x	x	x	x	✓
Reality TV shows (national & international)	x	x	x	x	x	x	x	✓
Rowing	x	✓	x	x	x	x	✓	✓
Rugby league	✓	✓	✓	x	✓	✓	✓	✓
Rugby union	✓	✓	✓	x	✓	✓	✓	✓
Shearing	x	x	x	x	x	x	x	✓
Speedway	x	x	x	x	x	x	x	✓
Soccer	✓	✓	✓	✓	✓	✓	✓	✓
Squash	x	x	x	x	x	x	x	✓
Surf life saving	x	✓	x	x	x	x	✓	✓
Stock market indices	x	x	x	x	x	x	x	✓

	Victoria	New South Wales	Queensland	South Australia	Western Australia	Tasmania	ACT	Northern Territory
Surfing	✓	✓	✓	✗	✓	✓	✓	✓
Swimming	✗	✓	✗	✗	✗	✗	✓	✓
Table tennis	✗	✗	✗	✗	✗	✗	✗	✓
Tennis	✓	✓	✓	✓	✓	✓	✓	✓
Tenpin bowling	✗	✗	✗	✗	✗	✗	✗	✓
Ultimate Fighting Championship	✗	✗	✗	✗	✗	✗	✗	✓
Volleyball	✗	✓	✗	✗	✗	✗	✓	✓
Weightlifting	✗	✓	✗	✗	✗	✗	✗	✓
Winter sports	✗	✗	✗	✗	✗	✗	✗	✓
World poker tournaments	✗	✗	✗	✗	✗	✗	✗	✓
Yachting	✓	✓	✓	✗	✓	✓	✓	✓
Olympic & Commonwealth Games	✓	✓	✓	✓	✓	✓	✓	✓
Awards for film, TV, entertainment	Academy Awards only	✗	Academy Awards only	Academy Awards only	Academy Awards only	Academy Awards only	Academy Awards only	✓
Royal and celebrity births, relationship announcements, etc	✗	✗	✗	✗	✗	✗	✗	✓

Source: Tabcorp Analysis

Appendix 8 – Harm minimisation measures

Victoria	New South Wales	Queensland	South Australia	Western Australia	Tasmania	ACT	Northern Territory
Do licensees' advertisements need to comply with responsible gambling rules?							
Yes	Yes	Yes	Yes	Yes	No	Yes	Yes
Do advertisements need to include responsible gambling messages?							
No	Yes	Yes	Yes	Yes	No	Yes (upon request)	Yes
Do special advertising prohibitions apply with respect to excluded or other problem gamblers?							
No	No	Yes	Yes	Yes	No	Yes	Yes
Are there restrictions on gambling promotions or inducements (other than advertising)?							
Yes	Yes	No	Yes	Yes	No	Yes	Yes
Do licensees need to provide information about responsible gambling?							
Yes	Yes	Yes	Yes	Yes	No	Yes	Yes
Do licensees need to provide information about support and counselling services?							
Yes	Yes	Yes	Yes	Yes	No	Yes	Yes
Do licensees need to comply with self-exclusion requests?							
Yes	No	Yes	Yes	Yes	Yes	Yes	Yes
Do licensees need to notify the regulator of a self-exclusion?							
No	No	No	No	No	Yes	No	No

Victoria	New South Wales	Queensland	South Australia	Western Australia	Tasmania	ACT	Northern Territory
Can the regulator order a person to be excluded?							
No	No	No	No	No	Yes	No	No
Is it mandatory to exclude problem gamblers (other than self-excluded gamblers and gamblers excluded by order from a regulator)?							
No	No	No	No	No	No	Yes	No
Do problem gambling incidents need to be recorded?							
Yes	No	No	Yes	Yes	No	Yes	Yes
Do licensees need to keep a record of excluded or other problem gamblers?							
No	No	Yes	Yes	Yes	Yes	Yes	Yes
Can bookmakers lawfully provide credit to gamblers?							
Yes	Yes	Yes	Yes	Yes	Yes provided a trading account is established	Yes	Yes
Must gamblers be allowed to self-limit their bets?							
No	No	No	Yes – from 1 January 2010	No	Yes	No	No
Are there special restrictions on the use of an excluded gambler's account?							
No	No	No	No	No	No	Yes	Yes
Do licensees need to ensure gamblers are made aware of the passage of time?							
No	No	Yes	No	No	No	No	Yes

Victoria	New South Wales	Queensland	South Australia	Western Australia	Tasmania	ACT	Northern Territory
Do employees need to undertake responsible gambling training?							
No	No	Yes	Yes	Yes	Yes	Yes	Yes
Do licensees need to appoint an officer to liaise with the community and/or address problem gambling?							
No	No	Yes	No	No, except for RWWA	No	Yes	Yes
Do licensees need to discourage gamblers from extended, intensive or repetitive play?							
No	No	Yes	No	No	No	No	Yes
Are licensees required to develop and implement their own responsible gambling policies?							
Yes	No	Yes	Yes	No	No	No	Yes

Source: Tabcorp analysis

Australia's Biggest Bookmaker

sportingbet**SUPER 14 ROUND 4**

WINNERS - STRAIGHT

Chiefs	1.50
Force	2.60
Wests	1.33
Reds	3.30
Hurricanes	1.05
Cheetahs	10.00
Blues	1.80
Sharks	2.00
Highlanders	2.85
Crusaders	1.42
Bulls	1.48
Stormers	2.75

2ND TEST - SOUTH AFRICA vs AUSTRALIA

WINNERS - STRAIGHT

South Africa	2.70
Draw	2.35
Australia	3.60

2009 NRL LEADING TRY SCORER

WINNERS - STRAIGHT

Brett Stewart (MAN)	9.00
Manu Vatuvei (NZL)	11.00
Adrian Purtell (CBA)	15.00
Greg Inglis (MEL)	15.00
Billy Slater (MEL)	15.00
Israel Fokau (BRS)	15.00
Dennis Kemp (NZL)	15.00
David Williams (MAN)	17.00
Matt Bowen (NQL)	21.00
Michael Jennings (PEN)	21.00
Jason Nightingale (STG)	21.00

2009 NRL WINNING REGION

WINNERS - STRAIGHT

New South Wales	1.55
Elsewhere	3.50
Queensland	5.00

QUEENSLAND STATE ELECTION

WINNER - STRAIGHT

ALP	1.35
LNP	3.10

Australia's Biggest Bookmaker

sportingbet1800 007 238 or sportingbet.com.au

www.sportingbet.com.au



The **game** just got better.

Every TAB sports option for every game, at **guaranteed** better prices.



Guaranteed better than 3 totes on metro and fixed odds racing.

Proud Sponsors of: **AFL**

-  **Essendon Bombers**
www.donsbet.com.au
-  **Port Power**
www.teambet.com.au
-  **St Kilda Saints**
www.clubbet.com.au

-  **Adelaide Crows**
www.footyclubbet.com.au
-  **Melbourne Demons**
www.betezy.com
-  **Brisbane Lions**
www.betezy.com.au

NRL

-  **South Sydney Rabbitohs**
www.bunnybet.com.au
-  **Cronulla Sharks**
www.sharksbet.com.au
-  **Sydney Bulldogs**
www.betezy.com.au
-  **Newcastle Knights**
www.knightsbet.com.au
-  **Gold Coast Titans**
www.titansbet.com.au

FIND BIGGER PRICES EVERYDAY

CENTREBET

TATTS COX PLATE - MOONEE VALLEY

HORSE		HORSE	
1	Simione	7	Alamosa
2	Maidivian	8	C'est la Guerre
3	Ziping	9	Princess Coup
4	Theseo	10	Gallant Tess
5	Master O'Reilly	11	Zarita
6	Raheeb	12	Samantha Miss

Prices correct at 16:00 23/11/2008. Subject to fluctuation

\$100 FREE BET!
SUPER SATURDAY

If any TAB dividend pays more than Centrebet's SuperOdds, you get a **\$100 FREE BET!**

Super Saturday is available on nominated races only. Conditions apply. See website for details.

\$200 FREE BETS SIGN UP BONUS!



CENTREBET.com wap.centrebet.com **132 946**

LISA ESKANDER

FILLY ON COURSE



**NOW OFFERING INTERNET & PHONE
BETTING 7 DAYS A WEEK FROM
FEBRUARY 2009!**

BONUS SIGN-UP OFFER FOR NEW ONLINE ACCOUNTS*

GO TO WWW.LISAESKANDER.COM.AU TO OPEN AN ACCOUNT OR TO FIND OUT MORE

BET IN MELBOURNE AND INTERSTATE – TOP FLUCTUATION AND BEST TOTE.

OFFICE (03) 9410 4338 ON COURSE (03) 9214 0070

WWW.LISAESKANDER.COM.AU



Australia's Friendliest Bookmakers

Don't be a bunny, try our fast,
reliable, easy-to-use website.
Minimum bet is only \$1!

Can't get to a computer? Phone **13PUNT** (that's 13 78 68)

BETTING ON ALL
SPORTS & RACING **24/7**

COLIN TIDY'S

BETCHOICE.COM

BIGGER WINS THAN THE TOTE

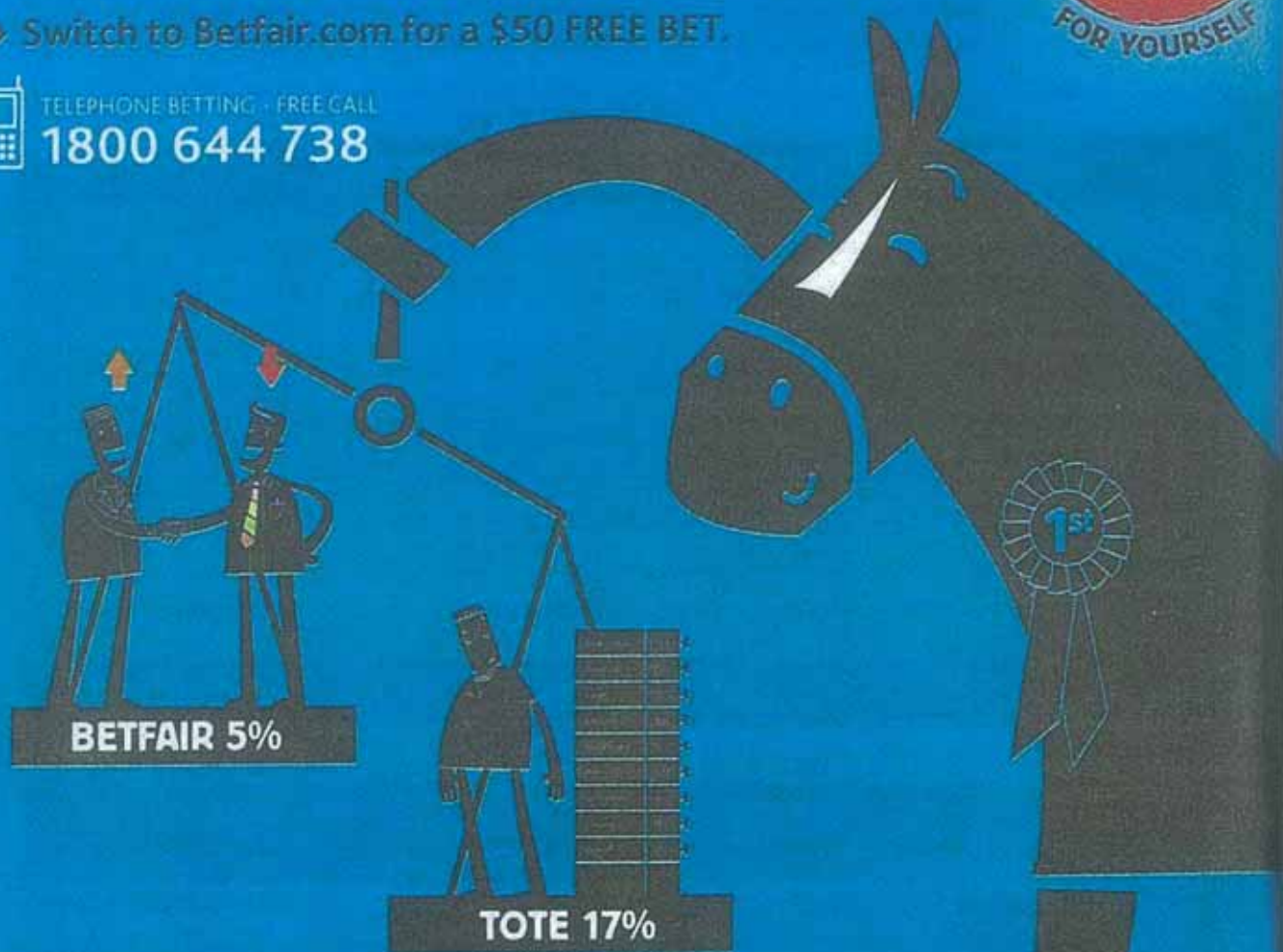
Compare the tote's average commission of 17% with Betfair's 5% maximum and the winning advantage is obvious.

Betfair's revolutionary person-to-person betting exchange offers better odds and bigger wins because you wager against other punters, not against a bookie or through the tote.

➤ Switch to Betfair.com for a \$50 FREE BET.

TELEPHONE BETTING - FREE CALL
1800 644 738

EXPERIENCE VALUE
\$50
FREE BET*
FOR YOURSELF



BETFAIR PARK

FORMERLY SANDOWN RACECOURSE
OPENS SAT NOV 15

MELBOURNE
RACING CLUB

betfair.com BETTING AS IT SHOULD BE.

*Users must be over 18. Promotion open to new users only. Claim your free \$50 bet by entering code: PRT777 when joining and we'll credit your account after you've matched at least \$50 worth of bets.

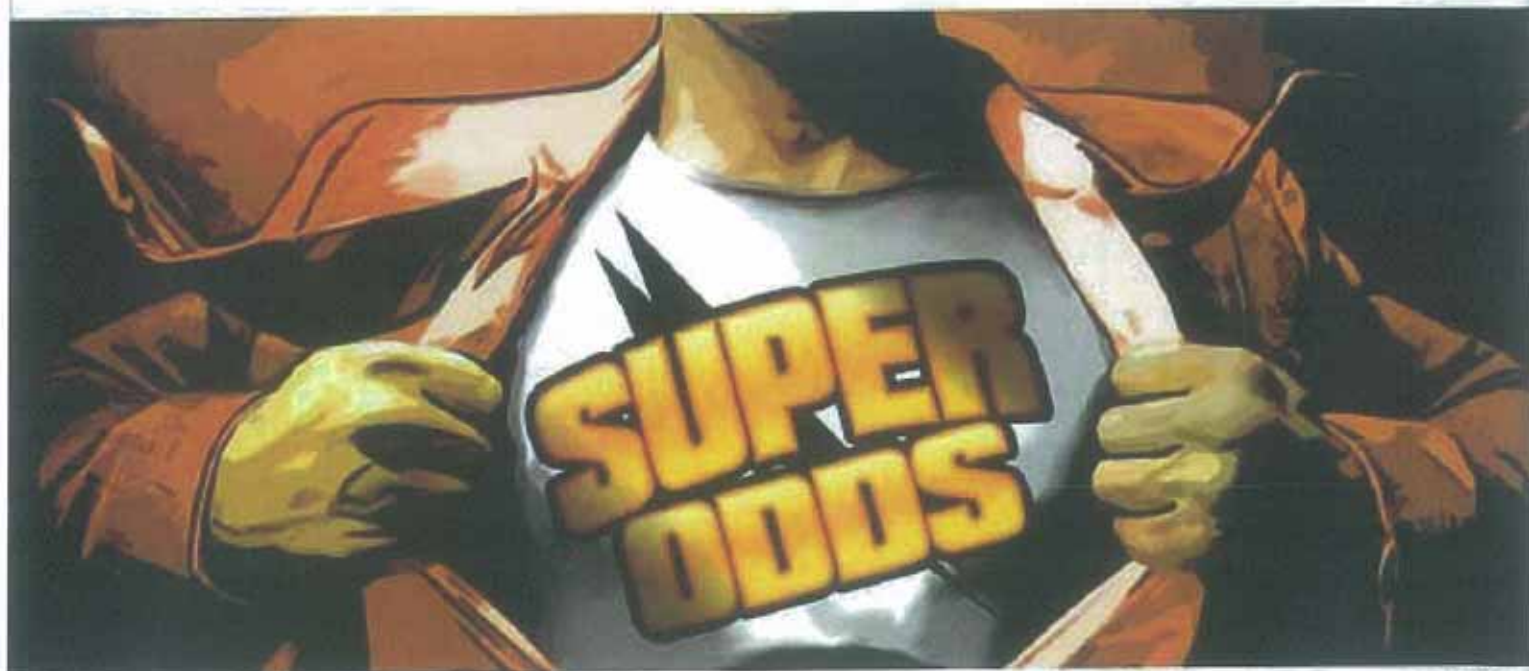
18+

Please gamble responsibly.
Free gambling helpline 1800 858 855



GET ON!

AT CENTREBET.COM



**SUPER
ODDS**

Centrebet's own SP (Starting Price)
offered at the close of betting.
Better odds than your TAB*.

**SUPER
PLUS+**

Our Best Price Guarantee.
Get Fixed Odds or Super Odds
whichever pays more.

OPEN AN ACCOUNT AT
CENTREBET.COM TODAY OR CALL 132 946



*Conditions Apply. See website for details. Super Odds final payout regularly pays better than the TAB's