



AUSTRALIAN GAMING MACHINE MANUFACTURERS ASSOCIATION

Observations Paper

Submitted to

Productivity Commission Inquiry into

AUSTRALIA'S GAMBLING INDUSTRIES

November, 1998

Introduction

The Australian Gaming Machine Manufacturers' Association (AGMMA) is a non-profit organisation whose membership is:

Aristocrat Leisure Industries Ltd
I.G.T. (Australia) Pty Limited
Konami Australia Pty Ltd
Milwell Pty Ltd
Pacific Gaming Pty Ltd
Precise Craft Pty Ltd (Trading as Vidco)
Video Lottery Consultants Inc

All members hold licences or approvals to manufacture and supply gaming machines throughout the various Australian jurisdictions.

In total, the members supply over 98% of all gaming machines to licensed venues in Australia. Additionally, they supply the majority of gaming machine monitoring systems used in the Country.

This paper comprises a number of observations specific to gaming machines rather than a listed set of responses to the terms of reference. They are posited in the hope that they may be of use to the wider task for which the Commission has carriage. In many respects the terms of reference require responses from the disciplines of psychology, sociology and economics. The Association claims no expertise or wisdom in these, and happily defers to those who do.

GAMING MACHINES

Tax and Retention Differences

There are seven States/Territories that allow geographically dispersed gaming machine operations. There are as many regulatory agencies each with their own peculiar approach to taxation, licensing, control mechanisms, disclosure, special purpose hypothecations, venue access limitations, technology planning, consumer focus, and inter-jurisdictional coordination.

New South Wales excepted, the growth in the gaming machine business is a fairly recent phenomenon. Jurisdictions have generally legalised machine gaming for budgetary reasons. In the process, they have established significantly different taxation approaches.

Maximum Government Benefits

Table 1

	NSW	Qld	Vic	Tas	ACT	SA	NT
Maximum Tax Clubs	26.25%	45%	33.33%	35%	23.5%	45%	47%
Maximum Tax Hotels	40%	45%	41.67%	35%	35%	45%	47%
Maximum No Machines - Clubs	No limit	260	105	No limit	No limit	40	No limit
Maximum No Machines - Hotels	30	25	105	No limit	variable	40	6

The table is a snapshot taken from the viewpoint of government budget impact. If one looks at the same type of table, but from a venue viewpoint, significant differences emerge (see table 3). For example, NSW clubs get to retain 73.75% of gaming machine profits; Victorian clubs retain 33.3% of venue generated profits, a difference of some 40%. The two main differences accounting for the disparity are that in NSW there is no 'middle man' operator licensee (Tattersalls and TABCorp), and the clubs must own their own gaming machines (prohibited in Victoria). A similar situation exists in Tasmania.

In simple commercial terms, the NSW clubs are far stronger financially than their southern counterparts simply because of this difference. Whether one approach is better than another in the overall scheme of things is peripheral to the economics of the models.

The ability to deliver facilities to local club geographics is far more in the hands of clubs in NSW than is the case elsewhere. What might be termed the ‘opulence gap’ between NSW clubs and clubs in other states is unlikely to close under such differing arrangements. Importantly, the delivery of venue-localised services by clubs is far more vigorous in NSW than elsewhere simply because of the financial resources available from gaming machine profits.

The same pattern exists with regard to minimum tax rates. In NSW, for example, 25% of clubs pay no tax whatever on gaming machine profits.

Minimum Government Benefits

Table 2

	NSW	Qld	Vic	Tas	ACT	SA	NT
Minimum Tax Clubs	0.00%	10%	33.33%	25%	1.0%	35%	47%
Minimum Tax Hotels	15%	10%	41.67%	25%	35%	35%	47%

Venue Retentions: Maxima and Minima - Two examples

Table 3

	CLUBS			HOTELS		
Annual Venue Profit	\$ 500,000					
	NSW	Victoria	Queensland	NSW	Victoria	Queensland
Govt. Levy	61,000	166,667	146,263	132,500	166,667	146,263
Community Levy	-	-	13,587	-	41,666	13,587
Operator Levy	-	166,667	-	-	166,667	-
Disposable for Venue	<u>439,000</u>	<u>166,666</u>	<u>340,150</u>	<u>367,500</u>	<u>125,000</u>	<u>340,150</u>
Venue Retention Per cent	<u>87.8%</u>	<u>33.3%</u>	<u>68.0%</u>	<u>73.5%</u>	<u>25.0%</u>	<u>68.0%</u>
	CLUBS			HOTELS		
Annual Venue Profit	\$ 4,500,000					
	NSW	Victoria	Queensland	NSW	Victoria	Queensland
Govt. Levy	1,027,250	1,500,000	1,711,553	1,707,500	1,500,000	1,711,553
Community Levy	52,500	-	158,997	-	374,850	158,997
Operator Levy	-	1,500,000	-	-	1,500,000	-
Disposable for Venue	<u>3,420,250</u>	<u>1,500,000</u>	<u>2,629,450</u>	<u>2,792,500</u>	<u>1,125,150</u>	<u>2,629,450</u>
Venue Retention Per cent	<u>76.0%</u>	<u>33.3%</u>	<u>58.4%</u>	<u>62.1%</u>	<u>25.0%</u>	<u>58.4%</u>

Hypothecation

The earmarking of gambling taxation receipts is very limited. The bulk of such revenues are received into consolidated revenues and used according to government policy funding plans.

This has not always been the case. When gaming machines were first legalised in NSW in 1956, the totality of tax collections were directed to funding homes for the aged with the balance, if any, going to hospitals. This did not last – possibly because nobody anticipated the spectacular growth in machine numbers (and tax revenues) that would follow the legalisations. The following table summarises the special purpose earmarking of governments' tax receipts that currently obtains. It ought to be noted that the NSW figure applies only to the larger clubs (30% of the total), and that the direction of funds to recipients is in the hands of the donor clubs, not the government.

Table 4

Profit Hypothecation Percentages		
	CLUBS	HOTELS
N S W	0 - 1.5 %	Nil
V ictoria	Nil	8.30 %
Q ueensland	0.8 % - 3.8 %	0.8 % - 3.8 %
A C T	Nil	Nil
T asmania	2 %	4 %
S th Australia	Nil	Nil
N . Territory	2.5 %	2.5 %

Funds generated in this fashion are directed to charities, sporting organisations, research endeavours, problem gambling services, and in some cases special emergency purposes.

Significantly, there is no special purpose funding by any jurisdiction for its own regulatory functions. This is a perennial issue. The 1978 Royal Commission on Gambling in the United Kingdom was asked by the regulatory authority to recommend independent and guaranteed funding for its work. The Commissioners were not persuaded. The 1983 Wilcox Inquiry in Victoria observed the need for a 'user pays' funding framework for regulatory tasks if poker machines were ever legalised in that State – also not taken up. In the last two financial years in NSW, funding for the regulatory body decreased by some 16%. This very noticeably undermined the authority's ability to carry out some of its functions in a timely manner. Additionally, it made it impossible to hold staff levels at 'critical mass' in some areas.

Doubtless, the hypothecation debate will continue to wax and wane. At present it waxes to the plight of those 'wounded' by the ready access to gambling that now exists. Problem gambling issues and harm minimisation strategies have the attention of industry participants and governments. The British Royal Commission mentioned above came to the conclusion that for problem gambling "...there is a serious shortage of reliable and accessible information." There have been some consistent voices in the wilderness in this Country trying to have the very same shortage addressed. To date, there has been little funding from governments or industry directed to researching the social impacts of various gambling expansions.

There appears to have been very little national coordination of research endeavours or strategies in this field.

Technology

In recent years there has been a serious attempt by Australian and New Zealand regulatory agencies to develop “National Standards” for gaming machines. This has been mainly technology centered and much useful progress has been made. Unfortunately, NSW does not subscribe to the ‘standard’ having opted some years ago to impose its own singular approach. In this respect, it stands entirely apart from all other jurisdictions.

The result has been that NSW has become isolated from the mainstream of the national approach and the costs of development and maintenance of technology requirements is significantly higher than it might otherwise be. The sheer size of the NSW gaming machine market exacerbates those ‘lost costs’, which in the nature of commerce are recovered nationally rather than jurisdictionally.

AGMMA supports the continued development of national standards as being squarely in the interests of its manufacturer members. The aims of such standards are to eliminate as far as is legally possible technology differences between States and Territories such that equipment that can be licensed in one part of the country can be licensed in any other.

Apart from the development costs issues, there are plain advantages to regulatory regimes embracing shared standards for gaming equipment design and function.

The results and recommendations of the IPART Inquiry into the NSW gaming industry may result in changes in this area, but at the time of writing this is unknown. Additionally, the licensing of TAB Limited to implement a statewide computer monitoring system for all gaming machines will provide an opportunity to break away from the isolationist technology rules currently being followed. Whether this chance will be grasped is not clear at present.

The Odds

The Issues paper released by the Commission makes two passing references to gambling odds in the context of their availability to or clarity for gamblers. The subject has recently been raised by the Victorian Auditor General's report into the activities of the Victorian Casino and Gaming Authority. The report observed that from the perspective of fairness, players ought to be given more information about 'winning chances'.

Such information can be made readily available in fine detail. For gaming machines, all jurisdictions have minimum player return requirements (some even have a maximum). In practice, clubs, hotels and casinos operate machines well in excess of the statutory minima. In Victoria, for example, electronic gaming machines must be 'set' to return at least 87% of all moneys staked by way of prizes. In practice, the average 'setting' is 90%.

Whether publishing this ratio on each machine will increase player wisdom, or in any way modify behaviour is doubted. Asserting that this sort of disclosure goes to player fairness in some way is an unusual major. If the returns from all Victorian gambling products are examined, we find the following:

Table 5

Victoria 1997				
Product	Turnover	Prizes	Retained	Player Return Percentage
	\$ m	\$ m	\$ m	
Lottery	12.277	7.366	4.911	60.00%
Tattslotto, Lotto	643.911	386.347	257.564	60.00%
Pools	2.658	1.329	1.329	50.00%
Instant	60.443	36.266	24.177	60.00%
Keno	29.704	22.545	7.159	75.90%
TAB	2,292.682	1,925.853	366.829	84.00%
On-course Tote	223.353	187.617	35.736	84.00%
Bookmakers	366.349	344.066	22.283	93.92%
Bingo/Minor gaming	19.848	17.863	1.985	90.00%
Casino	6,534.036	5,955.070	578.966	91.14%
Gaming Machines	15,893.958	14,438.161	1,455.797	90.84%
TOTALS	26,079.219	23,322.483	2,756.736	89.43%

Source: Tasmanian Gaming Commission

As can be seen, player returns range upward from a low of 50%. It has been even lower. From 1975 to 1985, Soccer Pools in Victoria and NSW returned a relatively paltry 37 per cent to players. It can only be assumed that this was considered fair and reasonable by governments, regulators, and product providers.

However interesting the measure may be, it is not seen as a useful start point for establishing useful criteria for fairness.

For gaming machines, the player return ‘setting’ is of very little pragmatic value to individual players. There is, of course, no obvious reason why players should be denied ready access to the knowledge, but there are a number of things worth noting:

1. Except by some colossal fluke, no single player will experience the average during a play session.
2. Statistically, half the playing population will get less, and half will do better than the average.
3. It takes millions of games for a machine to closely tend to its ‘setting’.

Two examples may help to illustrate the imprecision involved here. The games “Lion Dance” and “Double Pay” have been approved for use in New South Wales. Respectively, their player return ‘settings’ are 90.63% and 89.39%. Applying the rules of statistical expectation to both for a play sample of 2,000 games each, players will experience returns, which will range as follows:

Lion Dance:	39% to 142%
Double Pay:	55% to 124%

For an individual player, the return ratio is a very imprecise measure.

For either game to tend within plus or minus 1% of the expected average would require a sample of about 5 million games. For a single player to have any guarantee of experiencing this would require that the game be played non-stop for 12 hours per day for two and a half years. Additionally, the hapless player would have to be prepared to lose \$50,000 for the privilege of the experience.

The Victorian Auditor General has gone further than focusing on the overall average and suggested that the odds of achieving each advertised prize ought to be displayed or made readily available as a matter of fairness. These can also be made available. In fact, to our common knowledge, there has never been any attempt to keep such matters secret. What is elusive is trying to find some practical use for the information.

Player fairness is an important issue. It is not a newly discovered one, and there is no novelty in a custodial role being played by regulators. What is startling is that a government agency would try to introduce criteria that are imprecise and poor measures for the purpose. To use a generic average for the derivation of a principle for fairness does nothing for consumer protection, it does not define ‘fairness’, and importantly, is highly likely to confuse or create false expectations among those who we seek to inform.

When gaming machines were first introduced into the ACT, it was required that the player return be advertised on the front of the machines. For the first six months there was a landslide of complaints from individual players that they didn't get the advertised rate. Within twelve months the complaints had virtually ceased – presumably because the players stopped believing or stopped caring. In any event, it made no difference to the play rates – they mirrored results obtained on identical NSW machines with no such signage.



CODE OF ETHICS

The Australian Gaming Machine Manufacturers' Association aims to maintain the highest professional, technical and operational standards amongst its members.

All members pledge to abide by the following code of ethics and practices:

- to truthfully deal with all customers and properly represent products and services;
- to ensure at all times products are designed and manufactured to the highest possible technical and performance standards;
- to not misrepresent competitors or competitive products in any way;
- to respond swiftly and honestly to any product faults or operational problems, at all times keeping customers apprised of the facts;
- to commit to continuing development of products and services aimed at providing growth and benefit to the Australian gaming industry
- to comply with the spirit and intent of all applicable laws and regulations; and
- to deal honestly and openly with relevant regulatory agencies.

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