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**TRANSCRIPT
OF PROCEEDINGS**

PRODUCTIVITY COMMISSION

**PUBLIC HEARING ON THE DRAFT REPORT ON AUSTRALIA'S
GAMBLING INDUSTRIES**

**MR G.R. BANKS, Chairman
MR R. FITZGERALD, Associate Commissioner**

TRANSCRIPT OF PROCEEDINGS

AT MELBOURNE ON THURSDAY, 26 AUGUST 1999, AT 9.30 AM

Continued from 25/8/99

MR BANKS: Good morning everyone, and welcome. This is the second day of our hearings here in Melbourne on the commission's draft report on Australia's gambling industries. Our first participant today, who has kindly allowed himself to be rescheduled to fit in with our revised schedule, is Neville Ford. Welcome to the hearings. Could I ask you, please, again just to state for the record your name and the capacity in which you're appearing today.

MR FORD: Yes. My name is Neville Ford. In what capacity? I'm an interested citizen of Victoria; very proud to be a Victorian. I have stood for parliament in Victoria in the Mitcham by-election and I stood on a platform of keeping pokies out of strip shopping centres. I didn't get a huge vote, but that by-election resulted in a dramatic change in the gambling in Victoria in that pokie numbers were capped.

MR BANKS: Thank you. We don't have a submission from you. We understand that you wanted to talk in particular about table 6.1, but I'll hand over to you to make whatever points you'd like to make.

MR FORD: Sure. If I can take the commission to table 6.1, which is on page 6.24 of your report, that table purports to show the responses to separate SOGS numbers, and it quotes harm, it quotes in-counselling, it quotes SOGS 10-plus and SOGS 5-plus. Now, a Mr Ralph Lattimore of your office has kindly supplied me with additional data, and that relates to the numbers of SOGS for 3, 2 and 1. So it goes down in, you might say, apparent SOGS or problem gambling. I've taken just two parts of that, and I'll show them if I may up here.

MR BANKS: Yes. You just have to make sure that you're still audible, that's all.

MR FORD: Sure. I'll show you these. There are two items - the "more than intended" category, which was line 4, and the money arguments. I've chosen those as pretty significant things to have an argument about, and the "more than intended" contrasts with the current Victorian advertising on gambling which is when it's not fun, walk away. So this is a sort of "when it's not fun" category, and the money argument is self-explanatory. You will see that the numbers go from harm at 197 per cent, all the way down to 72 and 34 per cent, but you will notice that the rate of reduction on particular item 4 is very slow; in other words, there's a lot of people well below a SOGS level of 1 that have got that sort of "more than intended", can't walk away when it's no longer fun.

The importance of that, I believe, is that if you didn't know that you would tend to assume from your report that SOGS 5-plus was a reasonable cut-off point. I put it to you that it's not. I put it to you that the commission's assessment of the number of problem gamblers in Australia is not demonstrated and therefore people like myself can quite legitimately say these people are either trying to deceive and disguise the real nature of problem gambling in Australia or their maths is bad. I would like to think that perhaps it's the maths that are bad and that I would urge the commission to look further at those numbers. I believe they show that problem gambling in Australia could well be as high as 6 per cent. That's a dramatic number.

If problem gambling was in the order of 1 or 2 per cent you might say, "Well, that's the nature of humanity" - you know, some of us jump out of aeroplanes and parachute down, with the risk of the parachute not opening - but if it's 5 and 6 per cent now and if it's increasing at a rapid rate then we could get to 10 per cent of the society, adults in the society, as problem gamblers. That would be extremely important, and I believe the numbers already show that it's high time we reregulated gambling, in particular reregulated pokie machines, and in terms of the cap on pokie numbers, I don't believe that is sufficient. It might be part of the solution, but it's certainly not sufficient, because if you take Victoria, it looks like the potential demand for pokie machines is about four times the actual cap. That would terrify Victorians.

Now, you don't have to take my word for this. Fortunately we have a very good reference. It's Henry Bolte, long since departed this earth, but his memory is certainly strong, and particularly with people of my age. In that book there is a reference. Henry was being asked why wouldn't he allow pokie machines in Victoria and he said, "Only a gambler would know." Henry was well known to be a gambler; he backed on the horses. He knew exactly what pokies were like, and he wouldn't let them into Victoria, and his wisdom is now becoming very very obvious.

At this stage I'd like the panel, if they will, to turn the recorder off because I want to give a piece of evidence.

PROCEEDINGS OFF RECORD

PROCEEDINGS ON RECORD

MR FORD: So to sum up, I believe that the maths of table 6.1 need drastic revision. I believe there's probably enough information in your survey, that it's wide enough in number and of sufficient quality to be able to quite scientifically extract out an extrapolation. I believe there can be an extrapolation down from the 72 down to perhaps 10 per cent, and from the 34 down to 10 per cent, to match up with the cut-off numbers of perhaps, say, 20 per cent claimed to be winning when lost, when in fact losing, 10 per cent borrowed from household money, and borrowed from partner of about 12 per cent.

They're what I would consider marginal cut-off points. It's not a good idea to borrow from your partner, it has a tendency to reduce the length of the partnership somewhat, but it gives a sort of rational cut-off, whereas I believe the 72 per cent is a grossly inadequate cut-off and seriously underestimates the amount of problem gambling in Australia. Thank you very much.

MR BANKS: Thank you very much for that contribution. I'm sure we'll have other people saying that we put the cut-off too low and questioning our maths in the opposite direction. So it's useful to have that contribution. I make the point that none of these measures are scientific and therefore there's always a subjective

element. We've tried to provide as much information as we can and we're conscious,
for

example, that in the United States they've used SOGS scores of 3-plus to define problem gambling. We've tried to look at it from a number of different angles, in addition to the SOGS, because we acknowledge that all screens are less than perfect.

MR FORD: I'm a great believer, sir, in using analytic good evidence. We've all got personal opinions. It's easy to have a personal opinion. I believe that study by your consultants is good. I have every faith in that company, in its - - -

MR BANKS: You mean the survey?

MR FORD: Yes, the survey.

MR BANKS: The national survey.

MR FORD: The national survey. I have every confidence in that company's integrity, and I believe that that survey encompasses within it accurate data. That is accurate data. I'm not disputing that data. I'm just saying your cut-off is far too high.

MR BANKS: All right, thank you for that contribution.

MR FORD: Thank you.

MR BANKS: We'll just break now before our next participants, thank you.

MR BANKS: Our next participant this morning is the Woman's Christian Temperance Union of Victoria. Welcome to the hearings. Could I ask you, please, to give your name and your position.

MS BERGEN: I'm Anne Bergen. I'm the honorary general secretary of the Woman's Christian Temperance Union of Victoria.

MR BANKS: Thank you. Thank you very much for attending. We've had submissions from your association's affiliates in other states and we've appreciated those, and you've provided a submission on our draft report. As discussed, I'll let you make your main points, and we can question you on some of the issues.

MS BERGEN: All right. The WCTU is concerned about a whole range of problems that affect families in particular, and gambling is one of our major concerns, particularly in view of the rapid increase in the number of women gambling - I believe about 50 per cent of the problem gamblers are now women - and also the fact that young people are overrepresented among the problem gamblers, I think the 18 to 24-year-olds particularly, and with Internet gambling it's the 18 to 24-year-olds who are the main ones currently gambling on the Internet, and also because of the tragic effects of problem gambling on families.

We welcome the Productivity Commission's draft report with its wealth of information about the current situation, and we would support many of its recommendations. I want to focus particularly on chapter 15 of the draft report that looks at issues relating to consumer protection, and gambling advertising is one of the things which has concerned us. We've written in recent times a number of letters to Victorian members of parliament about gambling advertising on TV and so on, with very little positive response of course. The report does make a number of points about that; the fact that advertising that points out that someone has to win really encourages people to think, "Well, maybe it'll be me. Someone's got to win," and therefore encourages people to gamble.

The advertising and the promotion is enormous, it must be extremely costly, and they wouldn't be doing that unless they really felt that they were going to increase their business by doing it, and there's really little information about gambling products in the advertising. It just makes it out to be entertainment and excitement that never stops, and I think the report points out that in many cases there's not much excitement except on the rare occasions that someone has a win, and then it's great excitement for a minute or two and then boredom again for hours.

The report does refer in several places to a similarity between gambling and alcohol in relation to the harm that they do to a significant section of the community, while being accepted by many as a legitimate source of pleasure, and it points out that advertising of alcohol is restricted, whilst it's banned altogether for tobacco, and we believe that the great harm done by gambling, particularly by electronic gaming machines, warrants the strongest possible restrictions on its advertising.

The current voluntary self-regulatory advertising code in Victoria has a provision that advertising shall not be false or misleading and deceptive, particularly in respect to winning, and the glamorous exciting TV ads for the TAB and Crown Casino are clearly not observing that rule. There's been an ad I can think of for the TAB that quite blatantly defies the rule by having people talking about their investments and what percentage they're getting on their investments, and then someone comes in with, "TAB 500 per cent," or some outrageous figure, as though it's something that you can actually invest in and make a sizeable profit.

Another one is with a guy with his golf clubs, a wonderful set of gold clubs, "Where did you get this?" "At TAB" - you know, as though this is a normal thing. We would, at the very least accept the recommendation of the commission for legislative based codes, specific to gambling, as outlined on page 1533. Such a code should also ensure that the odds of winning are clearly disclosed. But we consider that a total ban on advertising gambling on television is also warranted. That's where I believe most publicity is effective, through TV. It's not possible for cigarettes and I feel that gambling is equally damaging to the community.

We're also concerned about the use of incentives in advertising gaming venues and in recruiting patrons. We're totally opposed to the recruiting of players through the promotion of free membership cards that offer some fantastic rewards like free snacks, free pokie credits and free parking, and this sort of thing appears regularly. I don't get the seniors magazine but a friend of mine regularly passes on things like this, encouraging senior citizens to join up and get their free this and free that. Then a lot of other venues have advertising: the Lilydale International has got, "Come into our tats gaming room," and play all their state-of-the-art machines, Mystery Mind, Golden Locks, Aladdin, all kinds of things, and with family entertainment advertised alongside it; in other words encouraging families, as a whole, to come. I feel that's particularly damaging when it's aimed at getting families and children there as well.

MR BANKS: Just on those particular advertisements, are they misleading though in the sense that you were talking about before?

MS BERGEN: Well, they're not necessarily misleading, but they're using incentives is the point that I'm on now. They're encouraging people to gamble by offering incentives; you know, "If you come we'll give you free this, free that and great entertainment." It's not as though people are dying to come and play the pokies just because they want to play the pokies, they're trying to have incentives. There was an article back in the Age on 14 July 97 that reported that the Burvale at Nunawading has a system of points credits: 25 points will get you a loaf of bread, 30 will buy you two litres of milk. Now, people who would be encouraged to gamble with the incentives of free bread and free milk are not in a financial position to be gambling and yet this is the kind of incentive that they were offering.

The same article quotes Ms Kathleen Wynne, manager of the Foresters Arms Hotel in Oakleigh, as saying that without promotions she would struggle for business. It is a general rule of thumb that venue operators give away between 5 and

10 per cent of their net revenue in promotions every week. So we believe that venues are trying to create a market for the machines that is not really there. Now, the commission's report also says that many consumers use membership cards at venues when playing poker machines.

The cards are used by venues to pay loyalty bonuses and, in the commission's words, encourage people to play more. That's this kind of seniors one that I referred to. The commission's recommendation is that where loyalty cards are used consumers should be provided with a periodic record of their spending. It should be a minimum requirement. We would prefer to see such incentives made illegal. If people have to be induced to gamble, there's not a great demand for it.

Thirdly, with regard to automatic teller machines, EFTPOS and cheque cashing, where these are available they are an incentive to problem gamblers to continue to lose money while, as the report points out, the large bulk of recreational gamblers never use them; in other words, they're just there for the benefit of those who are problem gamblers, and that's a real problem for them obviously. We agree with the view of Mr Xenophon that's reported in the draft report that EFTPOS and ATM facilities should be removed from gambling venues or, at the very least, their access be restricted to the payment of food and drink only.

MR BANKS: Just to clarify that, do you see them being removed from the whole venue, the whole hotel or the whole club, or just from the gaming area?

MS BERGEN: I would say Mr Xenophon is envisaging that they're removed from the whole club and venue. But if they're there in any way they certainly shouldn't be anywhere near the gaming facilities, and if they are there they should only be available for people to use to pay for food and drink and not to withdraw money from, because if someone is desperate enough and they're there in the venue, even if they've got to walk a bit to get to it, they'll get to it and take out more money. We disagree with that and we completely agree with the commission's recommendation that cheques shouldn't be cashed.

Then information on the risks of problem gambling: we agree that there are strong grounds for increasing awareness of the hazards of gambling in a similar way to what has been done regarding alcohol consumption, drugs, driving and tobacco. A media campaign should also include information about the odds of losing and winning, the effects on families and individuals and be hard-hitting. The current advertisement on Melbourne TV with its punch line that says, "If gambling is no longer fun, walk away," will do nothing to limit gambling. Those who are addicted cannot just walk away and the inane comments by gamblers about what they think is lucky are more likely to encourage gambling than discourage it. A lot of people would think it was a promotion for gambling rather than something that is meant to be a harm minimisation ad. The commission mentions that wishy-washy approach on page 1524 and I like the commission's suggested slogan, "If you think you can win, you're a loser."

MR BANKS: I should say that was suggested to us. We thought it was such an

interesting one we put it in - - -

MS BERGEN: Well, whoever suggested it, I think it's a pretty good one. The WCTU has, for many years, had a leaflet entitled Gambling is for Suckers.

MR FITZGERALD: We'll put that in the next report, if it's all right.

MS BERGEN: We would support the commission's recommendation that there is a need for government to provide clear information to the public about what is problem gambling and the fact that all gamblers are potentially vulnerable. It's a bit like alcoholics, I suppose; some people think, "It will only happen to certain people, it would never happen to me." But people don't know until they start whether they're going to be one of the ones that will get hooked on it. As part of the provision of information about the price of playing poker machines, we support the recommendations in the report on page 1517.

MR BANKS: Could I just clarify that we haven't actually made formal recommendations in the report - - -

MS BERGEN: They're draft recommendations I suppose - - -

MR BANKS: They're findings, they're draft findings actually and observations, and in some cases we're raising things for consideration and feedback. I mean it may seem like a technical point to you, but I just make that because you're using the term "recommendation" throughout your submission.

MS BERGEN: Yes, I assumed that you wanted public opinion about whether they were things that ought to become real recommendations.

MR BANKS: Sure.

MS BERGEN: My terminology is not a hundred per cent. We would also like to make some comments about maintaining the cap on the number of electronic gaming machines in Victoria and limiting numbers elsewhere in Australia. The draft report makes it clear that there's a link between the extent of problem gambling and the accessibility of gambling. I think that's most important that accessibility does increase the amount of problem gambling. New South Wales and Victoria, which have the highest per capita expenditure on non-lottery gambling, have the highest rates of problem gambling while it's lowest in Tasmania and Western Australia where per capita expenditure is lowest. The sharp rise in the involvement of women in gambling also correlates with the increased access to poker machines.

I was interested in the previous speaker's reference to his opposition to poker machines in shopping centres, shopping centres like Southland, Northland and so on. That's something that we would be very very much opposed to because it's putting them right where women go shopping and I'm sure that certainly, and the report makes it clear, there is a correlation between the availability, the accessibility and the

number of people who gamble. Australia, with its population of just 19 million people, has 180,000 electronic gaming machines, 21 per cent of the world total, an achievement of which our Prime Minister is ashamed. My husband had come up with some other figure which I worked out last night: we have less than .04 per cent of the world's population and yet we've got 20 per cent of the world's gaming machines. It's sort of about 50 times more than we should on a population basis.

MR BANKS: That's right, but to put it in context there are other sorts of machines like pichenko in Japan and the fruit machines in the UK and so on which aren't comparable really to these electronic gaming machines, but there are other sorts of machines around.

MS BERGEN: Yes. I think we still have too many already without allowing the introduction of more machines. The draft report mentions that the commissioners are concerned to balance the rights of recreational gamblers with the need to protect problem gamblers, and that's a valid point. But the comment that maintaining caps on EGMs would come at significant cost to the majority of recreational gamblers is something we would dispute, because the commission found that 75 per cent of people surveyed believed that gambling does more harm than good and 92 per cent did not want to see an increase in gaming machines. In fact only 0.6 per cent were in favour of a large increase and 1.2 per cent were in favour of a small increase, a tiny proportion of those interviewed. So I don't believe that recreational gamblers would feel that they were being disadvantaged by having a cap on the number. I don't see that the demand is there.

So who are pushing for more machines? We believe it's only the wealthy people who run the gambling industry and they make their money from the problem gamblers who, although only 2.3 per cent of the adult population, lose \$3 billion annually and comprise a third of the gambling industry's market. There isn't a public demand for more gaming machines. Demand is only being stimulated through the millions of dollars spent on advertising and incentives to con the poorer members of society with false hopes of winning.

The fact that profits on some EGMs in sporting clubs in Victoria are low, causing the greedy promoters to move them to more lucrative areas, is another indication that in many areas the number of people wanting to play the pokies is declining, and the commission expressed the concern that if there are caps when demand pressures mount, there will be incentives on operators and gamblers for the more intensive use of machines which could exacerbate problem gambling, as is happening with the moving of machines in Victoria. Unfortunately the sad fact is that poker machines in Victoria are concentrated in the poorest areas, whereas the wealthier areas like Boroondara have only got 2.3 machines per thousand compared with Maribyrnong with 17.3, which is the poorest area.

We believe operators of gaming machines are cashing in on the poor and desperate who can least afford to lose their money, and the local councils in those areas who can see the harm being done to their communities have almost no control

over poker machine venues or numbers, because those people, if they're putting their money in poker machines, are not supporting local businesses and spending their money on other needs.

The commission's recommendation that local communities should be consulted by an independent control commission or something of the kind about licence applications is most important, and we believe that local councils and communities should not only be consulted but have the final say in the location and the number of electronic gaming machines in their areas. In many ways these days, I think local communities and councils are finding themselves powerless against a bureaucracy, and unable to do the things that they see as important for their own areas.

MR BANKS: What do you think would happen if local councils did have the final say?

MS BERGEN: I think many of them would want to have far less gaming machines in their areas. Some may want to have more, but I believe that the trend would be a decrease rather than an increase.

MR BANKS: On what basis do you say that?

MS BERGEN: I couldn't find the newspaper cuttings that are relevant to it, but I have read that councils in areas like Maribyrnong are really concerned about what is happening in their communities, but they're powerless at the moment to do anything to reduce the number of poker machines there.

We're also concerned about Internet gambling. As the report points out, online gambling represents a quantum leap in accessibility to gambling, and will also involve new groups of people. At the moment, as I mentioned earlier, it's mainly the fairly affluent 18 to 24-year-olds who are the main Internet gamblers, but that will change if it becomes widely accessible, and the point that increased accessibility leads to an increase in problem gambling we've already made. That poses a great temptation, particularly to mothers who are at home all day, either with their children off to school or mothers with young children who feel trapped at home and can't get out but who can whip into the computer when the kids go to sleep for a few minutes and have a little gamble, and even if necessary if the kid wakes up grab them and put them on their knee and continue to gamble.

In that sort of case young children are also being brainwashed in a sense into thinking this is something good and it will have an effect on them. Interactive gaming could easily become a family activity involving children, even if credit card requirements make it difficult for minors to gamble alone on the Internet. I've had sons who've really enjoyed computer games, and I can imagine young teenage boys particularly really getting hooked on some of the Internet interactive games and getting mum and dad onside to allow them to keep playing and gambling on these.

The supposed safeguards, the interruptions of normal living like having to go

and have a meal or go to the toilet or something, might limit Internet gambling in a family situation but I don't think they apply so much to single people who live alone and maybe are bored and isolated or single people living in a group situation in a house who could spend many hours at a computer, and we agree with the commission that it's likely that without harm minimisation measures and appropriate regulation online gambling will pose significant new risks for problem gambling. Whether such regulatory policies can be implemented is problematic.

We keep getting told that you can't control it, but in the Herald Sun on 18 August it says in the editorial:

We don't need more gambling. Enough is enough. There is sufficient opportunity to gamble in Australia without Internet casinos. The United States Senate banned online gambling six weeks ago.

So if the US Senate felt it was possible to ban it, then I think Australia needs to seriously look at the situation, too. We're also concerned about government involvement in promoting gambling as a source of revenue, and at the same time being responsible for regulating it to reduce harm. While the Victorian government receives 15 per cent of its tax revenue from gambling, it's not likely to introduce harm reduction measures that will reduce its income. As the report points out, gambling revenue is regressive, with lower income groups generally spending proportionately more on gambling, and thus shouldering more of the burden.

However, reducing taxes on gaming would not help the poor who are addicted to gambling and would only put more money into the coffers of the rich promoters. I don't think the poor people would benefit if the rate of taxation on electronic gaming machine operators was reduced. It would be only the promoters who would benefit. But, as governments rely more and more on gambling revenue as an alternative to the more unpopular method of increasing taxes on the community in a more equitable way, it's in their interests to promote an escalation of gambling, regardless of the social costs, and we believe that's what is happening.

The commission's suggestions for regulating gambling, as set out in chapter 21, appear to be sensible. An independent regulatory body with structure and activities, as set out in boxes 21.6 and 21.7, is absolutely essential to help to reduce the perception that governments' handling of gambling is often motivated by self-interest and, in Victoria anyway, cronyism. The Prime Minister said on ABC radio on 18 August, a few days ago, that he believes it is time to wind back gambling in Australia, and we heartily agree with this. Perhaps it's up to his government to put financial measures in place for the states that will enable them to become less dependent on gambling revenue and therefore more willing to take steps to reduce the opportunities for gambling, rather than promoting them.

MR BANKS: Good, thank you very much for that. I think I've basically raised the issues that have occurred to me along the way. I know it's a large report and so on, but were there areas in the report that you had particular disagreement with, or

anything you wanted to highlight of that nature?

MS BERGEN: No. I must admit I haven't read it from cover to cover. I looked at the bits that I felt were most relevant to us. I didn't see anything particularly that I disagreed with, except a few minor points that I mentioned there.

MR FITZGERALD: In relation to a couple of the issues - and thanks for the comprehensive nature of the submission and referencing back to the report itself - just on the Internet which is an issue that we've specifically asked for further comment on, and you indicate in the US - the Senate at this stage hasn't banned Internet gambling; it's been a presidential report recommending that. In Australia we already have some Internet gambling through the TAB - we have phone betting and TAB betting - and as you're aware in some states licences have already been granted for Internet gambling, and that's likely to continue. I was wondering in terms of the measures, you obviously have a preference for an outright ban, but if that can't be achieved then the sorts of measures that we've been proposing in terms of harm reduction and that, do they give you any confidence that the harm associated with Internet betting could at least be reduced or contained in a way that perhaps we haven't been able to achieve in poker machines and other forms of gambling?

MS BERGEN: Once you open the door, I think it's very hard to keep it under control. The worst part of the Internet gambling will be the interactive casino-type gaming which is a bit of a different issue from the betting on sporting events and so on. We'd prefer that that wasn't happening either, but it's particularly the interactive gaming-type things that will be on it that I think will be the most damaging, and while people would have to have a credit card and all this kind of thing in order to access it - and I can understand government's idea that, "Well, we can't stop this thing so we'll regulate it and we'll get our cut out of the profits." I think that's being a bit of a defeatist kind of attitude - "It's something we can't stop."

" It's like regulating pornography on the Internet. The government was told, "You can't do it. You can't do it. You can't do it. It won't work." Well, they've tried. I don't know how successful it will be, but I think trying to stop it in the first place should be the first aim. If that doesn't work, then look at harm minimisation things. But it's quite clear that increased accessibility will increase problem gambling, and the number of problem gamblers, according to this, was 330,000, which is a similar figure to the number of alcoholics in Australia as I remember it from a few years ago. So it's quite a sizeable figure, plus all the people in the families that are involved as well, which runs into the millions of people involved in it.

So it is a real problem, and therefore I believe the first step should be to try to really prevent damage. We're more interested, as we say, in putting a fence at the top of the cliff rather than an ambulance at the bottom, and while it mightn't be easy to prevent it, at least that should I think be the first aim.

MR BANKS: Just on that, I suppose some people found the commission's

assessment of costs to be exaggerated; others found our assessment of benefits to be exaggerated. What were your views on our assessment of the benefits and the fact that for a lot of people it's seen as a form of pleasure and enjoyment, access to something that they like doing?

MS BERGEN: I guess I'd be one who felt that your assessment of the benefits was very generous in relation to the assessment of the costs, and it's very difficult to put a monetary value on individual enjoyment, isn't it? While you say in the report at one stage that people are conned into believing it's all excitement and all fun, that for a lot of people most of the time it's not. It's just sitting with a stony face, putting money in and hoping for a bit of excitement when maybe they get a payout. So my feeling is that the benefits are exaggerated.

There was a report I've got here from the American professor who was out here and did evidently appear before the - Prof Robert Goodman, in regard to employment in gambling. You've included employment benefits in your cost value in the positive side for it, but he argues that from his experience in the USA the economic benefits of gambling are slowly being seen as illusory; that what you're getting in the gambling area is actually being taken out of other areas in the community. I think that's happened to some extent in Melbourne with businesses in the CBD suffering as more and more business has gone down to the casino.

MR FITZGERALD: Some of that is acknowledged in the report, that some of the benefits are, to use the word, "illusory". Given that your group particularly represents women and women's views, one of the issues that does arise is that there's been a significant increase in the level of gambling activity by women generally, and the report tries to examine why that might be. One of the issues here is that many in the industry would say that they're actually meeting a need that women have that was not previously met, and if you looked simply at the numbers of women now gambling, particularly in hotels and clubs because of the improved environments and what have you, there would be some justice in the argument that the clubs and the pubs are actually meeting a particular need. I was wondering how you would respond to that position.

MS BERGEN: A BreakEven counsellor told me recently that the women who they find, that they have to counsel - and 80 per cent of the people who come to them with problems come with problems from electronic gaming machine gambling, and that the women do it from boredom, isolation and loneliness. Now, you can understand, I guess, that that would be something that people might think of as a way out, but really to sit in front of a gaming machine is not interacting with other people. You're still bored largely, isolated and lonely, and I guess it's an indictment on our community that there aren't more constructive things available for women that will provide an answer to those problems rather than them looking for something which is, in the long run, destructive.

So while you could say it's meeting a need, it's a very poor way in our opinion of meeting that need, and probably more needs to be done to provide constructive

outlets for those women.

MR BANKS: Thank you very much for that. We'll break now for a moment, please.

MR BANKS: Our next participant is BJ Masters Professional Blackjack School. Welcome to the hearings. Could I ask you to give your name and your position, please.

MR SCOTT: My name is Andrew Scott and I'm here today representing a unique minority group which is disadvantaged in our community, that of skilled casino blackjack players. I'm also founder of the BJ Masters Professional Blackjack School, a school which teaches people skilled play at blackjack.

Firstly, I'd like to thank yourself and the associate commissioner Mr Fitzgerald for the opportunity of speaking here today, and I'd like to applaud the federal treasurer Mr Costello in the creation of this very important inquiry. I've been asked by a number of members of this group of skilled blackjack players to come forward and raise some very important issues, and I'd like to take this opportunity today to acknowledge their support of my submission. For reasons that will become clear to you today, unfortunately, I'm not able to disclose their identities and none of them are in the room here today.

Following today's hearing, our submission will be circulated to all of Australia's 13 casinos with an invitation to meet and discuss the issues raised therein, and following that meeting and any subsequent comment it's our intention to lodge a more informed and comprehensive submission with the commission in, say, mid to late October to perhaps assist with the final report. Are there any specific issues in our submission you'd like to address straightaway or would you prefer me to go through the major points of the submission?

MR BANKS: Apart from complimenting you on what I think is an excellent submission setting out the issues, we'll let you address the points.

MR SCOTT: Basically, to put it in a nutshell, it goes like this. Most casino games - and I'm referring purely to casino games, of course - have got a fixed house advantage. At no time does the player have an advantage over the house, but there is an exception and that's blackjack. Blackjack is a very interesting game mathematically. In the long run, blackjack is actually a game of skill, not a game of chance. In the short term luck plays a very important role in the game of blackjack, but as time goes on the skill of players will actually manifest itself in the final result. Take a game like sic bo, for example. The house has an 8 per cent edge over the players, and it's fixed, and it's as simple as that, whereas skilled blackjack can actually even create a very tiny edge for the players over the house, in the order of about half a per cent of the player's turnover.

It's been proven since the 1960s that the game of casino blackjack can be beaten in the long run by skilled players and many eminent mathematicians in the States have written books on the subject, and it's quite a known and acknowledged thing within the casino industry. There is a very large fluctuation in the financial results of a skilled blackjack player. Although he may well be able to create - or is able to create - a very small edge over the house, there will be a huge fluctuation in

those results, so no

skilled player will necessarily win on any given day or week or even year but will have that very tiny edge over the house.

I'd like to say that it's not an easy thing to become a highly skilled blackjack player with a long-run advantage over the house. It is relatively easy, and it takes the average person about 15 hours of hard work, to learn enough skill to vastly reduce the casino's advantage over the player on the game of blackjack to about half a per cent. Typically, unskilled blackjack players have got an edge against them of perhaps 2, 3, 4 per cent on turnover - something in that order - but by learning what's known as the basic strategy of blackjack, that edge can get down to about half a per cent. To turn that half a per cent edge that the casino has over the player around the other way to a half per cent edge for the player over the casino is much, much more difficult and can take months and months of intense training and practice, and sometimes years. Some people simply can't master it.

It's not the sort of thing you see in Rain Man, the movie. You don't need to be a genius but you just need to be somebody who is prepared to sit down and do a hell of a lot of hard work and study, basically.

MR BANKS: It doesn't hurt, though, if you're a genius.

MR SCOTT: It doesn't hurt if you're a genius, but the person of average intelligence can learn this skill, much as the person of average intelligence could learn any other trade or vocation, given enough dedication.

Obviously the rules of blackjack are gazetted by state and territory jurisdiction. Each jurisdiction has got a set of rules which are gazetted - the rules of blackjack - and each of those set of rules includes provisions that allow the casino to alter the rules prevailing on any individual blackjack game and/or impose a restriction or restrictions on any individual player arbitrarily. So basically a shift manager can walk up - as indeed has happened to myself on numerous occasions in the last 12 years, and to many of the people that I represent - and simply say, "Okay, you are now going to be restricted while the gentleman next to you or the lady next to you may bet any amount of money between the table minimum and the maximum. You may only bet the minimum." The relevant rule, for example, in Crown Casino here down the road is rule 5.12 of blackjack which allows that to occur.

MR BANKS: Is that a worldwide phenomenon?

MR SCOTT: No, it varies from place to place. This issue has been raised and it's come up that they've basically gone down the line that I'm proposing, that blackjack should be an even keel for all players. I would say most countries in the world, and particularly the United States as the obvious example - it's the home of skilled blackjack play; that's where it was developed - the casinos do try and stop players in one way or another. They generally don't have rules such as this. They generally ask the player to leave and just basically say, "We don't want you to play blackjack here any more," and if one was to protest and say, "Well, I want to play blackjack here,"

they would say, "Well, unfortunately, we're now not going to let you play blackjack here under our provisions of exclusion for trespass," for example.

So it is a worldwide thing, and I thought you'd probably raise that point with me. I just wanted to say something in relation to that. I read with interest Mr Gary O'Neill of Crown Casino. I'd like to quote something he said which I picked up from the transcripts on the Internet. He said, "What we are saying is that we run probably the best facility of its type in the world" - referring to Crown Casino - "and I say that even including new additions like Bellagio and others." I'm not aware whether the commission is aware of Bellagio Casino in Las Vegas which is currently touted as the biggest and the best; a very expensive casino. He went on to say, "When you take the whole mix together, it is the best of its type in the world."

Now, we've got Gary O'Neill saying that Crown Casino is the best casino in the world. Clearly, Australians gamble more than any other nationality in the world. We are the world's leading gamblers per capita. We've an opportunity here to lead the world in this particular area and make a stand, basically, to put some fairness back into the situation. So just because this sort of thing does happen to some extent in most other countries of the world is, in my opinion, no reason to say that it ought to happen here in Australia.

There is another practice which I'll get to in a moment, and that's why I brought this casino blackjack shoe here with me today. The relevant rule here in Victoria - and I just refer to Victoria because we are in Victoria; there are similar rules throughout the country - is rule 4.5 which states, "The Casino may place the cut card as much as halfway from the back of the shoe." What casinos do is they engage in a practice known as frequent shuffling. I've brought here an eight-deck casino shoe. There are eight decks of cards in the shoe. Normally, the casino will place a cut card - it's a red plastic cut card - about one to two decks from the back and, as the cards come out through the shoe and the shoe is played, the dealer will shuffle the cards at this point.

Now, if a skilled blackjack player is at the table the rules allow them to basically shift the goalposts of the game to pull this cut card out and say, "No, now we're going to put it, say, here, halfway in the shoe," which allows much, much more frequent shuffling. This vastly reduces the possibility for a skilled player to enjoy profits in the game - vastly. The difference between a cut card placed halfway in the shoe and a cut card placed one deck from the back of the shoe is a reduction in potential profit of 90 per cent.

MR BANKS: To the skilled player.

MR SCOTT: To the skilled player, yes.

MR BANKS: Is it just a convention as to where that red marker goes?

MR SCOTT: It is. It's a policy thing in the casino. Crown Casino, for example,

generally goes two decks from the back.

MR BANKS: There's no requirement? It's at the discretion of the casino?

MR SCOTT: Well, under the current rule 4.5 the casino may place the cut card as much as halfway from the back of the shoe. Now, I'll let you know what the reason for having the cut card is: it's so the dealer doesn't run out of cards. If you refer in my submission to table 4, it's on page 36 of the submission, I've listed there the average number of cards that are dealt after the cut card is exposed until the end of the final round. This is the number of cards that one would need to make sure is behind this cut card so that the dealer didn't run out of cards on the last round of blackjack which would result in a situation where play couldn't continue. Well, actually play could continue but I won't bamboozle you with the details. There is a provision if that does happen, but I won't bamboozle you with that.

You can see from that table the average number of cards dealt is in the order of less than 10, depending on the number of players seated at the blackjack table. Really there is no reason whatsoever to place this cut card any more than, say, one deck from the back. It's mathematically impossible to run out of cards. So the only possible reason for moving this cut card further into the shoe is to disadvantage skilled blackjack players. Might I add that is also at the casino's disadvantage to the unskilled player. The further this cut card is moved forward the more the casino actually costs themselves in profits from the unskilled, due to the additional down time through extra shuffling.

I've made this point in the submission that casinos go to extraordinary lengths to stop skilled blackjack players, even at their own cost, when that cost is much, much larger than what they would lose from the skilled blackjack player. So it's not an economic decision, it's more of an historical animosity between casinos and skilled players that has developed since the Wrest Point Casino opened in 1973.

MR BANKS: Yes, I saw that in the report.

MR SCOTT: Yes.

MR BANKS: When you say that other unskilled players at the table are often outraged - - -

MR SCOTT: Correct, yes.

MR BANKS: - - - do you mean in support of the person who's being - - -

MR SCOTT: In support of the skilled player. It's very very common, yes. The unskilled players will say, "Well, why can't this chap bet as much as I can bet?" and the casino staff member will shrug and say, "Well, that's it," they won't inform the skilled players of what's going on.

MR BANKS: How often do they make a mistake and target someone who is actually an unskilled player in disguise?

MR SCOTT: It's obviously hard to quantify that. I've had numerous phone calls over the years from people who have given me a call and said, "I've been restricted as a skilled blackjack player and I'm simply not," and I've asked them to come around to the school and I've tested them and they are very unskilled; they've got no idea what they're doing. It's quite interesting to note that the average unskilled player loses money at about five times the rate at which a skilled player will win money. So for every one unskilled person that they restrict, that's the equivalent to restricting five skilled players. So really the whole issue of restriction of skilled players is quite ridiculous from an economic point of view for the casino; it's quite unproductive in fact.

I would just like to give you a feel for what it's like to be restricted as a blackjack player. Most very skilled blackjack players have chosen this as a hobby, vocation, lifestyle, call it what you will, for their life, and they have spent many, many hours and months and years of dedicated hard work and practice to learn these skills. Then to have a chap come up one day and say, "Okay, you can only bet the minimum now" - I should mention for your benefit as well that being restricted to the minimum actually cuts out all skill in blackjack. The most skilled part of blackjack is knowing how much to bet each round.

MR BANKS: Right.

MR SCOTT: The edge is gained over ranging bets from high to low at various different times. If a player places a flat bet all the time and doesn't vary his bet at blackjack it is impossible to win, no matter how correct his playing strategy is, if his betting strategy is fixed. These people have spent a long time learning this skill, this art form, call it what you will, and they are very passionate about these things. Then to have someone arbitrarily come along and say, "Well, no more blackjack for you, son," or lady, or whoever it might happen to be, it's quite devastating. As I go on to say later on in the submission, this decision is often quite arbitrary on the basis of scant investigation, because to investigate this issue properly takes an incredible amount of resources and time and effort and knowledge, and perhaps the casinos are not as knowledgeable as the skilled players are of the whole issue of skilled play, because those sort of people tend to leave the employment of the casino and start playing skilled blackjack in the casinos.

MR BANKS: Right. But nevertheless it doesn't come as a total surprise when that happens because in developing your skills you must be aware that at some point, if you exercise your skills well enough, you're going to get this counter-reaction.

MR SCOTT: Well, you may get this counter-reaction, yes. It doesn't come as a surprise because it's always there, it's always in the back of the mind that it may happen and when it does it doesn't come as a surprise, but that nevertheless doesn't make it any less outrageous when it does occur.

MR BANKS: How easy is it, in simple terms, to beat the system without getting detected, because that must be the ultimate motivation?

MR SCOTT: It's a motivation for some players. Personally, myself, it's a big detractor of it. The whole cat-and-mouse game of not being detected is enjoyable for some in the short term, but in the long run it's actually quite devastating socially. It's quite devastating for the person, and they have to live a double life. They have to not tell anybody about it and, because it's an all-pervasive part of their life, it's difficult for them to form relationships because their potential partner doesn't understand it. It's quite devastating in the ongoing living of that life to have this big secret. It would be much simpler to live one's life if it was just an out-in-the-open thing. How often in a day does one get asked, "What do you do for a living?" How do these people respond? If you're a doctor, lawyer, plumber or bricklayer it's easy, "I'm a plumber."

If you're a skilled blackjack player, (a) you can't say, "I'm a skilled blackjack player," because of this detection business, and (b) if you did people don't know what skilled blackjack players are. The general public is completely unaware that this thing exists and it's not really in the skilled blackjack player's advantage to increase the level of knowledge in the community because they want to keep the whole thing generally underground. If the thing could be brought out into the open - the thing is really quite minute. The extent of it, as I go on to say, is very very small within the country. If the thing was brought out into the open regulations would change to make it a level playing field for all, the whole issue would be quite simple, and it would not be at the economic disadvantage of the casinos. I've provided several arguments as to why the casinos in my opinion would actually make more money by allowing skilled players to play, than less.

MR FITZGERALD: Just taking that point, and you do go extensively into the economic arguments. You make the point, as you have already, that in your mind the casinos are actually disadvantaging themselves, certainly in relation to the way in which the shuffling occurs. You say that there is sort of an animus between casinos and professional blackjack players, but the casinos by and large are fairly economically driven, as the submissions indicate extensively.

MR SCOTT: Yes, indeed.

MR FITZGERALD: Why would this persist? In fact I'll just make the point that we've asked people in the casino industries, as we've gone around all of the casinos, about this issue - you know, "What's the logic behind excluding people that are skilled in these areas?" - but I must say the answers aren't forthcoming. So why does it actually occur? They must have made an assessment at some stage that in fact there would be economic loss.

MR BANKS: I mean, if the number of skilled players increased dramatically, as it would if it became acceptable, then maybe the economics would change.

MR SCOTT: I understand your point and I think I've answered that to some extent. To answer the first part of the question first, why have they come to this position? I don't believe it's based on any economics. I believe it's based upon historical animosity that began at Wrest Point in the 70s and 80s. Casinos are generally quite unknowledgeable about the whole issue of skilled blackjack play and they're fearful of what they don't understand. They also want to be the experts in their casino. Skilled blackjack players are a threat to them, they're a perceived threat, but I think they're a lot more of a perceived threat than an actual threat.

MR FITZGERALD: Let's just flesh that out: you're saying that really the threat is not as real as they believe?

MR SCOTT: Absolutely.

MR FITZGERALD: So it's perceived in their minds. You say it arose from Wrest Point and I accept that, except to say that there is this worldwide practice or policy that's in place. So it must have had its origins in the casinos being actually and perceptively fearful of losses.

MR SCOTT: Yes, actually I could go back further from Wrest Point. The reason it began at Wrest Point was that it began in Las Vegas in 1962. There was a book written in 1962 by a gentleman called Ed Thorpe, and this was when the whole issue of skilled blackjack play came out. Can you imagine if you're a casino operator, raking in handsome profits and all of a sudden a mathematics professor, which he was at UCLA, writes a book saying it is possible, it actually is possible, to beat the casino, this fantasy that all these people have, and it's proven - there's mathematics tables in the book and it's all checked out by people and it's right - you're going to panic as a casino. Now, they didn't bother to read the fine print that said, "You actually have to spend months and months and months of work and it's very easy to make mistakes and stuff it up, and in fact lose whilst thinking you're winning." Nobody read the fine print. They just saw the headline of the book Beat the Dealer - that was the name of the book.

So this sort of panic ensued through the casino industry. It was interesting. The initial reaction in Las Vegas was to change the rules of blackjack savagely. They changed the rules, and I might be in slight error, it was something like you couldn't split aces and you could only double on 11, like a vast, vast change to the rules of the game, which made it completely impossible for the skilled or unskilled to beat the game. The general public deserted the game because the game is a game of skill. Blackjack is different to all the other games. It's a game where the players do have some control over the game; they control how much they lose. Skilled versus unskilled lose more, lose less, and in some very rare cases win some. The public deserted the game and the casinos changed the rules back but they maintained the fear of the skilled player. So it has permeated, basically, from Las Vegas in the 60s. I don't know if that answers your question, but I believe that's why the position is what it is.

MR FITZGERALD: Yes, that's helpful.

MR SCOTT: Definitely an ego thing as well. The senior pit bosses and shift managers and so forth don't like the idea that there are people in the casino that know more about blackjack than they do. Some of the economic arguments I've made about why this practice shouldn't occur I'd just like to run through.

MR FITZGERALD: Yes.

MR SCOTT: Firstly, the nature of casino profits is amalgamated. The casino is basically a melting pot of action. There's lots of action. Some people bet big, some people bet small, some people bet frequently, some people bet infrequently. Some people play high house advantage games like poker machines, sic bo and so forth. Some people play lower house advantage games like a reasonably educated blackjack, roulette. It's all a great big melting pot and people switch from game to game. A chap could be playing the money wheel and losing at a rate of 7.7 per cent, suddenly walks to a roulette table and he's only losing 2.7 per cent. He's made a decision, what some would call a skilled decision, to move from a high house advantage game to a lower house advantage game and in the melting pot of casino profits that has just cost them 5 per cent.

When a basic strategy blackjack player who is losing at the rate of half a per cent suddenly becomes a skilled player after many, many hours of hard work, and wins at the rate of half a per cent, his decision is only a 1 per cent difference in profits for the casino and yet this is an anathema to them because all of a sudden the percentage has got a plus sign in front of it instead of a minus sign in front of it. It's no different to accepting that highrolling Asian punters came down and won \$35 million in the Mahogany Room at the Crown Casino. Now, they know that casino profits are amalgamated. For those losers there will be times they come and win, and the same argument applies - why put all these resources into detecting this? So that's the first point.

MR BANKS: Yes, there is an interesting difference though, isn't there, which you say yourself? Blackjack is really the only game available where skill can determine the outcome, whereas for the others it is a game of chance.

MR SCOTT: Correct.

MR BANKS: And the probabilities vary, depending on what game you happen to like.

MR SCOTT: I would just say at this point that there is a little bit of an element of that in Caribbean stud as well, but it's not beatable in any way, shape or form. The amount of the loss can be varied by skill. I'm sorry, go on.

MR BANKS: Yes. So I mean that is a difference. I mean it doesn't take from your point but people, in making those choices, are really deciding how much they want

the

odds in their favour or against them. They can't influence the odds. In this case they're making a decision as to whether, in a sense, to change the odds in their favour through techniques that they can learn and so on.

MR SCOTT: On that point I just say that I see skilled blackjack as a completely different casino game to basic strategy blackjack which indeed is a different game to average skilled blackjack in much the same way that roulette is a different game to the money wheel, is a different game to electronic gaming machines and so forth. I see them as completely different games rather than playing the same game in a different way because the approach to the game is completely different.

MR BANKS: I mean it's different from the part of the player but it's the same game from the part of the house.

MR SCOTT: Indeed. I then go on to say the extent of skilled players in Australia is quite negligible. One would think that if casinos are beatable, and there is this method of beating casinos, why isn't everybody doing it? Well, there are some reasons: firstly, it's quite difficult to learn; a certain sort of mental aptitude has to be had and a certain amount of dedication. Secondly, it requires a great amount of discipline. Casinos are generally not places where people exhibit a great deal of discipline, and needing this sort of discipline to bet and play in the correct manner, in which the skilled playing method tells you to do can be quite difficult when surrounded by all the lights and sounds of a casino and all the fallacious systems that come up; people sitting next to you saying, "Look how the dealer just got 21." It's very hard to be disciplined in this environment.

Thirdly, a skilled player must be very well financed because the fluctuation about the mean of results of skilled players is quite enormous. In the submission there I've got a bell curve with a very slight expected win, the large standard deviation. Because of this one needs a very large bankroll, in the order of perhaps hundreds of thousands of dollars to be a high stakes skilled player, and certainly as an absolute minimum to be a very low stakes professional blackjack player on a \$10 table one would need at least a \$12,000 bankroll to begin with.

So why aren't there so many? These are some of the reasons. I've gone on to make a very difficult estimate of what the extent of play is. I felt much in the same position as the commission was in when you had to make certain estimates. It was very difficult for you to do so. I've tried, however, and I've come up with a rough figure of 28,000 regular casino table-game players that play at least once a week, then in addition to that a further 1,363,000 casino table-game players who play less than once a week. I'd just like to point out there's actually a typo on page 32 of my submission where it reads 1,127,000. It's slightly more than that. It should be 1,363,000. In any event it's in the order of well over a million.

So there's a significant amount of unskilled casino gambling going on, and it comes as no surprise to anybody. I've been around the industry, for want of a better word, of skilled blackjack play for about 12 years and, since going public with this

issue in 1993 I've become somewhat of a focal point for this in Australia. I've been contacted by a number of skilled blackjack players out of the blue, as it were, to share views, and I have bumped into some in casinos. At BJ Masters I've taught a number of them.

In my estimation there would be about 100 blackjack players in Australia that are sufficiently skilled, disciplined and bankrolled to have a reasonable chance of creating a significant long-run advantage on the game of Casino Blackjack. I would say about 70 of those would play at reasonably low stakes, predominantly for enjoyment and fun and the challenge of beating the game, in addition to their normal vocation, and perhaps about 30 of these would play at moderate to reasonably high stakes in this country of 19 million people - and I would obviously know most of those on a personal basis.

In any event, whether the correct number of highly skilled players who, incidentally are winning at perhaps half a per cent on their turnover, is 50 or a hundred or 200, is largely inconsequential when compared to the conservative estimate of 28,000 very regular casino table-game players who are losing at an average of perhaps 5 per cent on their turnover, 10 times as much as each of these hundred. I've made the point already: casinos are now so obsessed with stopping skilled players from winning that they often engage in practices that reduce the chances of the skilled player winning, at great expense to themselves in a number of ways.

Firstly, they often make grave errors in judgment as to the identification of skilled players, and further on in the submission I elaborate as to how difficult that is. Further, these unskilled players are losing at a rate vastly larger than the rate at which the skilled players are winning at. The resources the casino puts into identifying these players is enormous. But the major way the casinos cost themselves money in the ongoing discrimination against skilled players is through the practice of frequent shuffling. That's the major method - by placing that cut card further up in the shoe.

There are basically three techniques with which the casinos in this country practise frequent shuffling. Some state jurisdictions allow the use of two cut cards, where one cut card will be placed in the normal position towards the rear of the shoe and one cut card will be placed towards the middle of the shoe, or even in some state jurisdictions in the front half of the shoe, and when an identified skilled player is at the blackjack table, once these cards have been dealt up to the first cut card, then a shuffle will take place, where an enormous amount of cards are drawn out of the shoe and not used, perhaps as many as 250 cards of the 416 in an eight-deck shoe.

Other players at the table will express amazement at this because the only reason for having a cut card is to make sure you don't run out of cards, and since the number of cards you need to ensure that you don't run out of cards is perhaps 10 or 20, there's no need to have 250. It's purely to stop skilled blackjack players going on. That's the first method. The second method is discriminatory cut card placement. Take for example Crown Casino: rule 4.5 allows them to place the cut card wherever

they wish in the back half of the shoe and the rear four decks. Against normal players it will be in the order of a deck and a half, say, from the back. When a skilled blackjack player is present at the table, this will suddenly become halfway into the shoe.

But perhaps the most outrageous method of frequent shuffling is that practised in the Queensland casinos of preferential shuffling, and I'd like to speak for a moment about that because it really is quite an unfair practice for both the skilled players and the unskilled players at the blackjack table. With preferential shuffling, the casino doesn't need to bother to wait for a cut card to come out of the shoe. They just simply shuffle whenever they like. So they can at any time say, "Well, we've decided we're going to shuffle now," and generally they'll do that by looking at the skilled player's bet. So as soon as a skilled player increases his bet, they will just shuffle, and this has in fact happened to me in the early 90s in Queensland, and just as an experiment I would, on the second round of a blackjack shoe, place a large bet just to see what would happen - and any casino that knows anything about skilled blackjack knows it's highly irregular to have an advantage on the second round of a blackjack shoe; it normally comes much deeper into the shoe - and the casinos would shuffle.

So in a six-deck shoe with 312 cards in it, there might perhaps be 10 cards come out in the first round of the shoe. I'd place a larger bet on the layout, and the remaining 302 cards would now be taken out of the shoe and shuffled and basically playing one hand every shoe, which is quite incredible. I'd like to speak a little bit more about that particular practice because it's quite unfair to the unskilled players as well as the skilled players. Effectively under the regime of preferential shuffling all players at the table, skilled and unskilled alike, are forced to play the hands with a casino advantage. When one of the 15 per cent of the hands with a player advantage arises, the casino says, "That's it. The game's over. Let's shuffle and start again."

I explained earlier in the submission, but I didn't mention here today, that approximately 15 per cent of the hands of casino blackjack are to the player's advantage, assuming he is playing the basic strategy, and about 85 per cent of the hands are to the casino's advantage, assuming he is playing the basic strategy. The Queensland casinos are not happy with this 85-15 per cent; they want a hundred-zero per cent. So that's preferential shuffling.

I think perhaps one of the strongest arguments against the whole thing is on page 39 of my submission in relation to some of the ethical arguments, and I'd like to read this particular part of the submission out, if I may:

If this discrimination were on the basis of sex, age, race, sexual orientation, ethnic origin or disability, there would be grounds for action under federal anti-discrimination legislation. While there are provisions in this legislation in relation to discrimination against the disabled, no provisions exist for discrimination on the basis of enhanced ability. Imagine the outrage if this sort of discrimination was extended to sports and other games. The restrictive rules are akin to telling Steve Waugh he is only allowed to continue batting if he

wears a blindfold and holds the bat only with the thumb and index finger of his left hand. Black people are only allowed to run in the Olympics if they give their white competitors a head start. Tall basketball players would have to hop around rather than run around the basketball court, and top chess players would be forced to play their competitors blindfolded.

These analogies can be extended beyond sport and games to other spheres of human endeavour. Perhaps business tax rates could increase in direct proportion to the business savvy of the taxpayer, or should clever politicians' speeches in parliament be restricted to half the length of their opposition? Since the mathematically skilful are to be restricted, should the mathematically challenged be given some sort of special dispensation or advantage? Perhaps if the casino identifies a particularly bad blackjack player at a table, they should give him some of his chips back.

I can't see that happening somehow. I'd also like to point out that blackjack is by far the most popular casino table game in the world, and on page 40 at table 5 I've given you there a graph of the number of tables in the casino, and one can see that blackjack and roulette dominate the casino games, and I'd like to point out that Crown Casino has the lowest proportion of blackjack tables in the Australian casinos because of their experiment at the moment with the game of pontoon.

The reason for the overwhelming popularity of blackjack throughout the world is clear. It's the belief of the general casino-going population that a player has control over a blackjack game and can exercise a degree of skill via his strategy decisions, and in fact that belief is entirely correct. In table 7 of your draft report it states that 11.1 per cent of young Victorians believe that one can beat the system if you know how. Well, they are in fact correct. Certainly if the question was rephrased to, "Can you improve your odds on blackjack if you know how?" in my opinion the percentage would skyrocket to a conservative 80 to 90 per cent. It's pretty well acknowledged throughout the casino and by players in a casino one can play a good blackjack game and a bad blackjack game in a different way that one can play a good or a bad roulette game. There is no such thing.

MR BANKS: This point about beating the system really only does apply to blackjack, from our earlier discussion.

MR SCOTT: Indeed.

MR BANKS: It doesn't apply to the poker machines.

MR SCOTT: Absolutely. As a general thing - and I would not like to walk around the street touting, "You can beat the system." You can, but whenever I say that I qualify it with, "But it's only at blackjack, only in one specific way, with a great deal of work and dedication, and if you have quite a bit of money." So it's not particularly straightforward.

MR BANKS: Right.

MR FITZGERALD: That rules me out on all of those counts.

MR BANKS: Can I just say that I don't want to cramp your style, but I want to leave enough time to talk about your recommendations.

MR SCOTT: Yes.

MR BANKS: I think we have about 15 minutes.

MR SCOTT: Sure.

MR BANKS: So if you can just make sure that we can have enough time to go through the recommendations.

MR SCOTT: Absolutely. Casinos are in the business of providing gaming services. I'd like to quote the Australian Casino Association's submission on page 24 where they say, "It is important then to ensure that consumers continue to have the ability to consume casino products to the extent they wish." I thought that was a very interesting quote in the casino industry's submission. I believe that losing a minute amount to a minute number of blackjack players and winning a large amount from the vast majority of blackjack players is part of this fair opportunity for the casinos of dealing with these players.

As far as natural justice and social norms go, pretty well universally, anecdotally, when I speak to people I've never met a person that's ever said, "Yes, that's right." I've met thousands and thousands of people who have said, "That's unfair and discriminatory," and indeed the government inspectors and casino management often say, "Look, I don't agree with it, but I'm just doing my job." It's pretty well acknowledged that gambling can be skilful in nature, and I'll just briefly mention that there are professional players of the TAB; clearly poker is a card game of skill which the casino encourages the battle of wits - in poker - yet they prohibit the skill being pitted against themselves. They encourage the battle of wits in poker of course because the expense is to the other poker players, rather than themselves.

I'd like to also mention that there is a continuum of skill in blackjack. There isn't simply skilled and unskilled, as the casino has people into two categories. They restrict the skilled and they don't restrict the unskilled. As I've pointed out on page 44 of the submission, I've listed there 12 different levels of skill from the very unskilled to the very skilled, and it's not as simple as that, and because this classification as a skilled player is incredibly difficult for the casino, and I've outlined there for you, if I was challenged with the task of doing it, I'd suggest one would need to examine at least 20,000 hands of play for each person to analyse whether they're skilled or not.

Finally, as far as my arguments go on page 46, I'd like to mention one point. There is a piece of misleading advertising, for want of a better word. Every blackjack

table has a sign on it, indicating the table minimum and the table maximum, and this is in fact the case with every casino table game, as you'd be aware. The table maximum is misleading because the table maximum is not the table maximum for the skilled player. It's restricted under rule 5.12 here, and it's also rule 5.12 in New South Wales. It irks me somewhat to walk up to a blackjack table and see on the table "Maximum \$500" or "Maximum \$1000," but yet if I try and place or any of the people I represent try and place a \$15 bet on a \$10 table, that can't be done. So the maximum is in fact incorrect. So that's basically the arguments.

MR BANKS: Good. You're now so well recognised that this happens as soon as you approach the table, does it?

MR SCOTT: Absolutely, yes. I've been restricted or outright banned in 12 of Australia's 13 casinos. I'm yet to visit the Reef Casino in Cairns, but I'm sure when I do get there the story will be the same.

MR BANKS: Otherwise, for people who reveal themselves to be skilled in the course of the game, this rule would be invoked at that point?

MR SCOTT: Yes.

MR BANKS: Just arbitrarily?

MR SCOTT: For people that the casino staff believe are skilled - whether they are or aren't, in fact - yes.

MR BANKS: Right. Thanks for that. Why don't we go to the recommendations that you've made.

MR SCOTT: Sure. Because of the arguments that I've put forward, I've made a number of recommendations. I've made four major recommendations. The first one is that the rules allowing arbitrary restriction of players to the minimum be abolished. All players within the casino should be permitted equal betting opportunity. The second recommendation is that the use of two cut cards in some casinos should be abolished. We should have only one cut card, and that it be placed as near as practicable to one deck from the rear of the shoe, using a device authorised for this purpose, and I'm sure that could be thought out. A device could be thought out to make sure that the cut card is placed in the same position for every shoe, for every player at every casino.

The third recommendation is that the regulations governing casino table games should be uniform across Australia. I note with interest the comments in the draft report about the fragmentation of regulation across the country and I couldn't agree more. There really is no reason to have any difference between the state and territory jurisdictions on the regulation of any casino table game. I might be controversial in saying this but I think it's probably something that might be dealt with in the federal sphere rather than the state sphere.

The fourth recommendation is in relation to pricing. I agree wholeheartedly with your findings in the draft report that very little is known about pricing of table games in casinos. I've been around the industry for a long time and seen a lot of behaviour that demonstrates that players really have no idea when they're in a casino generally and that's all very good for the recreational player, as it has been pointed out many times, but for the 2.3 per cent of problem gamblers that make up one-third of the industry's profits, they're quite uneducated. I think there should be, and recommendation 4 is, on the sign at each gaming table an inscription as follows: "Government warning: each time you wager \$1 on this game you might win or lose but this wager contributes X point X cents towards your overall loss on gambling." That X point X cents would obviously represent the house advantage on that game and if the house advantage varied from bet to bet within a game, as it does with sic bo for example, and blackjack, that a table be listed, very much like a cigarette warning or a warning for other products in society which are deemed necessary to have such a thing.

MR BANKS: This would be on average, this X point X cents, would it?

MR SCOTT: Well, I've actually got "but this wager contributes X point X cents towards your overall loss on gambling". So each dollar bet, that dollar makes a contribution. For example, if one places a \$1 on roulette - on any bet on roulette, be it a straight-up bet or a six-liner or whatever - that dollar bet contributes 2.7 cents to that person's overall lifetime loss on gambling. So indeed that person might win a dollar or lose a dollar, if it was an even-money bet, but on that one bet it contributes 2.7 cents. If a person in their lifetime was to place 1 million \$1 bets on roulette, they would end up losing something very close to 2.7 million cents.

In the event that some of those recommendations weren't taken up, then I have provided some other suggestions and recommendations. Recommendation 6 is that if we are to continue to have this situation where skilled players are to be restricted, that an approved nationally uniform method be established for determining whether a player should be subject to discriminatory regulations. The method should be transparent and subject to an appeals and reinstatement process, because at the moment it is completely at the whim of a casino and there is no recourse to any appeal or some such thing.

I have made a couple of suggestions to the casino industry as well. Firstly, that the casinos design an agreed and approved short course for their gaming staff. This course is to be the basis of a code of ethical practice in fair dealing with skilled and semi-skilled blackjack players to increase the general level of education through the industry. Finally, my suggestion to the casino industry is that representatives of the casino industry and skilled blackjack players meet to negotiate a compromise position to the mutual benefit of both sides with players being able to enjoy the mental challenge of the game - and obviously benefit from the recreation, which is part of the report, the benefits of the gambling industry - while casinos are apprised of the likely financial results of these strategies. I have made overtures to casinos on

numerous

occasions over the last 12 years, none of which have been taken up.

MR BANKS: Good. Thank you for that, it's very comprehensive. We've had our mathematical ability questioned from a previous participant so I'm a bit reluctant to question yours here; it looks quite good. Just one point: are casinos obliged to provide a particular range of games?

MR SCOTT: I'm unaware whether they are or not. I'm not sure, but they all do.

MR BANKS: For example, if this was deregulated in a sense and over time the house lost its advantage because so many people had benefited from your course - - -

MR SCOTT: Which incidentally I would like on the public record to state I would stop if I could play skilled blackjack. I would stop - I would actually close my professional blackjack school.

MR BANKS: Because you would be making so much money through blackjack.

MR SCOTT: Not so much that as I would rather play blackjack and enjoy myself than have to do a real job.

MR BANKS: I can relate to that. So could they conceivably then - if it turned out that way - just not provide blackjack and increase pontoon or some other - - -

MR SCOTT: Well, it makes sense - it talks about the provision of gaming services and that's what the casinos are all about, and blackjack is the most popular game in the world. They ought to be in a position where they would be forced to provide the game of blackjack. If I ran a casino I would provide blackjack at break evens and make all the money on the poker machines. I'm not a casino basher and I'm not necessarily saying - I quite agree with the whole idea of deregulation. I'm only talking about this one specific point. I quite enjoy the casino environment and industry, I don't think there's anything wrong with it but I think - to take your point up - the game of blackjack ought to be provided as part of the provision of gaming services. If you're allowed to have poker machines, you need to have a few blackjack tables for people who want to enjoy a real game rather than sit there mindlessly in front of a poker machine donating their money to the casino.

MR BANKS: I don't know whether you are sufficient of an expert maybe to respond to this one too but it's an issue that has come up in relation to problem gamblers who chase their losses. Some might say that actually chasing losses could pay off in certain situations. Are you aware of situations where that would occur by doubling up, for example, and so on in particular games? I mean, are there other games apart from blackjack where by following a strategy like doubling up - is it called martingale?

MR SCOTT: Martingale progression.

MR BANKS: Is that a kind of strategy that could prevail, or would you have to be someone who had a very large bankroll indeed?

MR SCOTT: The answer to your question is an emphatic no. Definitely not. There are two reasons why. The use of the martingale progression - there are various mathematical progressions - martingale progression, Fibonacci - the list is endless of these progressions. The uses of progressions do not in any way increase or decrease the house advantage. All they do is succeed to create a situation where it cloaks or disguises the period of time over which that edge will manifest itself. I can quite easily devise you a system that wins on roulette 99 per cent of the time - not a problem. I can do it on a napkin, a scrap of - with a pencil. But the problem is the 1 per cent of the time you will lose you will lose all the money that you won on the 99 per cent of the time plus more that counts for the casino's edge.

To answer your question in regard to blackjack, yes. If you are a skilled blackjack player and you have an edge, chasing your losses - probably the wrong term - you will get your money back eventually. And if you are a skilled blackjack player and you have an edge and you win more than you're meant to do, continuing to play means you will lose and come back to the mathematical point that you're meant to. But of course you need to keep playing because if you don't keep playing you won't keep winning and enjoying yourself and having a good time. But to answer your question in relation to other games, I would absolutely say no, there is no way that methods such as that can be used to increase a long-run advantage or decrease a long-run disadvantage. They can be used to extend the period of time in which most players will take to lose their money and therefore in the long run give more moneys to the casinos.

MR BANKS: Right. Thank you.

MR FITZGERALD: On page 23 you have a chart that says, "The precise house advantage." You've listed the 13 casinos or whatever.

MR SCOTT: Yes.

MR FITZGERALD: Why is there such a variation between the low and the high at those points? Given that there are some rule differences, why are these house advantages so significantly different?

MR SCOTT: Okay, there are two reasons. The first reason is exactly that as you've raised; the rule differences, which are quite substantial. The second reason is the number of decks you use. Some casinos use six decks and some casinos use eight decks, and the number of decks used is actually a determinant of the basic strategy expectation. I would just pick up on that point of the rule differences to illustrate how powerful this is.

Prior to April 1998 Crown Casino allowed doubling on any two cards except a blackjack and a resplitting with aces. So if a player was to receive two aces, split the

pair and receive an ace on one of those two aces he could split again to have three aces. When those two rules were in place the house advantage against a basic strategy player was .3525 of 1 per cent, so just a smidgin over a third of a per cent. By changing those two seemingly inconsequential rules, the house advantage for Crown Casino skyrocketed from .35 of a per cent to .5153 of a per cent. That's a 46 per cent price increase against a basic strategy player.

It was very interesting when they did this in April 98 and by doing this it decreased the advantage against a skilled blackjack player but increased their advantage against the unskilled blackjack players because the unskilled blackjack players were using this freedom of being able to double on any two cards incorrectly and thus their - instead of losing at 4 per cent as they do now, they might have been losing at 5 per cent because of this extra freedom they had in place. That's the reason for the variation in prices.

MR FITZGERALD: The commission will have to consider the equity position between skilled and unskilled players. This is a very novel position.

MR BANKS: I think you've raised some very interesting points in relation to the industry and how it operates. We'll certainly study your submission with interest. As Robert was saying, it is something we had explored, rather unsatisfactorily, I think, in the lead-up to the draft report, so you've probably given us a better basis.

MR FITZGERALD: I think that's right. It is an issue that we had tried to raise but no-one was able to answer, so this is actually quite helpful. It was raised by a number of participants in the first round but certainly not in any detail compared to what you've done. So that's been quite helpful.

MR BANKS: It may well be that the casino industry would like to respond to this submission.

MR SCOTT: I would encourage that, very much so.

MR FITZGERALD: Yes, we would encourage them to do so, too.

MR BANKS: Okay, thank you very much.

MR FITZGERALD: Thanks, Andrew.

MR SCOTT: Thanks very much. It's been a pleasure to be here.

MR BANKS: I'll break just for one moment.

MR BANKS: I just want to announce that we're going to adjourn the hearings now from Melbourne. We did have scheduled the VLGA, Moreland City Council and Maribyrnong City Council to appear at 3 o'clock today. We've had to defer that hearing and we will be conducting it next Wednesday at the Moreland City Council and Civic Centre, 90 Bell Street, Coburg. Between now and then we'll be having hearings in Hobart on Tuesday, and then concluding the Melbourne hearings on Wednesday afternoon of next week. With that I adjourn the hearings and thank everybody who has participated so far here in Melbourne. Thank you.

AT 11.19 AM THE INQUIRY WAS ADJOURNED UNTIL
TUESDAY, 31 AUGUST 1999

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