

**A JOINT SUBMISSION TO**  
**THE INQUIRY INTO AUSTRALIA'S GAMBLING INDUSTRIES**  
**CONDUCTED BY THE PRODUCTIVITY COMMISSION**

**Club Managers Association Australia**  
**and**  
**Leagues Club Association of New South Wales**

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A JOINT SUBMISSION TO THE INQUIRY INTO AUSTRALIA'S GAMBLING INDUSTRIES  
CONDUCTED BY THE PRODUCTIVITY COMMISSION PREPARED ON BEHALF OF THE  
CLUB MANAGERS ASSOCIATION AUSTRALIA AND THE LEAGUES CLUB ASSOCIATION OF NSW  
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**THE CLUB MANAGERS ASSOCIATION AUSTRALIA**

The Club Managers Association Australia is an important stakeholder in the Australian gaming industry. The Association represents and promotes the interests of in excess of 3,000 members employed in registered clubs throughout Australia.

Clubs have been a part of the social and economic fabric of the Australian community since the earliest days of European settlement.

The Club Managers Association is committed to many objectives, including the protection and development of community gaming in Australia and protecting the jobs of its members.

The Club Managers Association recognises that there are other stakeholders in the gaming industry and that they will use this Inquiry and other forums to seek concessions for their interests and restrictions on the activities of others. If history is a guide the self-interest of industry groups and the agenda of government agencies will be transparent.

In 1996 the Executive of the Club Managers Association made a commitment to members to examine the issue of responsible gaming in New South Wales registered clubs. A comprehensive report was produced in October 1997. *Towards a Responsible Provision of Gaming in New South Wales Registered Clubs*, written by Nerilee Hing from the School of Tourism and Hospitality Management at Southern Cross University, established a framework for responsible gaming from a club management perspective.

The Report is provided as an Appendix to this Submission.

**THE LEAGUES CLUBS ASSOCIATION OF NEW SOUTH WALES**

The Leagues Club Association of NSW represents and promotes the interests of 60 leagues clubs and 756,000 members. According to a survey of Association members compiled for the year ending 31 May 1997, Leagues club employed 7,200 full-time and casual staff and paid \$166 million in salaries and wages.

While representing less than 4% of registered clubs in NSW and operating less than 14% of club poker machines, Leagues clubs generated 23% of club gaming turnover and paid 22% of club poker machine taxes.

<b>THE GAMING INQUIRY: A WELCOME INITIATIVE</b>
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The Club Managers Association Australia and the Leagues Club Association of New South Wales welcome the inquiry into Australia's gambling industries established by the Treasurer under Parts 2 and 3 of the Productivity Commission Act 1998.

Gambling industries have been the subject of many inquiries in various states and territories of the Commonwealth over many years. As the Commissioners are aware an inquiry into gaming is currently being conducted by the Independent Pricing and Review Tribunal in New South Wales. The Victorian Casino and Gaming Authority commissions on-going research programs into the social and economic consequences of increased gaming opportunities in Victoria. Recent inquiries into gaming and the possible privatisation of Totalizator Agency Boards have been completed in Queensland, the ACT and the Northern Territory. Many industry commentators value the quantitative research of the Tasmanian Gaming Commission.

The Productivity Commission Inquiry is the first attempt to quantify the economic and social impacts of gambling on a national level. Given the size and diverse nature of the industry, and the number and interests of competing stakeholders, this will be a challenging task.

In addition to this written submission the Associations welcome the opportunity to enter into discussions with the Commission, to participate in hearings and to comment on the draft report scheduled for release in April 1999.

In preparing this submission the Associations have sought input and data from their members. This data and any other relevant information will be passed on to the Commission when it becomes available.

The scope of the inquiry is very broad. This written submission does not attempt to respond to all the terms of reference of the inquiry.

Please note:

In this submission *gaming* refers to gambling services offered by venues within the hospitality industry (casinos, clubs and hotels). *Wagering* refers to gambling services relating to wagering and betting on races and sporting events. *Gambling* refers to all forms gambling, including gaming, wagering and lotteries.

<b>EXECUTIVE SUMMARY</b>
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The Club Managers Association Australia and the Leagues Club Association of New South Wales, in responding to the terms of reference of the inquiry, submit the following:

- Gambling has been an integral part of the social and economic fabric of the Australian community since the earliest days of European settlement
- Clubs provide social, cultural and recreational facilities to millions of Australians, as well as extensive support to community and welfare groups
- Over 65,000 people are employed in clubs in New South Wales alone. Club employment is not confined to metropolitan areas. Clubs provide employment in regional centres and small country towns
- While banks and government agencies have withdrawn services from rural communities, clubs have continued to expand and refurbish facilities and provide services that are being lost to the local community
- The proliferation of gaming venues and the relaxation of controls and restrictions on gaming has contributed to increased community and welfare concerns about problem gambling
- Unlike casinos, hotels and other gaming and wagering operators clubs are non-profit organisations owned and operated by members. The principle of *mutuality* is soundly based and there is no evidence that licensed clubs have a competitive advantage over hotels or other tourist operators – a position confirmed by an Industry Commission Inquiry in 1996
- Gaming is a vital component of the operations of most licensed and registered clubs in NSW, Victoria, Queensland, South Australia and the ACT

## SUMMARY

<b>EXECUTIVE SUMMARY</b>
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- It is estimated that in 1997 registered clubs in New South Wales provided \$155.1 million in community support. Clubs also invested \$280 million in non-gaming related buildings, facilities and equipment<sup>1</sup>
- The concessional taxation treatment and gaming privileges conferred on clubs in some states recognises the important contribution clubs make to members, local communities and regional development
- Gambling industries provide a significant and measurable net economic benefit to Australia
- The State Governments of NSW, Victoria and Queensland are the three largest stakeholders in Australia's gambling industries. The increasing reliance of State Governments on gambling taxes is symptomatic of the underlying structural weaknesses of the Australian taxation system
- Gaming and wagering administration has emerged as a sensitive and vexing public policy issue in many states. The politicisation of gaming, in particular, has undermined public confidence in industry regulation
- Commentators in Australia and elsewhere have identified a change in consumer expenditure patterns over the last decade as individuals spend a larger proportion of their income on entertainment and leisure activities. In part the increase in gambling expenditure reflects this trend
- Regulators must provide a stable legislative environment for gaming and wagering operators. Clubs have invested hundreds of millions of dollars into facilities enjoyed by members and guests, as well as in community projects. Future investment may be curtailed as the regulatory environment is subject to continuous review and change

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<sup>1</sup> Source: PKF Worldwide *NSW Club Industry Policy Development*  
A Report to the Joint Working Party, 1998 p.30

## SUMMARY

<p>A JOINT SUBMISSION TO THE INQUIRY INTO AUSTRALIA'S GAMBLING INDUSTRIES CONDUCTED BY THE PRODUCTIVITY COMMISSION PREPARED ON BEHALF OF THE CLUB MANAGERS ASSOCIATION AUSTRALIA AND THE LEAGUES CLUB ASSOCIATION OF NSW BY RICHARD MANASSEH, BEc (Hons) VISIONADS PTY LTD e-mail: visionads@onaustralia.com.au</p>
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## EXECUTIVE SUMMARY

- Regulators need to anticipate and understand changes in technology. A national legislative response to Internet and on-line gaming is required
- Historically many industries that were highly regulated developed uncompetitive practices. Deregulation of many industries (electricity supply and distribution, for example) has conferred benefits on individual consumers, businesses and the economy as a whole. Gaming is one of the most highly regulated industries in Australia. It is unusual, however, because it also highly competitive
- There is no reason why a license to sell liquor necessarily translates into a license to provide gaming services



<b>RECOMMENDATIONS</b>
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- A gaming license is a privilege not a right.

Strict regulations prescribing harsh penalties, up to and including the loss of a gaming license, must be applied as a control measure to all gaming operators

- The proliferation of gaming has coincided with anecdotal evidence of the negative social and economic impacts of problem gambling, as well as a loss of public confidence in gaming policy.

A moratorium of five years needs to be imposed on any further proliferation of gaming in Australia until research into the proliferation of gaming has been collated and analysed at a national level

- Any future promotion, acceptance or legislative ambivalence to Internet gaming by state and territory governments is completely incompatible with the promotion of responsible gambling strategies envisaged by the terms of reference of this Inquiry and will send a very ambiguous and potentially destructive message to the industry and the community.

Regulators must not be seduced by the argument that Internet gaming can not be stopped. The Commonwealth Government has the power to seriously curtail the threat of Internet gaming if it has the will to do so

## PLACING THE CURRENT INQUIRY INTO CONTEXT

During the 1990's the gaming industry has enjoyed an exponential growth in Australia, as new players have entered the market, casinos and poker machines have been introduced to new jurisdictions and new technologies have been developed and embraced.

Moreover gaming, along with tourism, entertainment and leisure, has benefited from what commentators call the boom in experiential expenditure. This boom has occurred since the recession because consumers have cut back on purchases of retail items, like clothes and jewelry, in favour of spending money on experiences during their leisure time, including dining out, going to the cinema, adventure holidays and gaming.

The growth in hospitality gaming has coincided with a proliferation in new restaurants, cafes and cinemas, and other changes in the expenditure patterns of consumers. This trend is occurring in jurisdictions with regulated hospitality gaming venues and in jurisdictions without legalised gaming.

Between 1972 and 1992 real expenditure on gambling doubled. This equates to an average increase of 3.5% per year. The rate of growth since 1992 has accelerated to 11% per annum.<sup>2</sup> While real expenditure from gambling has been growing at a compound rate of over 11% a year for the last six years, the Australian economy as a whole has grown at an average rate of around 3%.

Clearly, there are limits to the future growth in gaming revenue and a compound growth rate of 11% is not sustainable in the long term. As the implications of the rapid proliferation of gaming surfaces and competition intensifies, government policy may be developed as an ad hoc reaction to the range of issues confronting the industry and the evolving role of gaming in the community. It is in this environment that an inquiry into gaming by the Productivity Commission has been called.

<sup>2</sup> Source: Tasmanian Gaming Commission

## POLITICISATION OF GAMING POLICY

At the end of the day there are only three ways a venue can increase gaming revenue:

- derive more revenue from existing patrons
- capture new markets
- win market share from competitors

In the past many venues have produced a return on investments in facilities and gaming installations by tapping in to a growing gaming market. Considerable growth has been possible without, necessarily, winning market share from competitors, but simply by capturing a share of the boom in experiential expenditure. In a market approaching a plateau, however, most venues will only increase revenue by aggressively winning market share from their competitors.

Competition will confer benefits on consumers. Benefits may include subsidised, free or discounted meals and accommodation, enhanced facilities and entertainment and the use of gaming machines that offer a higher rate of return to the player.

Competition may also result in venue operators engaging in practices that do not promote the responsible service of gaming.

This may 
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 regulation is made even more complex by industry segmentation between various gaming and/or wagering operators. The lobbying efforts of the Crown and Star City casinos to obtain tax cuts and other concessions have been well documented in the press.

Gaming is now a sensitive political issue.

<b>A PART OF OUR HISTORY AND OUR CULTURE</b>
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The *Issues Paper* released by the Productivity Commission provides a concise definition of gambling as an *activity*.

This submission does not seek to broaden the definition of gambling as an activity, but will comment on the significant role of gambling in our history and our culture.

There is one moment each year when the collective consciousness of all Australians is united and the spirit of the nation is distilled. That moment occurs when a horse race, the *Melbourne Cup*, is run. On another day of the year Australians commemorate the event many believe marked the spiritual birth of the nation: ANZAC Day. And on ANZAC Day each year Australians celebrate the spirit of ANZAC by playing *Two-Up*.

Without doubt gambling is a distinctive element of the national character that has evolved since the first days of European settlement. In *English Men and Manners in the 18<sup>th</sup> Century* A.S. Turbeville observed that in England “drinking and gaming were the prevalent vices of the eighteenth century...From the reign of Anne till the beginning of the nineteenth century gambling was a national disease...Men would take wagers on anything”.<sup>3</sup>

The “vices” persisted and flourished in the fledgling colony of New South Wales. In surveying the inhabitants, contemporary commentators “complained of their drinking, their gambling, their sexual promiscuity”<sup>4</sup> and so on. The colourful history of gambling in Australia, in the gold fields and in the battlefields, involving SP bookmakers, illegal casinos and two-up schools is a significant undercurrent of the Australian endeavour. Successive waves of immigrants (though not all) have also been drawn from cultures where gambling has had prevalent role. This includes immigrants from China, South East Asia and the Middle East who have arrived in significant numbers since 1856.

An understanding of gambling in Australia can not occur outside this historical and cultural context. It explains, in part, why per capita expenditure on gambling is higher in Australia than in any other country and why New South Wales is the second largest gaming jurisdiction in the world.

<sup>3</sup> A.S.Turbeville *English Men and Manners in the 18th Century*  
Oxford: Clarendon Press, 1936, pp. 84-86

<sup>4</sup> C.M.H.Clark *A History of Australia I*, Melbourne, 1962, p.243

**A FORM OF ENTERTAINMENT OR A VICE?****Gambling as a Vice**

According to research findings of the Victorian Casino and Gaming Authority over 75% of survey respondents viewed gaming as acceptable.<sup>5</sup>

A minority of Australians does not regard gaming as a socially acceptable activity. Some in this group oppose gaming on moral or religious grounds, believing that gambling is a vice or a sin. Others oppose gaming for reasons associated with social justice.

While not seeking in anyway to judge the belief systems of individuals or groups, it is important to acknowledge that some of the opposition to gambling stems from a conviction that gambling is a vice that is symptomatic of an overall erosion of values in Australian society.

**Gambling as a form of Entertainment**

Many commentators feel that gambling industries present gambling as a form of entertainment to make the activity more socially acceptable.

In fact industry professionals present gambling as a form of entertainment because marketing research and business practice has demonstrated that most individuals spend time and money gambling because it is an enjoyable way of using their leisure time. An example of this awareness of gaming's entertainment value has been the trend over the last 10 years to increase the return to players on poker machines and to add features that make poker machines more entertaining.

In the late 1980's most poker machines in NSW clubs returned less than 88% of turnover to the player. Now a large proportion returns between 90%-93%. This increases the average time a player can spend on a poker machine with a given amount of money.

When a gaming feature is triggered a player may spend three minutes at a poker machine without wagering money. The animated gaming features have slowed down the average machine game cycle and given players more entertainment value for their playing dollar.

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<sup>5</sup> Victorian Casino and Gaming Authority,  
*Summary Of Findings 1996-97 Research Program*, Dec 97, s. 1.6.1

<b>STATE GOVERNMENT: POACHER AS GAMEKEEPER?</b>
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State and territory governments are by far the largest stakeholders in Australia's gaming industry. The NSW Government's proceeds from various forms of gambling in 1998, for example, will exceed \$1.4 billion<sup>6</sup>, with \$700 million drawn from clubs, hotels and the casino. [The \$1.4 billion excludes the proceeds of over \$1 billion from the sale of the TAB]. The aggregate proceeds from gaming taxes by all states and territories are \$3.5 billion. This \$3.5 billion excludes non-gambling taxes and charges applied to the gambling industries by Federal, State and local governments.

Telstra Corporation achieved a market capitalisation of over \$42 billion on profits of \$2 billion, following the recent public float. At current market rates the gaming industry, which delivers a return of \$1.4 billion to the NSW Government, is an asset worth \$30 billion to the State.

Governments' stake in the industry is perceived as a factor that compromises the administration of gaming policy. Moreover with a larger share of the proceeds of gaming falling into private hands, with industry groups vigorously lobbying the major political parties in many jurisdictions, and with Ministers of the Crown in some states holding financial interests in hotels, the policy-making process in this area is vulnerable to corruption.

### **A Vexing Political Issue**

Gaming policy has created intractable political problems for the current NSW Government. Government policy since taking office in 1995 has changed tack on three separate occasions. Many sections of the industry are now hostile to the Government.

The Government has changed the tax rates and method of taxation of registered club poker machine revenue no less than four times in two years.

Star City Casino, which has consistently failed to meet prospectus forecasts relating to profits and revenue and with a share price in the doldrums, has lobbied for a cut in the tax on high roller incomes since the temporary casino commenced operations in 1995. This concession was granted in September this year and has prompted Crown Casino to seek even greater concessions.

<sup>6</sup> Government revenue from all forms of gaming was \$1.29 billion in the year ending 30 June 1997, *Gaming Analysis 1996-97*, Mar 98 published by the NSW Dept of Gaming & Racing, pp.5,59,113

### A VEXING POLITICAL ISSUE

Hoteliers in New South Wales, having won significant concessions in 1997, claim that they were not consulted when the Government announced a new gaming package in 1998 involving the auctioning of poker machine licenses. The situation in Victoria is even more Byzantine. In South Australia a member of the Upper House was elected on a platform to remove gaming from hotels.

The proliferation of gaming has coincided with anecdotal evidence of the negative social and economic impacts of problem gambling. Research in this area in New South Wales is limited. In its summary of the Research Program conducted in Victoria, consultants Arthur Andersen noted:

“...adverse social impacts of gaming have been observed. Despite uncertainty about their extent and magnitude, adverse social impacts have been reflected in strong negative community perceptions. However these negative impacts appear to have been exaggerated when compared with actual social impacts.”<sup>7</sup>

Statements made by the NSW Gaming and Racing Minister about fraud in poker machine license fees costing NSW Treasury \$100 million a year, retracted with an apology within 24 hours by the Minister, is an unfortunate example of a regulator undermining public confidence in the industry.

*The nexus between regulation, taxation and competition, played out in the political arena, is undermining public confidence in gaming administration* as a number of Australian jurisdictions, California has a three-ring circus, with native American casinos, non-Indian casinos, an on-line numbers game similar to Keno, State lotteries and “card rooms”.

In Australian states and territories gaming policy has become increasingly politicised as industry groups fight for concessions for their operations and restrictions on their competitors. By definition government will be unable to satisfy the interests of all (or any?) groups. With billions of dollars at stake, the spectre of money politics and corruption will inevitably surface.

<sup>7</sup> Victorian Casino and Gaming Authority,  
*Summary Of Findings 1996-97 Research Program*, Dec 97, p. 6

## COMMUNITY GAMING

Community gaming refers to the operation of gaming by community owned organisations – generally by clubs trading as companies under limited guarantee or as co-operatives. For many years community gaming was unique to New South Wales. In 1976 community gaming was introduced to the Australian Capital Territory. Over last ten years the community gaming model has been adopted and modified by Victoria, Queensland, South Australia, Tasmania and the Northern Territory.

Clubs in New South Wales only lost the exclusive privilege to operate gaming machines in recent years.

Some of the key elements of community gaming are:

- clubs are non-profit organisations
- regulators place some restrictions on the access to club facilities (and therefore gaming) by non-members
- clubs re-invest profits either in facilities used by members or in community support – prescribed minimum community expenditure by clubs is defined by regulations in many jurisdictions
- the benefits conferred on members are subject to rules ensuring equity (for example, s 10.1 I of the NSW Registered Clubs Act)

*In every State Emergency Services Evacuation Plan in NSW registered clubs play a prominent role. In the recent Wollongong flood crisis, clubs in the Illawarra and southern Sydney provided shelter to thousands of evacuated residents and stranded commuters.*

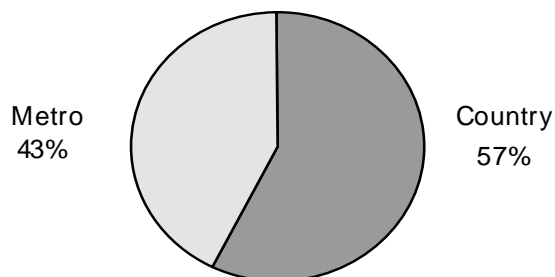
and community groups as well as support to external organisations. In many municipalities clubs relieve the financial pressures on councils to provide social, sporting and cultural infrastructure. This contribution is particularly valuable in provincial towns, regional centres and the rapidly growing urban fringes of sprawling Australian cities.



<b>COMMUNITY GAMING AND REGIONAL AUSTRALIA</b>
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Of the 1,500 registered clubs in New South Wales, 860 or 57% are located in rural areas. Registered clubs often play a very significant role in rural communities because there are fewer recreational services available.

**Location of NSW Registered Clubs**



While banks and government agencies are withdrawing from rural areas many clubs are extending the services they provide to the community. Drawing from case studies prepared for this submission by Association members, some interesting facts emerge:

- The Mathoura Bowling Club operates the only EFTPOS terminal in the town of Mathoura, NSW (pop. 800)
- Deniliquin RSL Club has constructed the only children's playground in the municipality (pop. 8,000) that complies with Australian design standards, at a cost of \$60,000
- The Euston Club and the Balranald Ex-Servicemen's Club, in far western New South Wales, sponsor the development and release of thousands of native fish each year into the Murrumbidgee and Murray Rivers, in consultation with environmental authorities
- Barham and District Memorial Services Club provides a large passive recreational area for residents of the district (pop. 5,000) and tourists, at a cost of \$80,000 a year
- In the first joint-venture of its kind the Mingara Club and Wyong Council funded the construction of a \$12 million swimming centre on the Central Coast of NSW

Many clubs are the largest business operation and employer in rural communities. Clubs provide a mix of full-time, part-time and casual employment to many regional areas that are experiencing higher than average levels of unemployment, as well as in areas of low unemployment.

**COMMUNITY GAMING AND LOCAL RETAILERS**

As entities owned and operated by members, mostly drawn from the local community, many clubs are committed to purchasing goods and services from local businesses and service providers when local providers are able to provide a product of the required quality at a competitive price. This ranges from the local accounting firm that conducts the annual audit, to the hardware store that provides repairs and maintenance supplies and the motels that accommodate entertainers on the club circuit.

The commitment extends to the use of local builders and tradesmen in the extension and refurbishment of club premises.

The use of local suppliers is not pursued because of provincial loyalties or political factors alone (though these factors play a role). Primarily clubs use local suppliers because it is good business practice. Keeping money within the district is also good business practice.

This is in contrast to other medium-to-large businesses in regional centres, like franchised fast food outlets and supermarket chains that obtain most and sometimes all of the goods they sell from outside the suburb, town or district.

Clubs have co-existed with and contributed to small local businesses in New South Wales for many years. Clubs often host meetings and conferences of local chambers of commerce and other business groups at a reasonable cost or no charge. Clubs also play an active role in local tourism bodies and meet a significant share of their funding needs.

As a representative from the Deniliquin Chamber of Commerce pointed out:

“...the shopkeepers in town have co-existed and prospered with three clubs for years, but since Coles and MacDonalDs set up shop we have all being doing it tough and the centre of town is very quiet.”

From a broader perspective a 24-hour Coles supermarket and a MacDonalDs have provided many benefits to consumers in Deniliquin. These benefits may have come at the expense of local retailers, shopkeepers in neighbouring towns and villages, as well as the catering operations at the clubs in the town. Is there any suggestion that the activities of national supermarket chains and fast food franchises be reviewed or curtailed because they use market power in a way that creates some microeconomic losers?

## COMMUNITY GAMING AND TOURISM

Clubs play an important role in the tourist infrastructure of many coastal towns and regional centres.

Historically the involvement of clubs in tourism was incidental to the relationship between fraternal clubs. For example, bowling clubs attracted groups of members from other bowling clubs to participate in tournaments. Touring football teams made the local leagues club their ‘home base’ when playing in Cessnock, Corrimal or Bathurst.

Over the last twenty years clubs themselves have evolved into major tourist attractions, particularly for older Australians, who travel within Australia, often on a limited budget.

Clubs provide a comfortable and safe environment with facilities and social activities at an affordable price.

Many clubs members and on a fixed i without breaking the budget or going into debt. You do not have to be a gambler to enjoy the many benefits of club membership n for derly liday

Clubs often work with local motels and bus companies to produce packages that incorporate club facilities, travel, accommodation and trips to museums, parks, wineries and so on.

Many visitors become members of a club in a town they visit frequently. Occasionally members from outside the district outnumber the locals.

Clubs have often been prepared to invest in their local communities, across New South Wales, when developers have been reticent or not interested. This has included the construction of motels and hotels on the urban fringes of the major cities, as well as in towns and regional centres, like Young and Dubbo. While not obvious tourist destinations, accommodation complexes in Penrith and Rooty Hill, in Sydney, and New Lambton in Newcastle, have successfully developed and created markets and contributed to regional development.

## COMMUNITY GAMING AND MUTUALITY

A JOINT SUBMISSION TO THE INQUIRY INTO AUSTRALIA'S GAMBLING INDUSTRIES  
CONDUCTED BY THE PRODUCTIVITY COMMISSION PREPARED ON BEHALF OF THE  
CLUB MANAGERS ASSOCIATION AUSTRALIA AND THE LEAGUES CLUB ASSOCIATION OF NSW  
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*“The Government is on record acknowledging the important role clubs perform in their local communities and has no intention of changing the*

Under the common law principle of mutuality income derived from one's self is not deemed to be assessable under the Income Tax Assessment Act. The principle is applied to organisations where members pool their funds to create benefits for all members. Mutuality is applied because the source of member's funds is their after-tax income.

The income clubs derive from members is covered by the principle of mutuality. Where clubs derive income from non-members or activities not associated with members' income (for example, interest on club investments) that income is assessable. In recent years the assessable income of clubs has been extended to other income deemed to be *third party related*, include the commissions paid by ClubKeno and the income disbursed by gaming operators in Victoria (Tabcorp and Tattersalls) to registered clubs.

The principal of mutuality applying to the gaming revenue of clubs has been challenged in recent court cases. In each case the court has found that the principle of mutuality is soundly based in the common law.

The principal of mutuality was considered in the 1996 inquiry by the Industry Commission into Tourism, Accommodation and Training. The Commission concluded that<sup>8</sup>:

- The principle of mutuality is soundly based
- There is no evidence that mutuality conferred an unfair competitive advantage on clubs

The Club Managers Association Australia and the Leagues Club Association of New South Wales endorse the findings of the Industry Commission.

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<sup>8</sup> Report of the Industry Commission's Inquiry into Tourism Accommodation and Training 1996, pp. 176, 180

**COMMUNICATE THE BENEFITS OF GAMING**

Community perceptions about gaming are being driven by various interest groups, churches, the media, the Government and competing interests within the industry. This has tended to increase awareness of the social costs of gaming, the financial windfall to private (mainly hotel) gaming interests, incidents of notoriety at Star City Casino and problems in the administration of gaming policy.

Public concern and discussion about these issues is welcome, however in lieu of the positive benefits of gaming being communicated, the public discourse on gaming has not been balanced.

Registered clubs directly employ 65,000 people in New South Wales alone. Clubs also generate employment among suppliers and ancillary service providers (entertainers, for example). The racing industry, the casinos, hotels, state lottery offices and TAB's also provides employment for thousands of individuals. In addition many small businesses, newsagents for example, derive income from commissions on the sale of gaming products.

Unlike other industries, the hospitality gaming industry generates employment throughout the nation, in provincial centres, coastal towns and the bush.

Community confidence in gaming administration will be maintained if regulators quantify and communicate not only the negative socio-economic effects of gaming but also the positive impact of gaming. The link between gaming taxes and welfare programmes may be more transparently articulated.

In some jurisdictions in the United States all proceeds from gaming taxes and licenses are tied to specific community and welfare programmes. In Victoria welfare funds are distributed through the CSF (Community Support Fund).

In New South Wales the link between gaming taxes and expenditure on hospitals and schools is only used to justify increases in gaming taxes.

The Productivity Commission *Issues Paper* list as one of the apparent objectives of gambling regulation the maintenance and protection of a significant revenue base for government. This revenue base will be eroded if community support for gaming is eroded because the people are aware only of the costs of gaming and not the benefits.

<b>COMMUNICATE THE BENEFITS OF GAMING</b>
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The Web Site of the New Jersey Casino Control Commission, for example, states:

“.. tax on gross revenues of Atlantic City casinos is dedicated to funding programmes that benefit senior citizens and the disabled... More than 200,000 New Jersey citizens rely heavily on these revenues..”<sup>9</sup>

In Section 1 of Nevada’s State public policy concerning gaming the legislature finds and declares:

“The gaming industry is vitally important to the economy of the state and the welfare of the inhabitants.”<sup>10</sup>

Cl Ar	<p><i>“..however strongly held, community perceptions and opinions about public issues like gaming are often not based on detailed factual knowledge...82 per cent of respondents were completely unaware of the Government’s use of gambling revenues for community projects”</i><sup>11</sup></p>	nts
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The *net* economic benefit in Victoria was the aggregate of local or microeconomic *winner*s and *loser*s on a local level. However among many individuals the perceived negative social impacts of gaming are undermining support for gaming policies. Often these perceptions are based on misconceptions. The Victorian Research Program, for example, has found that a majority of individuals surveyed believed that increased gaming had resulted in an increase in crime, the perceived increase in crime was not matched by an increase in actual crime statistics.<sup>13</sup>

In New South Wales the arrival of gaming in other jurisdictions created many microeconomic *loser*s in border towns where clubs were closed and jobs were lost. In an environment where the industry is fragmented into different segments (clubs, hotels, racing, casinos, Government, TAB), industry groups focus more attention competing for concessions and protecting their own interests than advocating the benefits of the industry as a whole.

<sup>9</sup> [www.state.nj.us/casinos/crf-97.html](http://www.state.nj.us/casinos/crf-97.html) *Casino Revenue Fund*, p. 1

<sup>10</sup> [www.state.nv.us/gaming/commission.htm](http://www.state.nv.us/gaming/commission.htm) (NRS 463.0129), s. 1

<sup>11</sup> Victorian Casino and Gaming Authority, *Summary Of Findings 1996-97*

*Research Program*, Dec 97, s. 1.3 <sup>12</sup> *Ibid.*, s.1.6.2 and s.9.1.6 <sup>13</sup> *Ibid.*, s.9.1.5

**CREATE STABILITY FOR VENUE OPERATORS AND CONTROL THE PROLIFERATION OF GAMING**

Many clubs develop five-year strategic plans to develop and maintain quality amenities for club members. Since the beginning of 1997 major policy changes effecting New South Wales clubs have included:

1 <sup>st</sup> March 1997	Introduction of 4 tier tax system. Highest marginal rate increased from 22.5% to 24.75%
1 <sup>st</sup> April 1997	hotels given right to operate “club-style” poker machines, 200% increase in the maximum number of gaming machines hotels allowed to operate to 10 to 30
1 <sup>st</sup> December 1997	Clubs now assessed on metered profit basis
1 <sup>st</sup> February 1998	Increase in poker machine tax, with the top marginal rate increasing from 24.75% to 30%
20 <sup>th</sup> February 1998	Machine gaming enhancements announced for hotels
1 <sup>st</sup> June 1998	New tax schedule for registered clubs. Top marginal rate decreased from 30% to 26.25%, with 1.5% community levy, backdated to February quarter

It is difficult for registered clubs to develop 5-year strategic plans when there have been 6 major policy changes in less than two.

The Club Managers Association and the Leagues Club Association believe that placing caps or a moratorium on the number of poker machines operated by clubs in New South Wales will not have any impact on problem gambling. There are a number of definitions for ‘problem gambling’ provided in studies in Australia and overseas. Some define problem gambling as an addiction, others as a mental disorder or form of excessive behaviour. Problem gambling can occur at a venue operating 1,000 gaming machines or at a venue operating 5 gaming machines.

There is no statistical evidence that the incidence of problem gambling is higher in NSW than in other States, despite varying numbers of gaming machines per capita. Calls by other groups for the capping of poker machines in clubs is often motivated by their commercial interests or religious beliefs and not based on proven research.

**CREATE STABILITY FOR VENUE OPERATORS AND CONTROL THE PROLIFERATION OF GAMING**

*Over the next 2 years the aggregate number of machines operated by registered clubs in NSW will decline as a result of natural attrition due to compliance with the x-series generation machine regulations*

Of the 66,000 poker machines currently operated by registered clubs, 40,000 (or 60.6%) are x-series. To retain existing machine number clubs will need to invest \$351 million in just over 2 years (assuming the average cost of an x-series machine is \$13,500). This will not occur and aggregate installation numbers will fall.

- there will also be a natural attrition of machine numbers following the introduction of the Centralised Monitoring System that will charge clubs a fee for each machine operated in the venue, particularly in the first twelve months of the system operating

Clubs are operating in a more competitive environment. Intense competition resulted in a fall in the number of clubs in border regions following the introduction of the Centralised Monitoring System and South Australia. Between 1994 and 1999, the number of clubs fell by 50% in the regions most effected by interstate competition.

<sup>14</sup> *Consideration of machine caps and moratoriums must be deferred until after the x-series compliance requirement and the installation of the Central Monitoring System reduces aggregate club poker machine numbers through natural attrition*

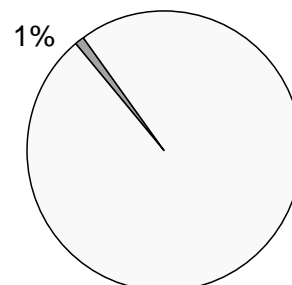


## PROBLEM GAMBLING

In 1986 Registered Clubs in New South Wales generated \$1,000 million gaming revenue. Net gaming revenue in NSW in 1998 will exceed \$3,000 million. The other jurisdictions have been even more deregulated and clubs and hotels have been installing electronic gaming machines.

Gaming policy has increasing social and economic implications. A large portion of disposable household income is spent on gaming. The Club Managers Association recognises that research on problem gambling in New South Wales is very limited. The Club Managers Association made a commitment to members to examine the issue of responsible gaming in New South Wales registered clubs and produced a comprehensive report in October 1997<sup>15</sup>. Related research overseas has not employed a rigorous qualitative and quantitative methodology, often relies on anecdotal evidence and often relates specifically to the establishment of casinos. Victoria is the only state in Australia to have developed a comprehensive Research Program. The research in Victoria<sup>16</sup> estimates that:

**Problem Gamblers as a % of the Adult Population**



- problem gamblers equate to 1% of the population
- only 3% of problem gamblers will seek help
- individuals from non-English speaking backgrounds are at a greater risk of experiencing gambling problems

The research in Victoria also concluded that:

- in general the introduction of EGM's (electronic gaming machines) had caused very little increase in crime
- the negative perceptions of gaming also related to the broader concerns of church leaders that the population had abandoned connections with the church and spirituality

<sup>15</sup> Club Managers Association, *Towards Responsible Provision of Gaming in New South Wales Registered Clubs*, Oct 97, prepared by Nerilee Hing, School of Tourism and Hospitality Management, Southern Cross University

<sup>16</sup> *ibid.*, Victorian Casino and Gaming Authority, s. 8.1.6, s.8.4.2, s.8.3.2

## DEVELOP A NATIONAL RESPONSE TO THE THREAT OF INTERNET GAMING

One of the first newspaper articles on Internet Gaming appeared in the Financial Review over three years ago:

“The growth of gambling over the Internet could seriously damage the income of Australia’s billion-dollar gaming industry and cut into government revenue, an information technology expert said yesterday. Richard Manasseh, whose company, Visionads, provides advice to the club and gaming industry, said that although in its formative stages, gambling on the Internet did exist.”<sup>17</sup>

The NSW Minister for Gaming & Racing dismissed the possibility of any form of Internet gaming the following day and assured the public that regulatory authorities in NSW had the power to stop any threat to the industry.<sup>18</sup>

Currently there are over 160 on-line casinos operating on the ‘Net and the US Senate Judiciary Subcommittee on Technology, Terrorism and Government Information, estimates that over \$US 1 billion will be gambled on the Internet in 1998.<sup>19</sup>

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*The recent hacking into the web site of the Liberal Party of Australia and raids against an international Internet paedophile ring have highlighted the security risks associated with the technology and the ability of authorities to monitor and curtail undesirable activities on the ‘Net*

The reality has been quite different.

The Internet has given millions of teenagers access to drug recipes, bomb kits and sites promoting racial hatred. The only sites to turn a profit on the Internet, in the main, are those selling pornography.

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<sup>17</sup> Australian Financial Review, 25 Aug 95, p.3

<sup>18</sup> AAP, 26 Aug 95

<sup>19</sup> John Kyl, US Senator for Arizona, Chairman of the Senate Judiciary Subcommittee on Tachnology, Terrorism, and Government Information *News Release* 23 July 1998

## **DEVELOP A NATIONAL RESPONSE TO THE THREAT OF INTERNET GAMING**

The Internet hype merchants hold mutually exclusive views. When legislators threaten to regulate activities on the 'Net, the hype merchants accuse the Government of displaying autocratic tendencies and undermining free speech. However, when an Internet-based paedophile ring is busted or a public personality like Gary Glitter is imprisoned for storing child sex photos obtained on the Internet on the hard disk of his computer, they remain silent.

There are strong criminal sanctions against individuals obtaining and transmitting child pornography through any medium, including the Internet. Paedophiles in various countries have been imprisoned for activities facilitated by the Internet.

Obviously, in some circumstances, there are justifiable reasons to curtail free speech.

The technological advances in Internet technology are extraordinary.

In a matter of seconds a search engine can locate information from anywhere in the world and download text, images, sounds and java applications into the Random Access Memory of a computer. Internet advocates are confident that tight security protocols enable users to conduct large financial transactions with banks and other institutions. ISP's hosting web sites can track the number of hits and provide customers with other data on surfers who have visited the site.

All of these technological miracles have one thing in common: they will enhance the use and commercial applications of the Internet.

However when there is any suggestion that activities on the Internet may be restricted, Internet advocates suddenly have no confidence in technological solutions.

The US Congress has recognised the dangers of Internet gaming with the Internet Gambling Prohibition Act of 1998. More legislation is planned.

*“Internet gambling exacerbates the problems associated with gambling and poses a particular threat to children”*

*US Senator John Kyl, 23 July 1998*

**DEVELOP A NATIONAL RESPONSE TO THE THREAT OF INTERNET GAMING**

The Club Managers Association and the Leagues Club Association support similar legislation in Australia, because:

- Internet gaming constitutes a very serious threat to the future growth and viability of the gaming industry
- Internet gaming, with low start-up and operating costs, produces few jobs and no social amenities for the community
- Restrictive legislation with severe criminal sanctions will deter potential on-line gamblers and operators
- Other legislation, for example changes to banking legislation to ensure that gaming debts on the Internet are not enforced, can also be used as a deterrent
- Technology, like sophisticated firewalls, can be developed to assist law enforcement
- Tax revenue will be lost to overseas jurisdictions and operators
- Government can not ensure the integrity of off-shore operators, nor guarantee that they are not run by criminals or used to assist in criminal activities
- There is no guarantee that Government sanctioned on-line gaming will not be accessed by children
- Home gambling does not provide a 'cooling off' period from gaming activities
- Harm minimisation strategies, to be applied to all gaming operations, will not be promoted by off-shore operators
- Most adults use the Internet while at work<sup>20</sup>

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*Any future promotion, acceptance or legislative ambivalence to Internet gaming by state and territory governments is completely incompatible with the promotion of responsible gambling strategies envisaged by the terms of reference of this Inquiry and will send a very ambiguous and potentially destructive message to the industry and the community*

**DEVELOP A NATIONAL RESPONSE TO THE THREAT OF INTERNET GAMING**

The Internet Gambling Prohibition Act was passed by a vote of 90-10 in the United State Senate in July 1998. The Bill's sponsor, Senator John Kyl from Arizona, later commented that Internet gambling is:

"... accessible by minors, addictive, subject to abuse for fraudulent purposes like money laundering..."<sup>21</sup>

The Bill was supported by a very broad coalition in the United States "from the Christian Coalition to Ralph Nader's Public Citizen, from the FBI's Louis Freeh to the Attorneys General of all fifty states."<sup>22</sup>

The Federal Government in the United States already prohibited interstate gambling by phone or wire under the 1961 Wire Act. The Kyl Bill updates the Wire Act to include new forms of the electronic transmission of bets.

*The development and operations of the Internet have been subsidised by the United States government for many years.  
The US Congress has now prohibited gaming on the Internet.  
If the US Congress can prohibit Internet gaming why can't regulators in Australia act responsibly?*

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<sup>21</sup> Ibid.

<sup>22</sup> Ibid.

*Clubs are owned and operated by the community.  
Clubs are obliged to re-invest all profits in amenities enjoyed by members  
and in the promotion of community and welfare activities.*

*The proceeds of private gaming, including the profits from the casino,  
hotels and the privatised TAB accrue to private investors and private  
interests.*