

# **PRODUCTIVITY COMMISSION DRAFT REPORT ON GAMBLING**

**Submission made by the Provincial Race Clubs of NSW  
Newcastle Jockey Club  
Hawkesbury Race Club  
Gosford Race Club  
Wyong Turf Club  
Illawarra Turf Club**

The five NSW provincial race clubs have traditionally presented a style of thoroughbred racing that is attractive to both participants and consumers, whilst at the same time providing an effective link between metropolitan and country racing.

The geographical location of the five clubs in near metropolitan areas, contributes to the success of the overall NSW racing product by the clubs offering further opportunities to the Sydney wagering and entertainment market, which, together with their own regional markets, is arguably the largest in Australia.

This aspect is emphasized by the fact that two of the clubs are able to conduct race meetings on Saturday afternoon to support the NSW metropolitan meeting whilst the remaining three clubs predominantly conduct Thursday meetings with an abundance of metropolitan trained horses, owners and wagering customers.

The extent of the provincial clubs' influence on the wagering market is best measured by their 2009 performance;

Prizemoney:	\$17.4m	(14.9% of the NSW Total)
Starters:	9847	(18.6% of the NSW Total)
Races:	963	(17.2% of the NSW Total)
Sales:	\$201.9m	(18.4% of the NSW Total)

Additionally, each club enjoys a healthy sponsorship base, arising predominantly from, a strong commercial relationship with business and an acknowledgement that the clubs provide the major sporting and leisure activity on a regular basis, in the respective areas.

Oncourse and offcourse customers respond positively to the provincial style of racing, as do the wagering operators that utilize the intellectual property. However, the product is provided at a cost, which up until this time has been met by owners, the TAB and the oncourse customer spend.

## **Racing is a Sport**

The references to thoroughbred racing in the Draft Report completely overlooks that horse racing is a sport, albeit one that operates with commercial imperatives. Racing and provincial racing in NSW, is run with a

balance between maximizing its commercial value and providing racing opportunities for its owners and other participants.

Wagering on provincial racing provides thousands of customers with an interesting and stimulating recreational pursuit and is the largest source of commercial return to racing.

However thoroughbred racing does not exist merely to provide supply for the wagering industry.

The Draft Report states that the “correct” industry size is that which most closely represents consumers’ preferences for the number, frequency and quality of races. This however focuses too narrowly on wagering and fails to recognise that there are ways other than betting, that racing’s customers “consume” and are willing to pay for racing, e.g. racecourse attendance.

**THE FINAL REPORT SHOULD ACKNOWLEDGE THAT THOROUGHBRED RACING DOES NOT EXIST EXCLUSIVELY TO PROVIDE WAGERING.**

### **Size of the Racing Industry**

It is the strident belief of the provincial clubs that the Draft Report has overlooked many factors when musing “*Is the Australian racing industry too big overall?*”. As discussed in the Draft Report the Australian racing industry is unusually large by international standards.

In working through the reasons why this is the case, the Draft Report blames the traditional TAB funding model for maintaining the size of the Australian racing industry. It foreshadows that racing may contract if the current protective arrangements (reference to TAB funding) are not changed.

Contraction based on wagering supply or demand alone, is naïve and ignores the obligation race clubs have to provide services to the industry, the community and customers other than betting customers.

The Draft Report does not acknowledge the activities of clubs other than as being wagering providers. For example the provincial clubs;

- are a significant regional employer
- utilise regional suppliers of goods and services
- support secondary industries such as feed merchants, transport companies
- have established large scale function centres for the communities use, other than on race days
- maintain extensive training facilities for owners and trainers
- specifically, the Hawkesbury/Western Sydney region provides facilities for the largest racehorse owner in the world
- the Newcastle club conducts a Boxing Day meeting which regularly has attendances of 15,000 people – the minority attending for wagering reasons

THE FINAL REPORT SHOULD RECOGNISE THE OVERALL ECONOMIC VALUE OF RACING RATHER THAN JUST REVENUES FROM WAGERING.

### **Funding Model**

The provincial clubs refute much of the content of the Draft Report in section 13.2 “Principles of a good funding model”.

Product fees are simply that – charges levied by the racing industry as the wholesaler of racing to retailers for the right to use racing information with a view to making a profit.

Racing is an autonomous sport that operates in a very competitive market along with other sports and forms of entertainment. Its success or otherwise is dependent on the attractiveness of what it offers consumers. It is fully entitled to establish its own price to end customers (eg. racegoers) and retailers (wagering operators).

In supplying racing for wagering the racing industry also needs to derive a reasonable return to offset its costs. A significant component of racing’s value chain are suppliers of horses contesting races which make for wagering – the racehorse owners.

NSW racehorse owners incurred cost of \$220m in 2008/09 in supplying horses and after collectively receiving approximately \$100m in prizemoney endured operating losses of well over \$120 million. This loss takes no account of the acquisition cost of the bloodstock.

Although the enjoyment of racing and other non-economic benefits help maintain the participation of owners, adequate funding of the racing industry is needed to ensure prizemoney and other returns to owners are sufficient to continue the supply of horses contesting races.

The Draft Report fails to acknowledge this need to sustain the supply of racing. Rather, the right of the racing industry to charge product fees it requires to maintain supply is overlooked in favour of reducing costs for retailers. This approach undermines, the ability of the supplier to provide racing for wagering.

THE FINAL REPORT SHOULD CORRECT THIS IMBALANCE AND RECOGNISE THAT THOROUGHBRED RACING CAN PRICE ITS PRODUCT TO RETAILERS IN ORDER TO PROVIDE AN ADEQUATE RETURN TO SUSTAIN THE INDUSTRY.

In any case *if* the price charged by Racing NSW to wagering operators for wagering on racing proves to be too high, then racing will likely suffer. That however is the racing industry’s decision to make.

The Draft Report favours gross profit as its preferred basis for charging product fees, because it sees this model as “conducive to price competition between wagering operators.”

This indicates the Commission has fallen for the lines spun out of self interest by wagering operators whose business models simply fail to take account of the need to pay its key supplier for the product it sells. It is puzzling that the Commission seeks to intervene promoting “diverse business models” at the expense of racing as the supplier and wholesaler of wagering.

Additionally, the price established by racing for retailers is one cost component paid by consumers and the product fee does not prevent price competition among wagering operators.

**THE FINAL REPORT SHOULD ADDRESS THE FLAWED LOGIC THAT LED TO THE PREFERENCE FOR FEES BASED ON GROSS PROFIT IN THE DRAFT REPORT.**

Representatives of the provincial clubs would be pleased to discuss this submission with the Commission and thank the Commission for the opportunity to comment on their Draft Report.

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