

Submission

on

Gambling: draft report

to the

Productivity Commission

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TABLE OF CONTENTS

1. Introduction.....	1
2. Problem gambling.....	1
3. Harm minimisation measures.....	1
4. Weaning the public (and the State treasuries) off gaming machines.....	2
5. Online gaming	3
6. Conclusion and recommendations.....	4
7. Endnotes.....	5

1. Introduction

On 24 November 2008 the Productivity Commission received a reference from the Australian Government, acting on behalf of the Council of Australian Governments, requesting the Commission to undertake an inquiry into Australia's gambling industries and report by 24 November 2009.

The Commission released a draft report¹ on 21 October 2009 and has invited further written submissions on the draft report. Submissions are due by 18 December 2009.

The Commission will then prepare a final report and present it to the Australian Government by 26 February 2010.

2. Problem gambling

The draft report finds that “estimates of the number of problem gamblers lie in a range around 125 000, with the estimated number of gamblers at moderate-risk ranging around 290 000.”²

*The Commission, using the latest data, estimates that among those who regularly gamble on gaming machines, 15 per cent are problem gamblers with an additional 15 per cent at 'moderate risk'. Indeed, as problem gamblers spend so much, they figure disproportionately in overall spending. While obtaining accurate estimates of gambling expenditure is difficult, the Commission estimates that problem gamblers' share of total Australian gaming machine losses range around 40 per cent, with some estimates raising the possibility that the share is as much as 60 per cent and, in the most conservative case, still above 22 per cent. Moderate risk gamblers account for an additional significant share. Even taking the lowest estimates, it is evident that a sizeable proportion of industry (and taxation) revenue come from these two groups of gamblers.*³

Taken together the gaming machine losses from problem gamblers and moderate risk gamblers must be significantly over 50% of the total losses.

3. Harm minimisation measures

The draft report proposes several harm minimisation measures targeted at reducing problem gambling on gaming machines.

These include:

- reducing the maximum intensity of play, with a maximum \$1200 of bets per hour and expected losses of around \$100 an hour;
- introducing a “pre-commitment” scheme that would enable gamblers to set maximum limits in advance and to “self-exclude”;
- once the impact of the removal of ATMs from Victorian gaming venues has been assessed, to consider introducing this in other jurisdictions.

These proposals are useful as far as they go.

The proposal for a “pre-commitment” scheme seems to rest too much on the ability of those suffering from addiction to gambling to bind their future actions during periods of lucidity or remorse.

However, as the scheme includes the opportunity for the problem gambler to undo any “pre-commitments” or “self-exclusions”, albeit with delays and certain other conditions, it seems to ignore the real nature of problem gambling.

These measures should be supported and implemented, but they do not go far enough in protecting the community from the harms associated with gaming machines.

4. Weaning the public (and the State treasuries) off gaming machines

It seems doubtful, even if all the various harm minimisation measures designed to reduce the level of problem gambling were to be implemented, that these measures would result in a substantial reduction in problem gambling.

It is time to consider whether the entertainment value gaming machines provided to non-problem gamblers is of sufficient value to outweigh the social cost of problem gambling. Australians are able to access many alternative forms of entertainment, including alternative forms of gambling. The alternatives are generally associated with a lower rate of problem gambling than with gaming machines.

It is time to consider whether the State governments – charged with providing for the peace and good order of their State – are failing in their duty to the extent that they have become dependent on revenue from gambling and have consequently become reluctant to restrict access to gambling in any substantial way.

The fundamental social question is whether the alleged benefits of poker machines – revenue for non-profit clubs and enjoyment for “recreational” non-problem gamblers – are worth the social costs associated with problem gambling.

It seems reasonable to conclude that an industry which derives over half its revenue at the cost of significant human misery is an anti-social industry.

The *Poker Machine Harm Reduction Tax (Administration) Bill 2008* was introduced to the Senate by Senator Steve Fielding of the Family First Party. The Bill would implement an effective scheme for drastically reducing, and eventually eliminating, poker machines from clubs and hotels throughout Australia, while allowing them to remain in operation in casinos and at race tracks.

The Bill would accomplish this outcome by introducing a new tax on the gross revenue from poker machines in clubs and hotels. Gross revenue is defined so as to include any amounts paid out in winnings or linked jackpots.

The tax would start at 1% in 2009-10, increase to 2% in 2010-11 and then by 2% each year to 10% in 2014-15. Thereafter it would increase by 5% each year to a maximum of 30% from 2018-19.

The effect of the tax would be to make it increasingly unprofitable for a club or hotel to operate poker machines.

In South Australia, for example, each gaming machine must return as winnings to players at least 87.5% of the total of all bets on that machine.⁴ The remaining 12.5% is considered to be the “net gaming revenue”. After allowing for a tax free threshold of \$75,000, “net gaming revenue” is subject

to a State tax which ranges from 21%-55% for non-profit operators and from 27.5%-65% for other operators.

The following two examples indicate that it would soon become unprofitable to operate poker machines.

1. An operator with “net gaming revenue” of \$75,000 would have to pay \$6000 in 2009-2010 for the new tax. By 2014-15 the operator would be paying \$60,000 for the new tax. By 2015-2016 the operator would be paying \$90,000 for the new tax and *losing* \$15,000 annually.
2. At the other end of the scale, a for-profit operator making \$10 million annually in “net gaming revenue” is already paying just over \$6 million in State taxes and retaining only about \$4 million. The first year of the new tax at just 1% would cost the operator \$800,000 and by 2012-13 the operator would be paying \$4.8 million for the new tax and operating at a *loss* of \$800,000 annually.

Recommendation 1:

In addition to the harm minimisation measures proposed in the draft report, the Commission should recommend to the Australian Government that unless each of the States commit to the complete removal of gaming machines from hotels and clubs by 2015, it should introduce a taxation scheme similar to that proposed by the Poker Machine Harm Reduction Tax (Administration) Bill 2008.

5. Online gaming

After discussing the evidence that suggests a high prevalence rate of problem gambling among online gamblers, the draft report concludes:

While the risks associated with online gambling are likely to be overstated, the relatively high prevalence of problem gamblers is still a cause for concern. At the very least, it indicates that the internet is very attractive to this group and, though the evidence is weak, gambling online may exacerbate already hazardous behaviour. In any case, it is clear that careful regulation of the industry is warranted.⁵

The Interactive Gambling Act prohibits the establishment of online gaming services on Australian hosted Internet sites.

The draft report correctly points out that this prohibition fails to prevent Australians, including problem gamblers, accessing online gaming service hosted on Internet sites located outside Australia.

The draft report proposes the repeal of the Interactive Gambling Act and the introduction of regulated online gaming services in Australia.

The reasoning seems faulty. Even though regulated online gaming services may lead to somewhat less problem gambling than unregulated offshore online gaming services it is unclear how the existence of regulated Australian gaming services will necessarily attract problem gamblers in particular away from offshore unregulated online gaming services.

Additionally, the introduction of regulated Australian based online gaming services is likely to attract more gamblers overall to use online gambling and potentially to increase the total participation in gambling of all kinds in Australia. Notwithstanding whatever regulations and harm minimisation are put in place for Australian based online gaming services, an expansion in the availability of gambling is likely to lead at least to some increase in the prevalence of problem gambling.

Curiously the draft report does not even consider whether the Interactive Gambling Act could be expanded to require Internet service providers to take effective measures to block all identified online gaming services located outside Australia in order to prevent Australian consumers from readily accessing such sites.

The Rudd government has a commitment to introducing a national mandatory scheme for filtering access to overseas sites that contain material that would be Refused Classification under the national classification scheme. This includes child pornography, violent pornography, terrorist promoting material and suicide promotion and instruction. There is no obvious reason why online gaming sites could not be included in such a filtering scheme.

Recommendation 2:

The Commission should withdraw its draft recommendation 12.1 which proposes the repeal of the Interactive Gambling Act 2001 and instead recommend that online gaming sites be included in the categories of sites to be subject to the proposed national mandatory filtering scheme.

6. Conclusion and recommendations

The harm minimisation proposed in the Productivity Commission's draft report on reducing the maximum intensity of play; introducing national self-exclusion and pre-commitment schemes; and (subject to analysis of the Victorian changes) removing ATMs from gaming venues should each be supported.

However, these harm minimisation measures are unlikely to reduce problem gambling, and its adverse impact on Australian families and society as much as is desirable.

Indeed an industry which derives such a significant percentage of its revenue from problem gamblers – essentially getting rich off the misery and impoverishment of others – cannot be considered socially beneficial. The kind of recreational enjoyment that non-problem and non-at-risk gamblers may obtain from gaming machines is not of such social benefit to outweigh the great harms being caused.

For this reason more drastic measures to reduce – and eventually eliminate gaming machines need to be planned.

Recommendation 1:

In addition to the harm minimisation measures proposed in the draft report, the Commission should recommend to the Australian Government that unless each of the States commit to the complete removal of gaming machines from hotels and clubs by 2015, it should introduce a taxation scheme similar to that proposed by the Poker Machine Harm Reduction Tax (Administration) Bill 2008.

In relation to the draft report's proposal to repeal the Interactive Gambling Act 2001 and introduce regulated online gaming, the better approach is to make the Act more effective by linking it the proposed national mandatory filtering scheme.

Recommendation 2:

The Commission should withdraw its draft recommendation 12.1 which proposes the repeal of the Interactive Gambling Act 2001 and instead recommend that online gaming sites be included in the categories of sites to be subject to the proposed national mandatory filtering scheme.

7. Endnotes

1. *Gambling: draft report*, Productivity Commission, October 2009;
http://www.pc.gov.au/data/assets/pdf_file/0010/91882/gambling-draft.pdf
2. *Ibid.*, p xiv.
3. *Ibid.*, p xxiv.
4. *Gaming Machines Act 1992*, Schedule 1, paragraph (n) and Section 72.
5. *Gambling: Productivity Commission draft report*, October 2009, p 12.15;
http://www.pc.gov.au/data/assets/pdf_file/0010/91882/gambling-draft.pdf