

Comments on Productivity Commission Gambling

Draft Report – Racing and Wagering Development.

Page 13.6

The heading “The Concentration of Market Power has Resulted in Poor Outcomes for Consumers” whilst often true; it is not always though. To reach the definitive conclusions that you have, I would have thought required more analysis on why the TABS’ ‘take out’ rates are so high?

The raw ‘take out’ rates, on their own, do not validate your argument. They need to be supported with a table covering the three wagering operators showing what comprises the ‘take out’ rates for each operator, the fees for each rate that each operator is charged, each operator’s continuing costs, each operator’s profit ‘take out’ from each dollar and any additional costs. Without such a table, the raw ‘take out’ rate is meaningless as we do not know whether we are comparing apples with apples or with cantaloupes.

The reasons why TABS currently give ‘consumers worse odds than those that a competitive market would deliver’ have nothing to do with its ‘off-course retail monopoly’ but a lot to do with the TABS’ industry structure.

There is an assumption behind your definitive conclusions viz that the privatisation of the government owned TABS’ automatically gave them a proper capitalist investment and industry structure. Indeed you make this assumption throughout the whole report. It is false.

I will explain why at length because it is so vital to understanding my criticism of your report.

Racing is a genuine gambling industry for if there is no betting on the gambling games on offer, there is no racing. It, like the other gambling industries, has a single income stream comprising the losses incurred by punters betting on the gambling games on offer. The investors within any gambling industry are therefore the providers of these gambling games.

Within the non racing gambling industries, the investors are mainly large private or stock exchange investors as their gambling games are based on the laws of probability. These games are designed to give the investors a slight but winning advantage. The constancy of the laws of probability and the consistency of programmed manufactured machines ensures positive and sustainable long term profits, making them suitable for large private and stock exchange investment.

The racing of live animals is subject to different scientific laws viz the laws of genetics. It is no surprise to read that records of raced thoroughbreds show that 75% of those who have raced have never won a race or if they have, earned insufficient prize money to cover costs. No different from humans where many young people dream of becoming professional sportspeople but few make it.

The investment differences, bought about by the laws of genetics, may make racing unique in having to convert a lot of profits into prizemoney, but it does not make racing non-capitalist. Racing also has the providers of its gambling games who are also its investors viz the racing industry and clubs who stage the racing of live animal games and the owners who provide the trained live animals to race. Also, like other gambling industries, racing has to maximise profits (prizemoney) to sustain investment and needs a capitalist industry structure to do so.

Is this possible? The answer is yes, as, for decades now Japan and Hong Kong racing industries have owned and run their national TABS. They have operated them capitalistically, been financially responsible, and grown their industries and earned the respect of government and punter alike.

Let us assume that the Australian racing industries owned and ran a national TAB. The first consequence would be that the 'take out' rate would be significantly lowered benefiting both racing and punters. There would be no need to pay a product fee as racing and wagering would not be separated, nor would there be a need to take out a percentage of each dollar to fund TAB investors.

Racing could then be seen for what it is viz a gambling industry with the same capitalist structure as the other Australian non racing gambling industries and the Japan and Hong Kong racing industries. Like all of these gambling industries, racing would then be in control of its own financial fate, with income rising or falling from its own efforts.

The high percentage 'take out' by TABS under the current industry structure is therefore not because of an 'off-course retail monopoly' but because of a flawed, non-capitalist industry which has been forced onto racing through privatisation. Privatising the TABS means that the capitalist structure, described previously, cannot be achieved. Instead, once TABS are not a natural income earning part of a gambling industry, they become, like fixed odds and betting exchanges operators, solely wagering businesses leading to the complete separation of racing and wagering. This separation makes TABS, as your report shows, less competitive. With hindsight, one can now see that the introduction of off-course TAB betting has been structurally flawed from the start. Governments did not need ownership to establish credibility, trust and probity as they need to ensure this for all types of gambling. TABS should have been given a capitalist structure from the start and been owned and run by the racing industry.

Whilst capitalistically I believe racing should own and run the TABS, the other pure wagering businesses should always be privately owned, being less costly to set up, run, maintain and more flexible, adding a different dimension from TAB betting.

The problem within Australia racing is that it has not been seen by authorities, consultants etc as capitalistic, probably because it cannot be stock exchange listed. It is generally considered to be a hobby, a recreational entertainment activity than a commercial business. This despite the media reporting racing and its supporting industries are Australia's third largest employer. The large number of supporting businesses and their investors are totally dependent on racing's primary investors and only by maximising prizemoney, can their continuance be ensured. The overseas TAB experiences show the hobby lobby thinkers are more emotional than rational economically in their beliefs. This has resulted in wagering, because privatised TABS and other large wagering operators can

be stock exchange listed, thereby becoming considered to be the sole capitalist part of the industry.

13.8 I think that the draft report seriously erred in not recognising the potential of the economic consequences of reforming the TABS to world best practices. I remember, decades ago, a British report on introducing a TAB in the UK, recommended the Japan and Hong Kong TAB models, not the Australian one. TABS are natural monopolies, the bigger the pools the better off for racing and punters alike. I am certain reform of the TABS' current industry structure would deliver far, far more economic benefit all around than a 'diverse and competitive wagering market', especially with pools betting currently so non capitalistically and uncompetitively structured.

13.15 The TABCORP estimation of \$987 and \$592 million of turnover leaked from NSW and VIC respectively to the Northern Territory is also an indication of serious structural problems within racing. The States issue off-course wagering licenses to the privatised TABS usually. To increase their share of revenue from racing, first the Northern Territory issued licenses to corporate bookmakers, whilst Tasmania followed with a betting exchange and also corporate bookmakers wagering licenses.

I do not disagree with having other off-course betting operators but to introduce them in this manner results in unsatisfactory outcomes. It continues the beggar thy neighbours policies of States, Territories competing for the best outcomes from themselves and the wagering operators involved. Also it perpetuates the non-capitalist structure of racing and a new form of free-riding through tote-odds betting.

Economically, it is strange that the state (Tasmania) and territory (NT) which provide the least number of races of national interest to punters and the wagering operators, corporate bookmakers and betting exchange, who contribute the least to racing, are determining the future betting direction for racing.

A case of those who invest the least, risk the least and contribute the least being rewarded the most. An inverted capitalist structure highlighting serious structural problems.

13.16 Whilst the race field legislation will go some way to redressing the balance back to racing exporters over racing importers, it can never redress all the effects of the inverted capitalist structural imbalance.

13.17 & 13.18 The Australian Internet Bookmakers Association and the Australian Racing Board, both talk about the need to regulate a national market, as if such a market is already established.

Whilst a telephone and the internet are all that is needed for fixed odds and betting exchange operators to establish a national market and accurate national prices for their wagering products, the same cannot be said about totalisator pools betting.

The only way that the TAB can offer national market prices for its betting products, is if there is a national TAB pool. Such a pool can, not only unlock the full potential of

totalisator pools betting at great advantage to racing and punters alike, it can significantly alter the whole structure of racing.

I am certainly not against national markets as I think they are racing's future. The current State/Territory segmentation is comparable to the dysfunctional outcome that occurs with States' management of the Murray/Darling Basin water. As with wagering, the States should co-operate but cannot control their competitive instincts to extract more water from rivers or more revenue from wagering for their own financial and political advantage by adopting beggar thy neighbour policies.

It would be discriminatory against TAB pools betting and economically stupid not to allow them to operate on a national pool level because of pool betting's greater contribution to racing. Also if the three different wagering systems operators had national markets, then it would strengthen the case for national management especially at policy and licensing levels.

I am not a states' abolitionist as we all want the races to continue to be held in the States and Territories. So I use national in the broadest sense and would expect and hope for the national management group to have State, Territory and Federal government representations i.e. co-operative federalism structure.

I also think that such a group should have a capitalist market charter to support their decision making. Such a group could also allay State and Territory governments fears that a racing owned national TAB pool would put a potentially financially rich racing out of the reach of both government and market control. If this national group was also responsible for profit allocation and distribution for such a national TAB pool, such fears would be overcome.

13.23

Draft Funding 13.1

I think that the statement "..... the race field legislation overcomes this problem (free-riding), but poses significant risks for effective competition in wagering, potentially affecting the long term future of racing and wagering, and more importantly, the punters who ultimately finance both of these industries..." is too optimistic about eradicating 'free-riding' and too pessimistic about wagering competition.

The thinking behind the above quoted statement is referred to in 13.17 in which it is stated that if legally sustainable, the race field fees, ... 'would have the effect of deterring entry by low margin operators, protecting incumbent TABS and preserving the symbiotic arrangements of these incumbents with the racing industry'. This statement also misunderstands the capitalist industry structure under which racing should be operating.

To address competition first and '.. risks for effective competition in wagering'. The competition between the three types of wagering systems i.e. pools, fixed odds and betting exchange operators is what I call internal competition. I always worry about the way economists use competition for they never qualify the competitive outcomes. They use competition similar to how most use comparison and to deduct valid statements we must always ensure that we are comparing apples to apples. The three wagering systems used for betting on racings' gambling games are not all apples; indeed they are very

different as shown by applying a uniform turnover fee on them. The fee has a different outcome for each wagering system.

This is not unexpected as the sheer size of pools (especially national pools) combined with their natural monopoly structure make them more robust, productive and always the greatest contributors to racing. Bookmaking contributes well but cannot match pools betting. It contributes well being easier to set up; being more flexible, better in certain applications and attractive to larger punters. Exchange betting is the least robust and competitive.

Therefore, the characteristics of each wagering system should be kept well in mind before dogmatic statements can be made on how best racing should be best structured to compete best.

Also, internal wagering competition is only a part of the competition racing faces. There is also extreme competition between racing and other non racing Australian gambling industries for the available, discretionary gambling dollar. To compete externally, racing has to have a capitalist industry structure like it's competitors do.

Unlike other gambling industries, racing has to also compete internationally for the well bred quality thoroughbreds needed to compete in carnival w.f.a. and feature races which are of greatest interest to punters. Australian thoroughbred sales attract buyers from Asia and South Africa doing the same thing for their racing industries. So Australia has to compete on the level of prizemoney it provides compared to other Asian and overseas countries to encourage, even enable local purchasers to invest in such horses.

The different types of competition all have to be faced but racing has so many uncompetitive features within its non capitalist industry structure that it competes unsatisfactorily on all fronts. At the heart of racing's uncompetitiveness has been the privatisation of TAB, as discussed previously.

The template I use when evaluating privatisations is the privatisation of the Commonwealth Bank. This privatisation had the harshest critics and opponents but turned out to be one of privatisation's biggest successes and a bitter, galling pill for its opponents to swallow. One of the major reasons for the success of the Commonwealth Bank was that it fitted like a glove into the commercial banks existing industry and competitive structure.

The same cannot be said for TAB privatisation. The capitalist structured gambling industries all administer/control the betting on their own gambling products. TAB privatisation does not, as it separates wagering from racing, which is OK for bookmaking, betting exchange operators as they are purely wagering businesses but TABS are more.

TABS to maximise their betting potential need national not segmented pools. Although anathema to competition minded economists, they are a natural monopoly in that the bigger the pools are, the better they are for racing and punter alike.

Such a national monopoly should be owned and operated by the racing industry as that complies with the capitalist gambling industry structure within Australia and is used by other overseas racing industries with whom Australian racing competes for racing animals.

The relationship between racing and TABS is not symbiotic but should be a totally integrated one under a capitalistic structure. Also, whilst free-riding SP bookie style may have been eliminated, new forms of free-riding have evolved. Tote-odds wagering by corporate bookmakers is simply free-riding on the investments made by other wagering operators (TABS) to set up their pools betting networks and on the pools betting investments of mostly average / small punters.

13.25 Agree with need for lower margin operators but reducing the 'take out' rate for the TABS would be the most effective way to do it.

13.30 & 31 Your arguments for using a gross revenue rather than turnover based uniform racing levy seem reasonable but ignore what's best for corporate bookmakers and Betfair will be an under utilisation of TABS pools capacity to contribute to racing. If the levy is set at a rate to fit within the low margins that corporate bookmakers and Betfair operate within, such a uniform levy can only result in TAB pools capacity to contributions being under utilised.

The capacity of TAB pools to contribute was illustrated in 13.12 in which a Racing NSW report cited that TAB pools 'allowed the industry (racing) to return up to 60% of the training and racing costs to owners through prizemoney compared to a maximum 30% on costs returned to owners in England, Ireland and Germany dominated by bookmakers and betting exchanges.

This again shows the problems generated from separating the TABS from racing. We also compete against Asian racing which has more intelligently exploited their TAB pools potential than we have so far.

13.33 Footnote 18.

The Australian Internet Bookmakers Association is surely arguing from self-interest. Bookmakers have done so well playing off State and Territory governments. The Northern Territory approves bookmakers there using tote-odds betting and as the bigger punters Australia wide see the advantages, they switch. Then to stop the drift from their State, other States offer the same rights to bookmakers there.

Not so easy to manipulate a national body and for this reason off-course wagering licences should be handled nationally. Otherwise the same self-interested, beggar thy neighbour and industry policies will continue. A lot of the issues have ramifications that need more than just self-interest considerations to justify the decisions being made.

13.36 Draft Recommendation 13.1

Funding racing by a single levy on wagering operators for wagering on racing's gambling is based on the assumption that racing and wagering should remain separate. Whilst this is true for racing in Europe, Australian racing is competing with Asian racing where there is no separation as racing is funded by the profits from the national racing body's ownership of their TAB operating national pools.

The differences between the wagering systems are so big that a uniform levy will never work satisfactorily or competitively. Structural changes are necessary to maximise the potential of each wagering system.

In these circumstances, for me, it would have been better if there had been a comparative study on the two different methods of funding racing and some analysis of what would be best for Australian racing before any discussions on how to proceed are made.

13.37 Draft Recommendation 13.2

I admit to being biased about the ACCC. I felt my prejudices were justified by the narrow, shallow review of competition within racing behind their decision to keep TABS segmented instead of allowing the UNITAB purchase by TABCORP which could have lead to a national TAB. Racing should own the images of its own racing games and should decide, on a maximising profits basis, where they go.

13.38 Draft Finding 13.2

Whilst this finding is about State taxes on wagering which seem sensible and beneficial . However I do worry about the competition ‘from lowly – taxed off-shore online suppliers will, in any case, increasingly limit the capacity to tax wagering’.

I can’t see why this form of competition won’t also affect the national levy being proposed for wagering operators to fund racing. It would be ridiculous and economically farcical for racing’s financial fate to be dependent on and limited by ‘lowly taxed off-shore online suppliers.

13.39 & 40 I agree with all the reasons opposing tote – odds betting listed in the report and can also add some more:

- It severely discriminates against average/small punters. Allowing corporate bookmakers to use tote odds is about attracting and then transferring larger TAB account holders to corporate bookmakers. This is how the TABS see it and they are now offering their account holders special privileges through their No.1 club to retain their loyalty. This all costs money and no doubt it will be the average/small punters who will pay for it, further disenchanting them about betting on the races.
- It discriminates against pools betting as the same problem exists for fixed odds and betting exchange betting. If large punters want big bets on races which other punters have shown little interest in, they either accept prohibitive odds or don’t have a bet. This raises the question of why is pools betting so discriminated against when it is a common feature of all wagering systems?
- It totally stops internal competition between the three wagering systems. Such competition is vital to prevent ‘free riding’ for what each wagering system contributes to racing is vital to decision making in any capitalistically structured industry responsible for maximising profits (prizemoney).
- The use of a uniform racing levy to justify tote-odds betting on the grounds that should corporate bookmakers “still be able to ‘undercut’ TABS prices on an even playing field, they should be free to do so?” This statement is at odds with a statement in 13.32 about TABS and the uniform racing levy that because of it’s market power, ‘it may be appropriate that they should pay a premium for that retail privilege on top of the levy’. So it won’t be on even playing fields. You are also discriminating about ongoing and maintenance costs.
- Corporate bookmakers and scheming punters (if caught) are not the only victims from the manipulation of small pools. A story several weeks ago about the

manipulation of a \$600.00 pool to pay out \$60,000.00 reinforces a deterring sleaze image of racing held by so many of the general public.

13.41 Draft Finding 13.3

There is a better way of dealing with the problem without all the negative effects that corporate tote-odds betting has for racing. The solution is, of course, a racing owned national TAB pool, which would benefit both racing and the full range of punters alike.

13.46 Draft Finding 13.5

I disagree. It is obvious that Australia, unlike other countries that have introduced TAB off-course wagering, has exploited the potential of TAB wagering the least. Maximising TAB potential should be sorted out before changing exclusivity arrangements.

This is probably because of State/Territory control of gambling resulting in segmented TABS than a national TAB. Also more than other countries, it appears that Australians cannot see racing as a capitalist industry, a huge negative. Governments, consultants cannot see the advantages to racing of TABS being a natural monopoly, another huge negative.

Having arrived at the end of the report, despite thinking that it did not cover the full range of competition racing faces, I cannot escape the impression that the report is more based on economic theories about competition looking for an application than trying to unlock the full potential of an unusual but unique application via a better capitalist, competitive structure.