

# **Australian Hotels Association**



**Submission for the Productivity Commission  
Inquiry into Gambling**

**11 December 1998**

## **EXECUTIVE SUMMARY**

Traditionally, hotels have provided the community with social meeting places, entertainment facilities and hospitality services. Hotels have been the central focal point for community events throughout Australia's history.

Hotels throughout Australia offer a range of services to customers including food, beverage, gaming and other recreational betting facilities, live entertainment and a safe and well supervised area for social interaction.

The AHA does not perceive the gambling industry to be a threat to other industries and submits that it has contributed to substantial employment and has been a major contributor to the development of community facilities and events.

Of major concern is the taxation exemption currently extended to clubs through the mutuality principle and the detrimental effect this has on direct hospitality competitors and other associated industries. The State Gaming Tax differentials that exist between clubs and hotels are also of major concern.

Socially, the AHA submits that the overwhelming majority of people utilise gambling services as a form of entertainment. We do not consider problem gambling to be a major issue for the majority of the community.

The hotel industry has been at the forefront of responsible gaming practices and proactive in the development of patron care initiatives. The AHA has played an essential role in the development and successful implementation of such initiatives.

Additionally, the AHA believes that developments in technology must be carefully monitored and Governments must be prepared to act quickly to the Internet and any other form of technological advancement that threatens regulatory and taxation control.

This submission specifically addresses the Productivity Commission Inquiry into Gambling and is the view of the National Body of the AHA.

## **BACKGROUND**

The Australian Hotels Association represents the interests of approximately 7500 hotels (including accommodation hotels, pubs, taverns, resorts and casinos) throughout Australia that directly employ approximately 250,000 hospitality workers. A number of hotels who are represented by the AHA provide some form of gambling as a service to their clientele. A significant number of the AHA's membership base rely on the revenue obtained through the provision of these gambling services.

Based on 1994-95 statistics (the most recent statistics available) published by the Australian Bureau of Statistics there are currently 6826 employing businesses currently providing gambling services.<sup>1</sup> 2327 of these businesses providing gambling services are hotels, pubs and taverns (current estimates are now 3300). Additionally, the AHA also has Casino members throughout Australia.

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<sup>1</sup> ABS, Gambling Industries Australia 1994-95, p2

## **THE NATURE AND DEFINITION OF GAMBLING**

The Oxford dictionary defines gambling as the 'playing of games of chance for money stake'. The AHA accepts this definition and submits that any business conduct that falls within this definition should be addressed by the scope of the inquiry.

The AHA believes that for a full inquiry into the gambling industry, it is necessary to address all forms of gambling including, gaming machines and other forms of electronic gambling, the racing industry, lotteries, and the rapidly developing Internet medium. The AHA does not think it necessary to address the Stock Exchange but the inquiry should recognize that by definition, the stock exchange is a form of gambling in which large amounts of money are exchanged.

Of major significance is the emergence of gambling through the Internet. Regulation of this industry is a major concern to the AHA as it does not only compete directly with our membership but currently competes without the strict controls and monitoring systems and, potentially, taxation obligations that have been developed for the traditional providers of gambling services. The AHA submits that internet gambling should be included in the inquiry. In particular, further research should be conducted on this emerging field.

The AHA recognises that a small percentage of problem gamblers do exist and they frequent all types of gambling venue. Therefore it is important for the inquiry to include all hotels, clubs, newsagents, TAB's, lottery agencies, casinos, sports betting providers and other gambling institutions in the scope of its inquiry.

Relatively recent additions to the available gambling services to the public include the availability of home gambling through Pay TV and the emergence and increasing popularity of the Internet.

## **THE INSTITUTIONAL CONTEXT**

All States and Territories throughout Australia have legalised gambling with varying degrees of access being permitted. Currently, Western Australia does not have any Electronic Gaming Machines (EGM) within Hotels or Clubs thus having the most restrictive gambling arrangements in Australia.

The rationale for Western Australia's restrictions is one of perceived community benefit and the perceived social problems caused through the expansion of gaming facilities throughout the State. Interestingly, residents of Western Australia still gamble a substantial amount given the limited access of machines. The figures below show the total spend per person on gambling on a State basis<sup>2</sup>.

<b>Per Capita Gambling Expenditure 1996/97</b>		<b>Gaming Machines in Hotels and Clubs</b>
<b>WA</b>	\$539.97	No
<b>SA</b>	\$571.81	Yes
<b>QLD</b>	\$635.27	Yes
<b>TAS</b>	\$435.88	Yes
<b>VIC</b>	\$804.71	Yes
<b>ACT</b>	\$758.25	Yes*
<b>NSW</b>	\$853.38	Yes
<b>NT</b>	\$805.92	Yes

All other States permit some form of Gaming machine with clear boundaries and difference between different types of venue. \*For example, in the ACT licensed clubs are allowed unrestricted access to gaming machines while hotels can have access to a very limited number of outdated machines in their venues. A number of other states provide for varying degrees of advantages for entities competing against hotels.

State Governments justify the licensing of gaming machine venues on the basis that the establishment is beneficial to the community. Access to EGM's are extended to clubs because of this perceived benefit to the community.

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<sup>2</sup> Tasmania Gaming Commission, Australian Gaming Statistics 1972-1997

The AHA is strongly committed to the pursuit of a level playing field with clubs in the issuing of gaming licenses, number of machines and taxation arrangements.

### **Effectiveness and Efficiency of State Regimes**

A single National regime is fraught with a number of different jurisdictional areas which currently has completely different legislation. Uniformity in all areas between each Australian State and Territory would serve to increase industry efficiency and would result in more effective regulation for operators, support services, educational effectiveness and staff training for gaming machine operators.

There is a number of political factors relating to each State and Territory's gambling legislation. These sensitivities are a major factor in developing a uniform national gaming model and would require major changes in each state's current arrangements. Care, however, must be taken when changing State legislation to ensure that hoteliers who have invested substantial capital are not disadvantaged in the transition. A national policy should also adhere to National Competition Policy.

Industry has successfully taken the initiative of developing and implementing a number of the support, educational and harm reduction strategies such as codes of conduct and staff training. The ongoing support of Government and other community agencies is important to maintain the efficiency of programs currently in place.

## **ADVERTISING OF GAMBLING**

The industry has implemented a Code of Practice in a number of States that deals directly with the issue of Gaming advertising regulation. The instigation of these industry codes was driven completely by the industry and the AHA submits that they have been implemented effectively.

*Responsible Gaming; An industry code of practice* was developed by the AHA, the Licensed Clubs Association of Victoria, Tabcorp, Tattersall's and Crown Casino and has been effectively implemented in Victoria.<sup>3</sup> The advertising code of ethics is such that it provides little scope for rogue operators:

### **THE CODE**

1. *Advertising shall not be false or misleading and deceptive, particularly with respect to winning.*
2. *Advertisements should be in good taste, not offend prevailing community standards and not focus on minors.*
3. *In all instances, the target audience will be people of 18 years and over and media selection and placement will reflect this.*
4. *Advertisements must comply with the laws of the Commonwealth of Australia and the State of Victoria.*
5. *The conformity of an advertisement with the Code will be assessed in terms of its probable impact taking its contents as a whole upon a reasonable person within the class of those to whom the advertisement is directed and taking into account its probable impact on persons within other classes to whom it is likely to be communicated.*
6. *The advertising of gaming should not be associated with excessive consumption alcohol.*

Similar codes have been adopted in other jurisdictions and are being adhered to by those involved in the industry.

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<sup>3</sup> [Responsible Gaming – An industry code of practice for Victoria](#)

The AHA believes, however, that hotels and casinos throughout Australia have taken a proactive approach through the effective implementation and regulation of such industry driven codes.



## **CONTROLLING CRIMINAL ACTIVITY**

In a recent report by Social Development Committee of Parliament of SA into Gambling, Prof. Jan McMillan stated:

*“Australia has a deserved international reputation for integrity, prevention of criminal influence and sensitivity to social concerns”<sup>4</sup>*

Traditionally, Australian Governments drew heavily on the principles of British gambling laws, adapting them to suit the circumstances and environment. Although Australia adopted a more liberal approach to the legalisation of gambling than most other nations, it has been regulated and restricted more extensively than other industries. Professor McMillan told the committee that:

*“...compared with other nations, careful policy management of Australian Gambling has achieved a rare balance between the often contradictory objectives of commercial profitability and public benefit.”<sup>5</sup>*

The Australian Hotels Association is confident that hotels offering gambling facilities are ethical and subject to rigorous forms of regulatory requirements within the boundaries of such laws. The current controls are adequate and ensure the complete disclosure of income and all relevant business operations.

Monitoring systems have been put in place in most States that allow access to gaming operations. In South Australia, the monitoring of the machines is conducted by an independent body funded by both the hotel and club industry. In Victoria, two licensed operators have been given the access and responsibility. Queensland have recently changed their monitoring policy with eight licensed operators being charged with taking over the duties from the Queensland Government.

NSW is an anomaly with no monitoring system currently in place. The NSW Government has, however, stated in its policy that it is expecting the privatised TAB to be in charge of the monitoring in the future. All States with

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<sup>4</sup> Prof Jan McMillan, Responsible Gambling a Future Winner, NAGS 1997 Proceedings: 247

<sup>5</sup> Prof Jan McMillan, Responsible Gambling a Future Winner, NAGS 1997 Proceedings: 247 (Oral Evidence, 16 April 1997)

the exception of NSW have centralised electronic monitoring systems in place.

The casino industry within Australia has been operating for almost a quarter of a century with an impressive record of adherence to regulations and the probity of casino operations and regulatory responsibilities.

The 1991 report by the National Crime Authority, *Taken to the Cleaners: Money Laundering in Australia*, reinforced the industry's claims by stating that 'there is no evidence of money laundering in casinos'. Similarly, the 1993 Senate Standing Committee on Legal and Constitutional Affairs stated in the report, *Checking the cash*, that the obvious ways of laundering money through casinos have been eliminated through the regulatory requirements currently in place.

Casinos are involved in a high number of high cost protective measures to ensure the complete transparency of their operations. Staff members are given compulsory training on procedures involving large cash transactions and are taught methods to ensure they are aware of potential money laundering situations.

The effective regulation of the gambling industry in Australia, particularly in casinos, has helped develop international tourism through assurances that inbound tourists are visiting reputable and legitimate gambling venues.

## **PUBLIC MEASURES**

The potential for criminal activity to take place in venues offering gaming facilities is no greater than other retail and hospitality operations dealing with significant amounts of cash.

Gaming venues throughout Australia are required to ensure commencing employees pass stringent probity tests. In South Australia all employees are subject to fingerprint and police checks. Similar regimes exist in other jurisdictions.

Monitoring and dealing with fraud and other crimes relating to the gambling industry is attended to by individual venues through the introduction of systems to minimise occurrences.

A recent survey of fraud in gaming establishments in Victoria concluded that 14% of venues not involved in gaming operations experienced at least one fraud in 1997 compared to 13% for those involved in gaming operations.<sup>6</sup> These findings highlight the fact that gaming establishments are no more vulnerable to fraud than any other hospitality establishment. The report also highlighted the most likely person to commit fraud in an establishment is an employee.

The potential for employees and other patrons to commit a fraudulent or criminal act is minimised through the effective implementation of control systems, surveillance equipment, and relevant security.

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<sup>6</sup> KPMG, Gaming and Liquor Retailing Industries: Survey of Fraud and Other Criminal Conduct During 1997

## **TAXATION**

State Governments are collecting up to 15% of their total taxation revenue from taxing gambling and it is an easy way to maintain State Government revenue.<sup>7</sup> Any increase in the rate of taxation of gambling services would have serious implications for the industry and could jeopardize State revenues.

The table below, although subject to variations in different casinos, hotels and clubs in different jurisdictions highlight the Return to Venue a gambling service provider builds into the game being supplied.<sup>8</sup> The figures do not take into account the additional costs of taxation and other overheads associated with their provision.

<b>Gambling Type</b>	<b>Return to Venue (%)</b>
Blackjack	3.0
Craps	3.0
Roulette	2.7
Two-Up	3.0
Poker	3.1
Card Machines	10.0
Poker Machines	13.0
Horseracing TAB	16.0
Footy TAB	25.0
Keno	30.0
Lotteries	36.0
Lotto	40.0

The table highlights the relatively low edge certain forms of gambling have on the player. The maintenance of the specified actual edge is essential for the profitable operation of that service.

A higher taxation rate would, in some cases, serve to make some games unviable. Taxation is generally levied on the gross income of the service. If

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<sup>7</sup> M Walker, Gambling Government – The Economic and Social Impacts, p22

<sup>8</sup> M Walker, Gambling Government – The Economic and Social Impacts, p24

taxation rates were altered significantly the operator would be forced to pass the additional cost onto the consumer and thus destroy the game's popularity.

In doing so, the odds of that particular game would change and this, in turn, leads to decreased customer satisfaction and interest. The taxation rates endured by hotels are particularly harsh as highlighted in the next section and further taxation burdens would serve to further reduce the competitive position of hotels in the provision of food, beverage and entertainment.

The current taxation impost on hotels throughout Australia is disproportionately high when compared to other industries. The capital investment in hotels and other providers of gambling products is large and the return on investment must be such as to allow the maintenance of investments.

The ability for the industry to create employment and ensure its long term viability is highly reliant on reasonable taxation levels.

### **State Gaming Machine Taxes**

There are substantial inequities existing between hotels and clubs on payment of State Poker Machine Tax. The following table highlights these inequalities:<sup>9</sup>

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<sup>9</sup> AHA(NSW), The NSW Club Industry, For the Independent Pricing and Regulatory Tribunal 1998, p6

	<b>HOTEL TAX RATE</b>	<b>CLUB TAX RATE</b>
<b>NSW</b>	1st \$25,000 15% >\$25,000<\$40,000 25% + \$3750 >\$40,000<\$1mil 35% + \$97500	1st \$100,000 0% >\$100,000<\$200,000 1% >\$200,000<\$1mil 20%+1000 >\$1mil 24.75% +  \$161,000
<b>VIC</b>	33.3% is paid by the Hotel, Government and either TABCORP or Tatteralls. Hotels pay an additional 8.3% for the Community Service Fund.	33.3% is paid by the Club, Government and either TABCORP or Tattersalls.
<b>QLD</b>	45% of metered earnings (as of 1 July 1998. Previously 50%)	1st \$10,000 10% >\$10,000<\$75,000 27% >\$75,000<\$150,000 30% >\$150,000<\$300,000 33% >\$300,000<\$1.4mil 35% >1.4mil 45%
<b>ACT</b>	35% of metered earnings	1st \$8,000 1% >\$8,000<\$25,000 22.5% >\$25,000 23.5%
<b>SA</b>	1st \$399,000 35% >\$399,000<\$945,000 43.5% >\$945,000 50.0%	1st \$399,000 30% >\$399,000<\$945,000 35% >\$945,000 40%
<b>NT</b>	<b>Gaming Machines</b> 47% of Gross Profit + 25% levy on Gross Profit to Community Benefit Fund. <b>Draw Card</b> 6% levy on turnover	<b>Gaming Machines</b> 47% Gross Profit <b>Draw Card</b> 3% levy on turnover

The AHA submits that there is no legitimate argument for the State Gaming Taxation differential between hotels and clubs experienced in the majority of the States/Territories. Clearly these arrangements are at odds with National Competition Policy. This coupled with the “mutuality principle” taxation advantages further exacerbate the competitive advantage the large multi-

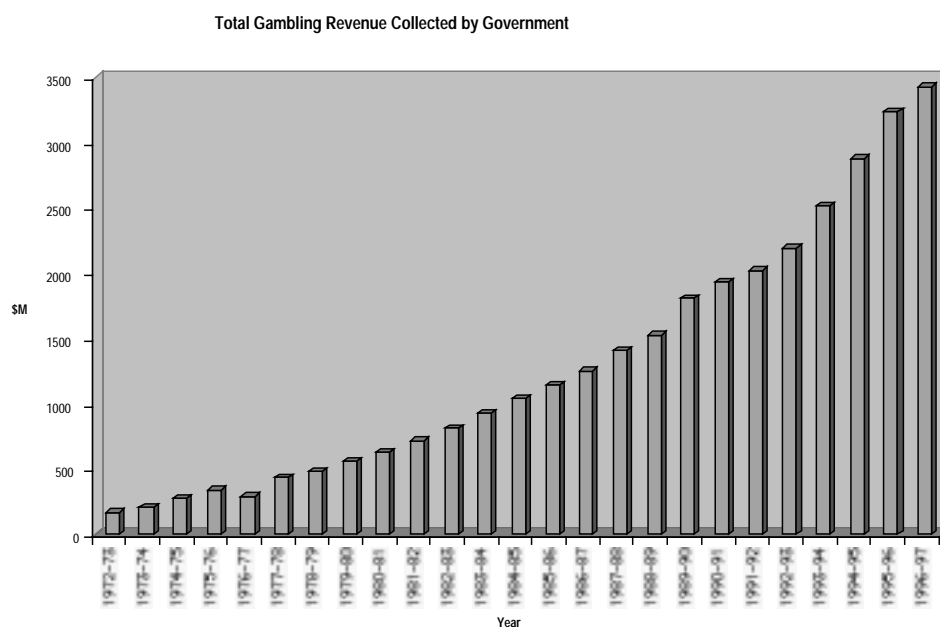
million dollar turnover clubs enjoy. The same tax rate applied to all suppliers of gambling would further assist Government taxation shortfalls currently being experienced as well as serve to draw all providers of the same product into the tax net.

Different taxation rates for different forms of gambling should also be maintained. An increase of taxation rates directly affects the odds and return to player which, in turn, impacts on the viability of the operation. A different tax rate also threatens the player interest level due to decreased/increased return to player.

The current taxation arrangements, although high when compared to other industries becomes a greater burden so long as the differentials between clubs and hotels is endured in most jurisdictions.

### Government Revenue From Gambling

The current level of taxation on gambling services has ensured a continual growth in Government revenue collection. The graph below highlights the significant contribution gambling services make to the overall revenue of State Governments.<sup>10</sup>



<sup>10</sup> Tasmania Gaming Commission, Australian Gaming Statistics 1972-1997

The State Government's increasing reliance on gambling revenue to balance State budgets is a concern. High taxation rates in all forms of gambling within hotels and casinos result in people who enjoy and participate in gambling services paying a disproportionately high share of taxation.

Currently, Western Australian hotels and clubs have not been given access to gaming machines. In a recent report, Coopers and Lybrand estimated, depending upon the level of machines present in the industry, that an additional \$110 to \$178 million dollars in Government revenue could be obtained if they were to be introduced. It is estimated that the introduction of gaming machines in the State would result in an additional 2,750 jobs being created. It is also estimated that in the following three years after the introduction of gaming machines approximately 1170 jobs per annum would be created in the construction industry.



## **MUTUALITY PRINCIPLE**

### **The Club Movement**

The current tax exemptions extended to registered clubs came to fruition through recommendations of a Commonwealth Committee on Taxation in 1952 (The Spooner Committee Report).<sup>11</sup> The Spooner report argued that sporting associations established solely for the purpose of promoting athletic sport should be income tax exempt.

Through further lobbying by the clubs this tax ruling was amended to eliminate the restriction of the taxation exemption to clubs other than athletic sporting clubs.

Prior to 1956 the tax exemption enjoyed by clubs did not impact adversely on the operations of private businesses. Up until that time club operations were limited to the provision of facilities for members with a reduced tax burden.

In 1956, however, gaming devices were introduced into licensed clubs in NSW. This opened up a substantial new revenue stream and business opportunities which were never intended to be included as club operations. These new operations had incredible development potential. The income tax advantages enjoyed by the clubs have been exploited and have ensured continual growth and development of the business activities by larger clubs to the detriment of those private tax paying business whose services the clubs provide. Local hotels, restaurants and other small businesses such as hairdressers, gymnasiums, bakeries and other suppliers of services are all placed at a financial disadvantage to the clubs who provide the same services and products with a reduced tax burden.

### **Community Contributions**

The AHA(NSW) recently compiled a report for the Independent Pricing and Regulatory Tribunal highlighting the inequalities experienced within the industry.<sup>12</sup> The report is further backed up by a 1996/97 analysis conducted

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<sup>11</sup> M Quinn, Tax Implications of Registered Clubs, 1997.

<sup>12</sup> AHA(NSW), The NSW Club Industry, For the Independent Pricing and Regulatory Tribunal 1998

by the NSW Department of Racing and Gaming on NSW's top 11 clubs and can also be found in attachment 1.

Licensed clubs argue that they have tax exemptions because of their commitment to the community and their not-for-profit nature. However, after analysing a number of the major clubs in NSW, QLD and the ACT it becomes apparent that the majority of large clubs are contributing marginal amounts to local community activities.

Following are the community contributions, excluding sporting donations, as a percentage of turnover and in dollar terms for some leading clubs in NSW for 1997.

<b>CLUB</b>	<b>% In Turnover</b>	<b>Total in \$</b>
Bankstown District Sports Club	Not disclosed	
Club Marconi	Not disclosed	
Blacktown Workers Club	0.03%	\$9,611
Mingara Recreation Club	0.04%	\$14,314
Manly Warringah Rugby Leagues Club	0.06%	\$13,093
Parramatta Rugby League Club	0.1%	\$12,001
Eastern Suburbs Rugby League Club	0.13%	\$31,887
Burwood RSL	0.14%	\$21,689
North Sydney Rugby Leagues Club	0.14%	\$34,295
Mount Pritchard Community Club	0.14%	\$102,681
Cabra-Vale Servicemen's Club	0.16%	\$38,570
Western Suburbs Leagues Club	0.2%	\$44,355
Canterbury-Hurlstone Park	0.21%	\$47,531
Revesby Workers Club	0.25%	\$61,999
Western Suburbs Rugby League Club (Newcastle)		
Canterbury Bankstown Rugby League Club	0.3%	\$80,256
Rooty Jill RSL	0.41%	\$176,139
Twin Towns Services Club	0.44%	\$198,869
Marrickville RSL	0.52%	\$255,822
	0.61%	\$94,242

The table shows the claims by the club movement that clubs contribute extensively to the community is unfounded. The club industry's reluctance to

contribute to the community is particularly prevalent in those states in which the State Gaming Taxation differential is most significant. The media has also been critical of the club's industry's contributions (see Appendix 3).

Further neglect of community contributions/donations by clubs is evident within the ACT:

<b>CLUB</b>	<b>NGMR</b>	<b>Charity</b>	<b>Sports</b>	<b>Volunteer</b>	<b>Infra- Structure</b>
Ainslie Football Club	\$5,105,774	0.39%	1.23%	0.02%	4.15%
Belconnen Soccer Club	\$1,466,413	0.00%	4.9%	0.00%	0.00%
Canberra Highland Society	\$2,430,363	0.16%	0.27%	0.02%	0.00%
Canberra Labour Club	\$7,095,480	0.24%	0.77%	0.01%	0.00%
Canberra Southern Cross Club	\$11,869,705	1.14%	1.92%	0.02%	3.33%
Canberra Tradesman's Union Club	\$13,096,069	1.25%	0.84%	0.13%	18.69%
Hellenic Club	\$5,413,467	0.48%	0.19%	0.01%	0.00%
Kaleen Sports Club	\$1,876,448	0.71%	4.45%	0.03%	0.00%
T'nong Valley RU & AS Club	\$15,149,686	0.16%	1.54%	0.01%	5.23%
Wet Belconnen RL F'Ball Club	\$3,413,960	0.06%	0.81%	0.01%	0.00%
Weston Creek Football Club	\$508,389	0.00%	0.43%	0.00%	11.70%

In contrast, ACT hotels within the same region contributed:

Hotel	NGMR	Charity	Sports	Volunteer	Infra-structure
Jamison Inn	\$(10,904)	-	-	No figures	No figures
Kambah Inn	\$67,789	0.37%	11.24%	No figures	No figures
Olims Canberra Hotel	\$84,793	0.83%	15.75%	No figures	No figures
Statesman Hotel	\$40,074	0.93%	19.44%	No figures	No figures

Hotels within the ACT are generally contributing a higher percentage of their annual earnings from gaming machines to the community than their direct competitors, the clubs.<sup>13</sup>

### Case Law

The Commissioner of Taxation tested the mutuality principle on some landmark cases in which the key criteria which the court applied were:<sup>14</sup>

- Did the club have an identifiable connection with the relevant sport?
- Was there evidence of the application by the club to the development of that sport in the year which was examined by the Commissioner?
- Did the degree of social activity far outweigh the sporting activity generated by the club?

The AHA submits that the above criteria, although specific, were based on subjective analysis by the courts and an absence of any defined qualitative check list which could be relied upon by both the Taxation Commissioner and the Courts.

A number of different authorities have continued to describe the current inequitable tax regime to be unfair and anti-competitive. The House of Representatives Standing Committee on Banking, Finance and the Public Administration found the mutuality principle to be unfair.<sup>15</sup> A large percentage

<sup>13</sup> Report by the Commissioner of ACT revenue, Contribution Made By Gaming Machine Licensees to Charitable and Community Organisations, 1998.

<sup>14</sup> M Quinn, Tax Implications of Registered Clubs, 1997.

<sup>15</sup> House of Representatives Standing Committee on Banking, Finance and the Public Administration, Taxation Relaxing, 1995.

of Federal politicians have also stated 'off the record' that the current taxation differential between hotels and clubs are outdated and unfair.

The report stated that taxation advantages enjoyed by clubs have:

*“benefited some clubs to a degree where they are able to compete unfairly with businesses which do not have a similar taxation advantage.”*

The AHA is not opposed to legitimate sporting clubs but is concerned about the large amount of revenue obtained from gaming and the resultant cross subsidisation of other enterprises provided by clubs to the detriment of competing local and small business.

The AHA submits that the majority of large clubs have evolved into multi-million dollar enterprises and are no longer trading in their traditional capacity.

The State Poker Machine Tax rates enjoyed by clubs coupled with their income tax free status for member income (or all income in the case of sporting clubs) ensure clubs are beneficiaries of massive competitive advantages.

### **State Restrictions on Poker Machines**

Each State and Territory within Australia varies the way in which they treat gambling and also varies significantly the number of machines allowed. The table below highlights the different numbers of gaming machines currently in each state and territory.

<b>State</b>	<b>Number of Machines (1998)</b>
Tasmania	2351
Queensland	25162

Victoria	27266
New South Wales	94282
Western Australia	1117
South Australia	10898
Northern Territory	1319
Australian Capital Territory	4803

Different States/Territories have limited the numbers of poker machines available for a number of reasons including the perceived concerns of the public.

The table below highlights the restrictions on individual properties from throughout Australia on the number of gaming machines allowed to be operational:<sup>16</sup>

<b>Jurisdiction</b>	<b>No. of Machines in Clubs</b>	<b>No. of Machines in Hotels</b>
Northern Territory	Unlimited(Govt owned)	6(Govt owned)
Queensland	270	30
Western Australia	0	0
South Australia	40	40
New South Wales	Unlimited	30
Australian Capital Territory	Unlimited(unrestricted class)	- 2(limited class)-without accommodation - 13(limited class)-with accommodation
Victoria	105	105
Tasmania	25(40 in 2002)	15(30 in 2002)

Victoria has also capped the total number of machines allowed in their jurisdictions.

### **Funding of Community Projects**

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<sup>16</sup> Allen Consulting, Gambling and Related Legislation in the ACT.

A number of States currently have community support/benefit funds in place. In Victoria the funding of a number of major community projects has been a direct result of the monies collected from the fund.

A number of different sectors benefited from the funds provided by State Community funds. Funding has been distributed in the area of Arts, Tourism, Sport and Recreation, Community Services, Youth Affairs, and Drug Rehabilitation.<sup>17</sup>

Interestingly, in a survey conducted by the Victorian Casino and Gaming Authority on the *Community Facilities Resulting from the Providers of Gaming in Victoria* it was highlighted that 71% of hotels indicated that they expected to make additional contributions to the community whereas only 65% of clubs indicated their intent to contribute to the community. This result highlights the false perception that hotels do not contribute to the community. The results illustrate that the club contributions to the community are less than that of hotels. Given the different taxation arrangements and special concessions given to clubs through the mutuality principle the AHA urges the commission to recommend clubs operations are to be of benefit to the community and not solely business ventures. Taxation advantages for clubs should be removed.

Somewhat in contrast with the experience elsewhere, in South Australia the Gamblers Rehabilitation Fund which is voluntarily funded by hotels and clubs has served to provide support to approved agencies.<sup>18</sup>

Community support has been funded by hotels and clubs(in some jurisdictions). Given the propensity of other forms of gambling the AHA would like the form of community support to be all-encompassing. At present hotels currently provide a disproportionate amount to different community projects and equity between all gambling codes and establishments should be introduced.

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<sup>17</sup> VCGA, Community Facilities Resulting From the Providers of Gaming In Victoria, 1997, p12-15.

<sup>18</sup> The Licensed Clubs Association & The AHA, Social and Economic Impact of Gaming Machines in South Australia, 1995.

## **WHO GAMBLES AND WHY**

A number of significant studies have been conducted by various States on the effect of gambling on both the economy and the community. The Victorian Casino and Gaming Authority has released a number of different studies on all facets of the gambling industry including both the social and economic impact.

The AHA submits that significant studies should continue on the social and economic impact of gambling.

### **Remuneration Rates for Employees**

The introduction of gaming facilities in hotels throughout Australia has acted as a catalyst for increased wages for new and existing employees.

Employees employed under the *Hospitality Industry – Accommodation, Hotels, Resorts and Gaming Award 1998* required to work with gaming machines and other betting services have generally been promoted from grade 2 Food and Beverage Attendant to grade 3 Food and Beverage Attendant. The table below highlights the pay structure of the industry and the remuneration increase many hospitality employees have received as a direct result of the introduction of gambling services.



**The Hospitality Industry – Accommodation, Hotels, Resorts, and  
Gaming Award 1998**

Clause 18 Wage Rates - Adults

<b>Weekly and Part Time Employees</b>	<b>Overtime Rates</b>	<b>Casual</b>
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Classification	Award Week kily Rate	Hourly 38 Hours 100% 100%	Time & 1/4 Saturday 175%	Time & 3/4 Sunday 175%	Double Time & 1/2250% Public Hol	Time & 1/2150%	Double Time 200%	Half Time 50%	Casual Hourly Mon-Fri 125%	Time & 1/2 Saturday 150%	Time & 3/4 Sunday 175%	Double Time & 3/4 275% Public Holi Doub
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<b>Food and Bev</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Attendant Gd 1	3 9 0 .1 0	1 0 .2 6 6	1 2 .8 3 2	1 7. 9 6 5	2 5. 6 6 4	1 5. 3 9 9	2 0. 5 3 2	5. 1 3 3 2	1 2. 8 3 2	1 5. 3 9 9	1 7. 9 6 5	2 8. 2 3 1
Attendant Gd 2 (eg Bar attendant, waiter)	4 1 5 .2 0 0	1 0 .9 2 6	1 3 .1 5 8	1 9. 1 2 1	2 8. 5 2 0	1 7. 1 1 2	2 2. 8 1 6	5. 7 0 4 6	1 4. 2 6 0	1 7. 1 1 2	1 9. 9 6 4	3 1. 3 7 2
Attendant Gd 3 (eg Attendant in charge, TAB, Keno, VGM Operator	4 3 3 .5 0 0	1 1 .4 0 8	1 4 .9 2 6 0	1 9. 5 6 4	2 8. 5 2 0	1 7. 1 1 2	2 2. 8 1 6	5. 7 0 4 6	1 4. 2 6 0	1 7. 1 1 2	1 9. 9 6 4	3 1. 3 7 2
Attendant Gd 4 (Eg Qualified Waiter)	4 6 5 .2 2 0 0	1 2 .1 4 4 2 3	1 5 .4 3 0 3	2 1. 4 2 4	3 0. 6 0 5	1 8. 3 6 3	2 4. 4 8 4	6. 1 2 1 3	1 5. 3 0 3	1 8. 4 6 4	2 1. 4 2 4	3 3. 6 6 6
F & B supervisor	5 0 6 .9 9	1 3 .3 3 9	1 6 .6 7 4	2 3. 3 4 4	3 3. 3 4 9	2 0. 0 0 9	2 6. 6 7 9	6. 6 7 0	1 6. 6 7 4	2 0. 0 0 9	2 3. 3 4 4	3 6. 6 8 4

In many instances, the introduction of gambling services within hotels has not only preserved employment but has led to an expansion in jobs. Hotels in Australia are currently facing a decline in liquor sales and more demand for a greater range of services within their establishments. Gambling services have opened a new revenue stream and has boosted other parts of their operations such as the sale of food.

There is, however, still a considerably increased likelihood of failure of hotels that do not have access to gaming. Hotels within the ACT, for example, are competing against the large multi-service club industry and have in many cases been forced to close their doors.

### **Employment Growth**

The latest statistics published by the ABS (1994-95) on employment within the Gambling industry specified that there was 32,062 paid employees in the gambling sector.<sup>19</sup> The ABS statistics, however, do not include hotels, pubs and taverns in their employment count.

The commonly accepted industry average of employment growth within the gaming industry is approximately one job per 2.5 gaming machines. Based on this assumption and the number of gaming machines in Australia, gaming machines in hotels have resulted in the direct employment of approximately 66,710 people. Additionally, a number of hotels have, with the introduction of gaming, started offering enhanced services requiring additional staff. The AHA submits that there have been a considerable number of jobs created since 1995 and this has contributed to overall employment growth in Australia.

The Gambling sector, particularly the casino, hotel and club sectors have created considerable economic activity in supporting industries such as building, architectural services, interior design firms and other associated suppliers.

The hospitality industry is still developing within Australia and the AHA expects employment creation to continue in these growing sectors.

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<sup>19</sup> ABS, Gambling Industries Australia 1994-95.

## **Costs to Individuals**

Based on the most recent studies into Problem Gambling within Australia the AHA recognises between 1-2% of the adult population, will at some stage in their life, experience a problem with some form of gambling. This figure is consistent throughout key papers by such well regarded researchers as Prof John O'Conner and Prof Mark Dickerson of the Australian Institute of Gambling Studies. Problem gambling occurs in all gambling services and is not isolated to one type of gambling or one type of venue.

## **Staff Education/Responsible Gaming Initiatives**

Hotels throughout Australia have introduced a number of initiatives to minimise the risk of problem gambling occurring.

'SmartPlay', a South Australian initiative has been implemented to educate the South Australian public on the facts about gambling. The initiative incorporates a player guide, 'Guidelines for Responsible Service' for staff and comprehensive staff and licensee training programs. Additionally, an advertising code and code of practice have also been developed. The AHA(SA) branch has developed brochures informing the general public on:<sup>20</sup>

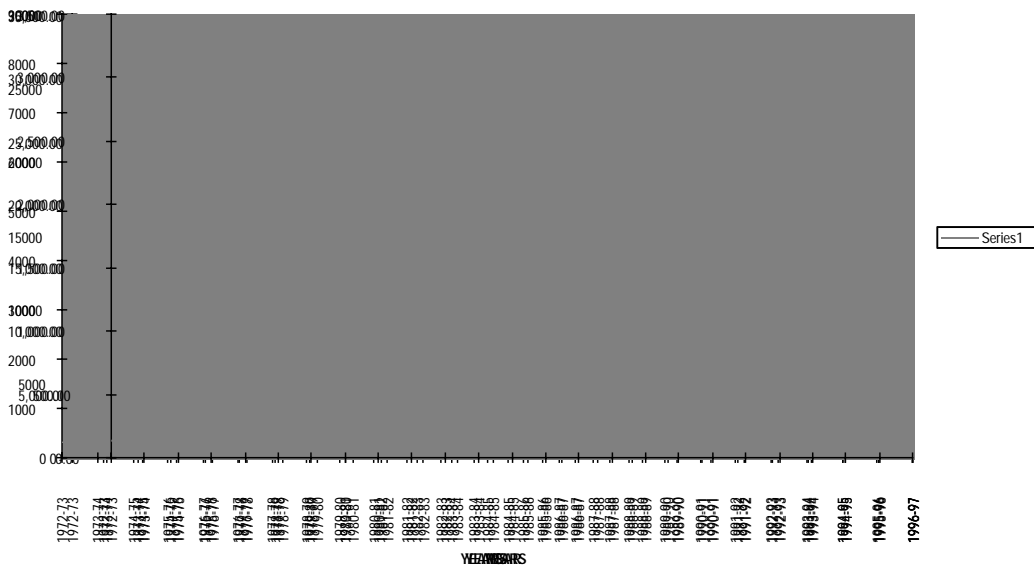
- Basic description of how machines work.
- The range and features and options on various machines.
- How to read and understand a pay table.
- Who to contact for customer service related issues.
- Strong statements on use of EFTPOS and credit betting.
- Tips on controlling and managing gaming expenditure.
- Where to go for help with problem gambling.

South Australia's 'SmartPlay' has involved interest groups from the welfare and industry sector and was the first such initiative to be introduced within Australia.

Similarly, Victoria has also established a detailed support service for patrons wishing to utilise gambling services. A detailed code of practice, self exclusion service and G-line support line has been implemented. New South

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<sup>20</sup> The Licensed Clubs Association & The AHA, Social and Economic Impact of Gaming Machines in South Australia, 1995.



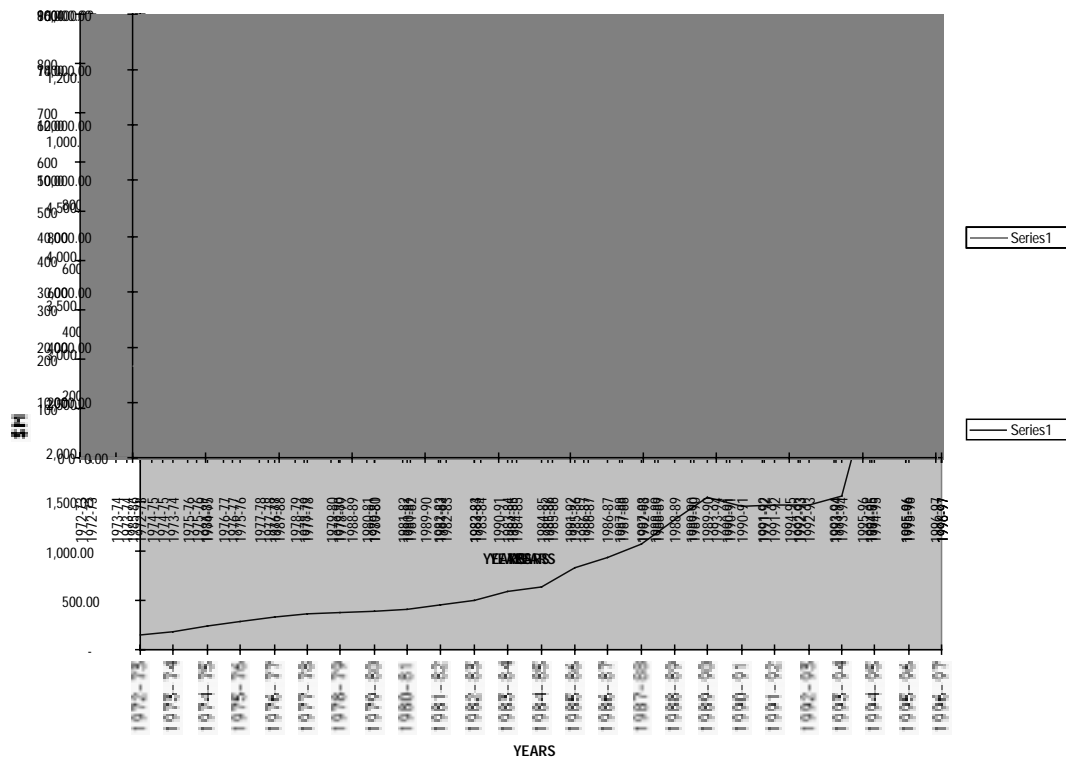
Wales, Tasmania and Queensland have also implemented similar services. Details on the courses and initiatives can be found in appendix 4

G-line is a 24-hour toll free service line designed to cater for gambling problems. Currently Victoria, New South Wales, Tasmania and Queensland have implemented this service. South Australia is also scheduled to begin a 6 month pilot project to assess its success with the view to establishing a similar permanent service.

### Gambling Expenditure

The following graphs highlight the total gambling spend on a State by State basis over the past 25 years.<sup>21</sup> They highlight the significant increase in gambling expenditure over the past 10 years.

<sup>21</sup> Tasmania Gaming Commission, Australian Gaming Statistics 1972-1997.



The graphs highlight a general increase in gambling turnover over the past few years. Close examination of this data suggests that the growth rate of gambling in Australia is slowing and, in some cases, is recording stable or negative growth. This data tends to suggest that the gambling industry has been through its initial boom and is now developing as a more mature industry.

The findings of the VCGA Survey of Community Gambling Patterns and Perceptions clearly highlighted that, in Victoria, participation in EGM gambling has remained stable in 1997 when compared to 1996 and gambling frequency within Victoria had not substantially changed since 1992.<sup>22</sup>

The VCGA findings are based over the time period of the opening of Crown Casino and the rapid expansion of gaming machine access. The overall increase in gambling services within Victoria has not correlated into an

<sup>22</sup> VCGA, Fifth Community Gambling Pattern Survey Combined with Second Positive and Negative Perceptions of Gambling Survey, 1997 p85.

increased number of gambling activities being undertaken by patrons in 1997 when compared to other years.<sup>23</sup> The AHA considers this trend to be indicative of the rest of Australia.

### **Technology in Gaming Machines**

The AHA submits that upgraded technology within gaming machines act to add entertainment value and additional reliability to services provided. Mr Rob Wooten, President of the National Association of Gaming Studies has publicly stated that:

*“There is no hard evidence I have seen or been able to find regarding increased addictive properties of multi-line gaming machines over single-line machines... It is not the gaming technology that causes problems but the control of that technology by patrons, regulators and industry alike.*

He has also stated:

*“Should we be paternalistic and minimise the entertainment value for the majority because a small minority has difficulty? We don’t ban the sale of spirits and other high-alcohol content liquor because some people are alcohol-dependent. Instead, we introduce patron care programs.*

Features developed on gaming machines have not been designed to encourage a higher level of gambling but have provided more entertainment value.

The speed of play of gaming machines and its relationship to total spend is an interesting concept. There is no evidence that slowing down the speed of the gaming machine encourages responsible gambling practices. Interestingly, there have been casinos internationally that have intentionally slowed down the rate of play of gaming machines to encourage a more enjoyable and longer experience.

TAB’s, lotteries, and all other gambling service providers are constantly upgrading technology in pursuit of better business practices and the AHA

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<sup>23</sup> VCGA, Fifth Community Gambling Pattern Survey Combined with Second Positive and Negative Perceptions of Gambling Survey, 1997 pxii



submits that it is an essential element of the continued viability of this industry.

### **Research and Support Services**

The AHA submits that the hotel industry has been proactive in its response and facilitation of helping those with gambling problems. A number of studies have been funded directly through funds collected from Hotel and Casino establishments. There is, however, more research needed to ensure the gambling industry within Australia is fully understood.

The hotel sector is at the forefront of responsible service practices and is proud of the industry programs that have been implemented. The AHA views the initiatives to be an effective facilitator for those requiring assistance with gambling issues.

Welfare programs designed to address problems within society often have a particular failure rate regardless of the level of funding. Hotels throughout Australia have contributed considerable amounts to the gambling rehabilitation/community benefit funds with successful results. Further funding of these services would not necessarily result in an increase in success rate. The AHA submits that the current contributions provided by industry ensures the effective implementation of gambling support services and the funding of these services by hotels and casinos are adequate at their current level.

### **Benefits and Costs to Local Communities**

Hotel establishments are an essential part of a healthy and vibrant community. They are an essential contributor to the continued social interaction of the Australian community.

The significance of the hotel industry in its role as a social and entertainment venue is difficult to measure quantitatively, however, they are built into the everyday lives of every member of Australian society.

Hotels offering gaming facilities are often directly involved in not-for-profit organisations and sporting teams by providing facilities, offering in-kind support and sponsorships/donations. The AHA submits that hotels are an important part of local communities.

### **Distribution of Community Funding**

The current community funding via not-for-profit clubs has been highlighted previously as an ineffective and easy to distort form of revenue distribution. The AHA submits that the current controls and wealth distribution arrangements associated with clubs are not acceptable and highly inefficient.

The figures of the total support given to community programs are damning to the extreme and legislation should be introduced to address these matters.

Of particular interest is the substantial sum of money donated by the club movement to political parties. A report by the Commissioner for ACT Revenue (attachment 5) highlights the large sums of money donated to political parties and the relatively low community contributions by clubs to the community within the ACT.

Additionally, revenue collected from the operation of gaming machines in clubs are directly funding large discounting of products. Many clubs throughout Australia operate food and beverage operations that run at a loss. Heavy discounting by these clubs has resulted in the inability of hotels to compete with the large, highly resourced, tax free competitors. Other local businesses such as gymnasiums, hairdressers and bus services have also been affected by further tax-free diversification of the club industry.

Hotels, however, contribute substantial amounts to the local community through supporting different community based organisations and sporting teams. Additionally, they pay higher State Gaming Taxes, income tax and also contribute to gambling support services such as G-line.

The AHA submits that the current distribution of funds from clubs and the current taxation arrangements should be amended and a level playing field should be adopted.

## **GAMBLING IMPACTS ON THE ECONOMY**

### **Positive Impacts on Tourism**

Casinos alone have contributed significantly to inbound tourism. In 1997, over one million foreign tourists visited casinos and total visitor numbers were well ahead of all the combined total for other popular attractions such as the AFL football, first class cricket and theme parks.<sup>24</sup> The awarding of the most popular visitor attraction in 1995-96 to Melbourne's Crown Casino by Tourism Victoria is a prime example of the enormous tourism interest such facilities generate.

Also of interest are the historical problems faced by States not offering gambling facilities. Historically, NSW has applied the most liberal laws for gambling within Australia. States such as Victoria and Queensland that were reluctant to liberalise access to gambling, were faced with residents crossing jurisdictional borders and spending their gambling budget interstate. Access to similar gambling facilities in each State encourages residents to spend within their own residential jurisdiction encouraging the health of local economies.

### **Negative Impacts**

There is a perception among anti-gambling lobbyists that gambling, gaming in particular, has a negative effect on retail spending. The Association submits that their fascination with the negative impact on retail spending is grossly exaggerated and is, in most cases, unfounded.

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<sup>24</sup> ACA Fact Sheet, Tourism and Hospitality, 1998.

A study conducted in 1996 by Mr Ian Pinge titled *Riding the Money-go-round, The impact of Electronic Gaming Machines on Retail Trade in Victoria* stated that:<sup>25</sup>

*'Overall it must be said that there is no evidence to support the hypothesis that gaming activity has impacted on retail trade overall. It certainly appears to have affected a small number of sectors but this appears to be outweighed by positive effects in other sectors.'*

The AHA recognises that the small business retail sector has continued to record modest growth and, in some cases, negative growth. This, however, cannot be attributed to the relatively recent introduction of gaming machines in hotels and the increase in gambling across Australia. ABS statistics have recorded 104% growth in cinema revenues from 1991-1996, 32% increase in spectator sports and a general trend towards greater recreational spending.

In 1994, access to gaming machines was extended to South Australian hotels. The number of machines present in the state increased from 600 in July 1994 to approximately 7000 in July 1995.<sup>26</sup> During this time, SA retail growth remained consistent with National Trends. Some sectors recorded substantially higher growth than trends experienced nationally. Similar retail spending patterns have been experienced in other states that have introduced major gambling services.

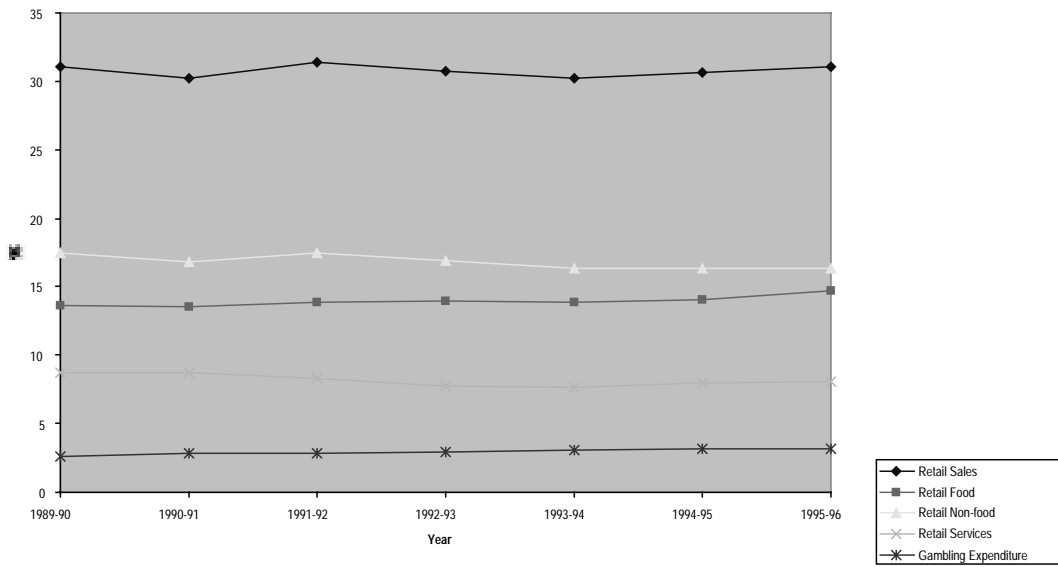
The Victorian Casino and Gaming Authority have conducted significant research into the effect on the retail sector after the introduction of both gaming machines and the opening of Crown Casino. The following graphs represent the retail sales, food, non-food, services and gambling as a percentage of Household Disposable Income on a state by state basis.

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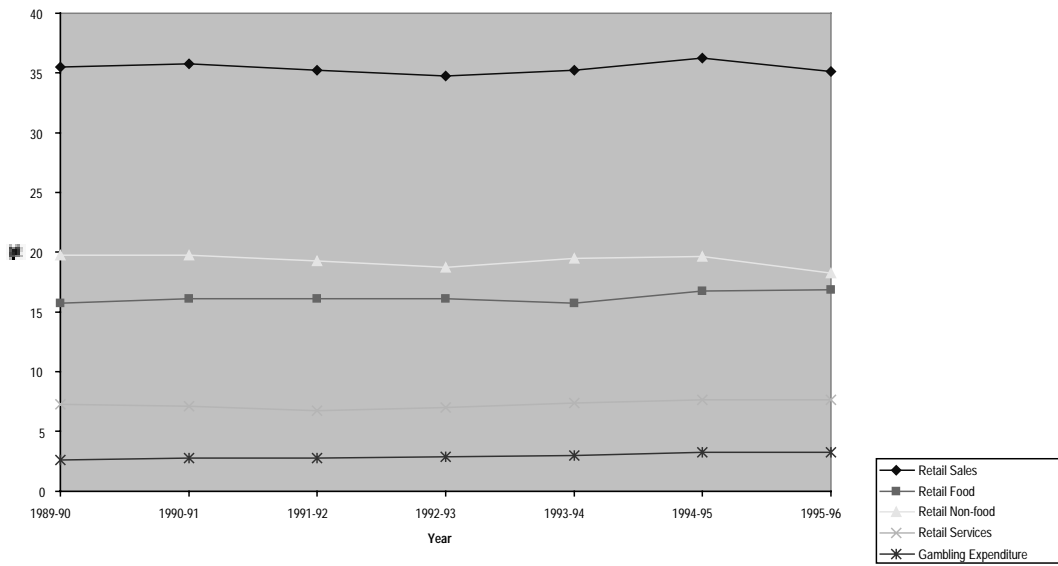
<sup>25</sup> I Pinge, Riding the Money-Go-Round: The impact of Electronic Gaming Machine in Victoria, 1996.

<sup>26</sup> The Licensed Clubs Association & The AHA, Social and Economic Impact of Gaming Machines in South Australia, 1995.

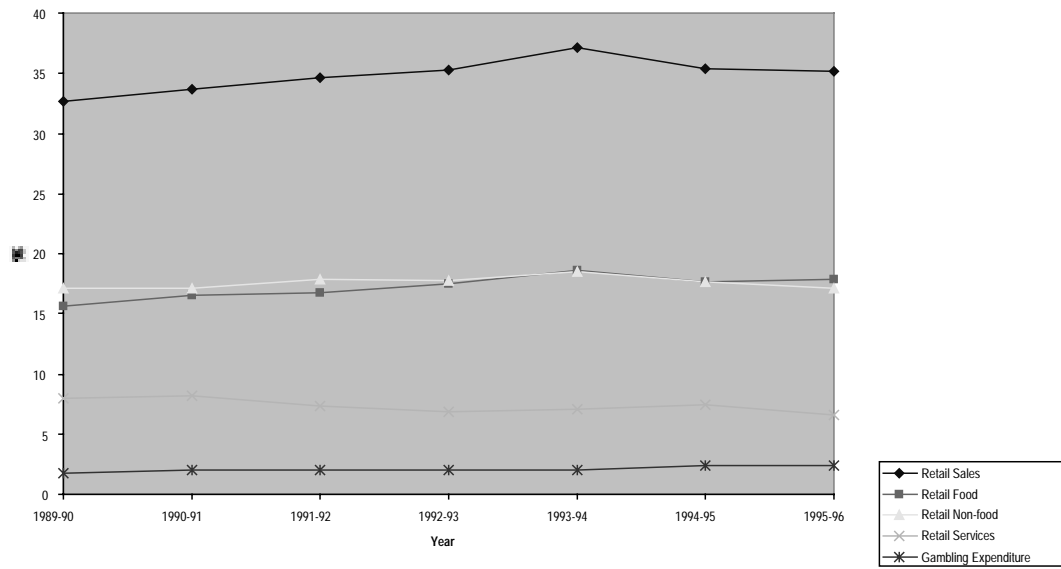
**% of Household Disposable Income spent on the Retail and Gambling Sectors (NSW)**



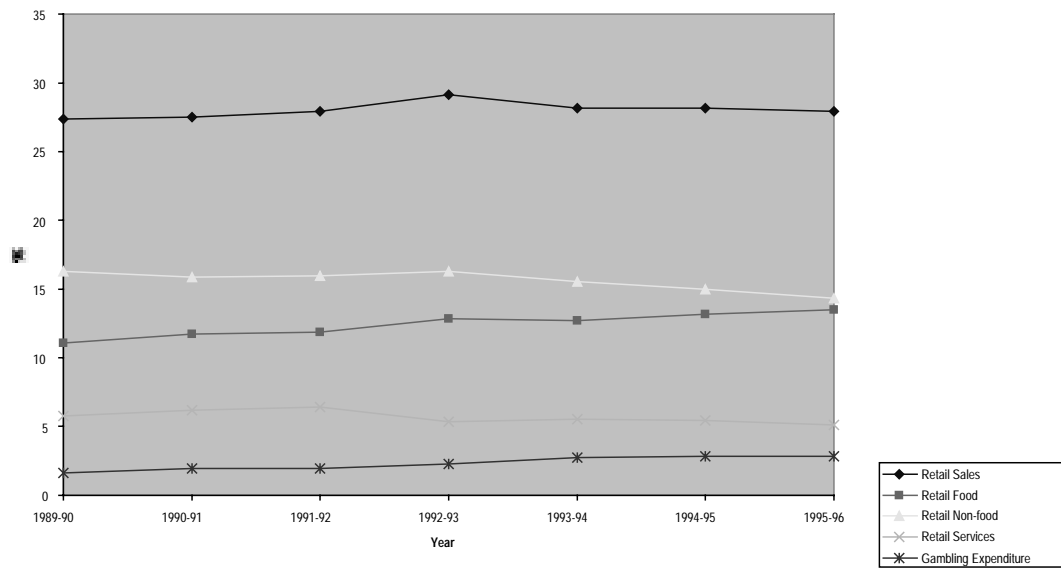
**% Income spent on the Retail and Gambling Sectors (QLD)**



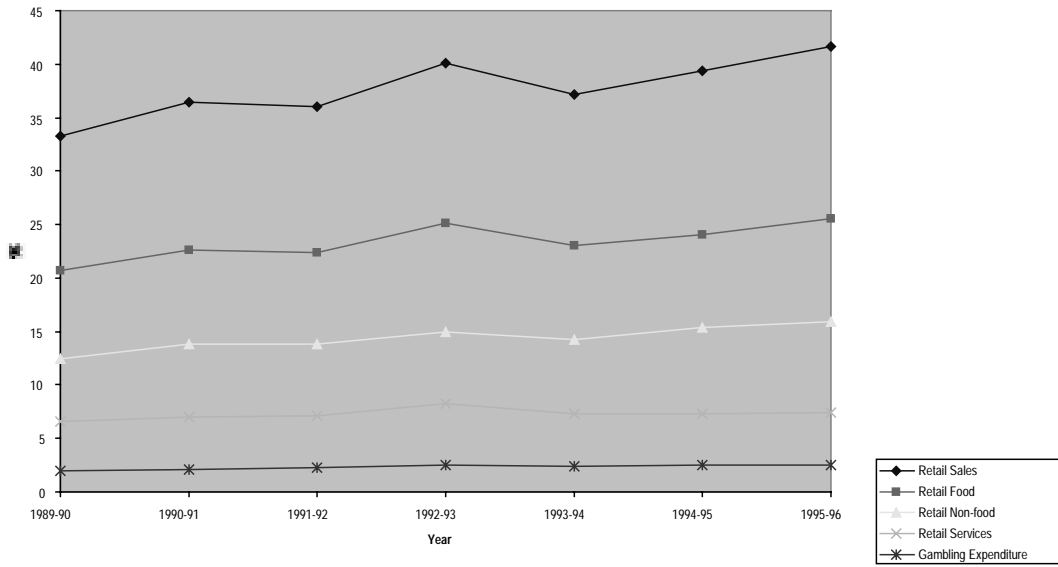
**% of Household Disposable Income Spent on the Retail and Gambling Sectors  
(TAS)**



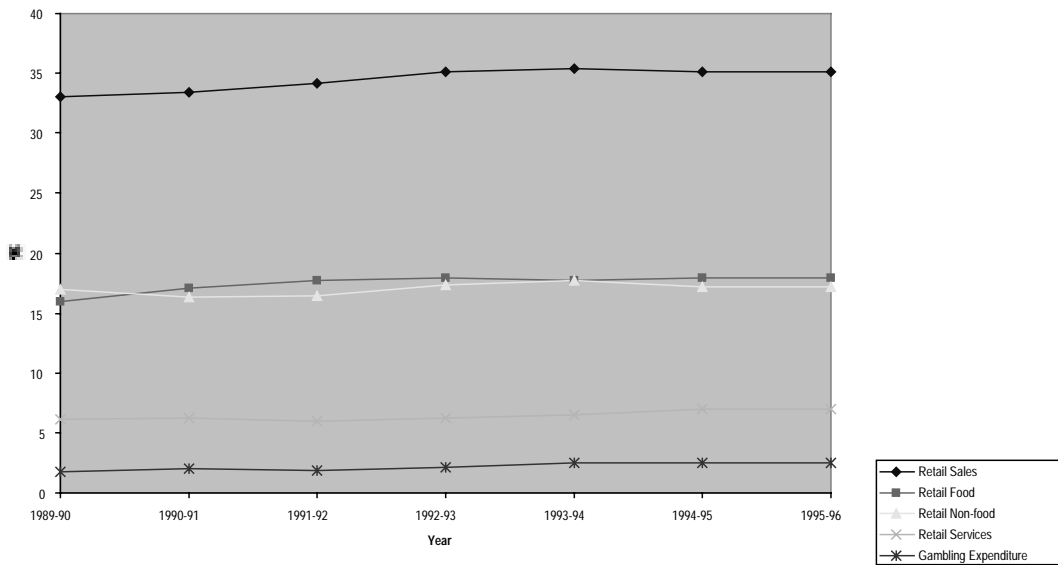
**% of Household Disposable Income Spent on the Retail and Gambling Sectors  
(ACT)**



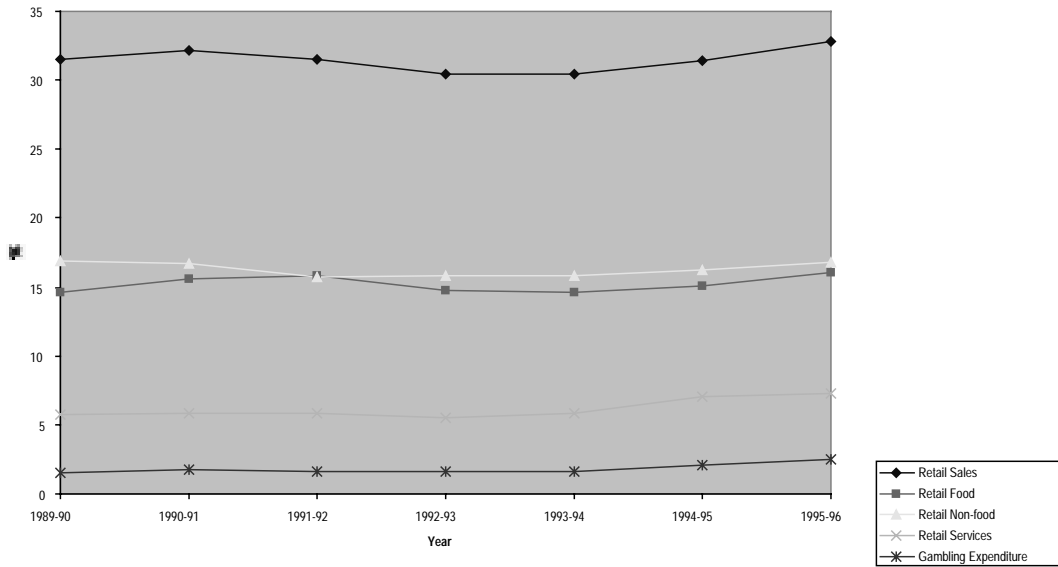
% of Household Disposable Income Spent on the Retail and Gambling Sectors  
(NT)



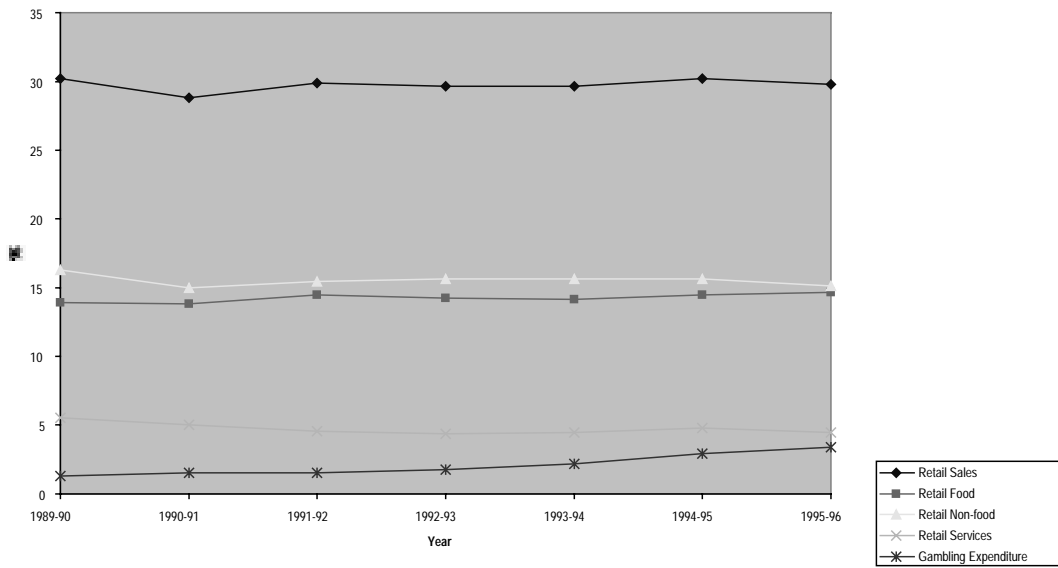
% of Household Disposable Income Spent on the Retail and Gambling Sectors  
(WA)



% of Household Disposable Income spent on the Retail and Gambling Sectors (SA)



% of Household Disposable Income Spent on the Retail and Gambling Sectors (VIC)



The graphs above highlight the relatively modest growth in total gambling expenditure when compared to the Household Disposable Income. Retail



growth in South Australia, for example, rose from 31.5% of total expenditure in 1990 to 33% in 1996.

In a submission to the Social Development Committee of the South Australian Parliament lodged on 13 March 1998, the Retail Traders Association stated that:

*“As demonstrated in the Household Expenditure Survey (ABS), the impact from gaming machines is relatively small at the aggregate level...there is no evidence that there has been a greater impact on small business as opposed to large business”*

The National retail consumption has risen from 38 per cent of household income in 1990 to 39.7% in 1996.<sup>27</sup> Given the increase of retail consumption in Australia it is difficult to associate gambling with the decline of sales.

The VCGA report on 'The Impact of the Expansion in Gaming on the Victorian Retail Sector' conducted interviews with representatives of the retail industry and they highlighted a number of factors which were affecting potential retail trade growth:

- Too rapid floor expansion
- The spread of category killers
- Low levels of consumer sentiment
- Changes in lifestyle trends such as the rapid growth of information and communication technologies
- direct marketing (mail order)

The AHA believes that the small national increase in gambling is relative to increases in other entertainment sectors and has not had a significant affect on the retail sector.

The evolution of society and the trend towards the increase of leisure spending is likely to increase as more disposable income is being utilised on forms of entertainment.

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<sup>27</sup> VCGA, The Impact of the Expansion of Gaming on the Retail Sector, 1997.

The retail sector have also been known to quote figures of gambling expenditure based on turnover rather than actual spending. In this context the media has compared spending to wages earned resulting in the erroneous perspective that areas such as Mt Isa in Queensland spend \$3774 annually on gaming. The AHA submits that figures should be based on the actual spend rather than turnover.

The following table highlights the potentially misleading figures that can be obtained when basing spend on turnover data:

<b>Item</b>	<b>Gaming Machine Returning 85%</b>	<b>Gaming Machine Returning 92%</b>
Amount of 'pot' the player has to lose = players loss	\$10	\$10
Player loss percentage of turnover	15%	8%
Turnover factor (= player loss divided by player loss percentage)	6.67	12.5
Turnover generated by the \$10 lost 'pot'	\$66.67	\$125.00
Ratio of player loss to turnover	0.15	0.08

### **Funding of Gambling**

The studies conducted by the Victorian Casino and Gaming Authority suggest that the increase in gambling expenditure is funded through a number of different means. Nationally, the community is tending to save less of their income. In 1990, 6.7 per cent income was saved and by 1996 only 2.5 per cent was saved. This decrease in National Savings has led to an increase in personal expenditure on a range of entertainment services.

Between 1990 and 1996, gambling expenditure rose nationally by 1 per cent to reach 3 per cent. Notably, during this time, national retail spending rose by 1.7 per cent to 39.7 per cent.

The AHA also submits that access to entertainment facilities should not be limited to those with traditional jobs working a standard working week. A growing proportion of the population are involved in shift work and they should be given free access to entertainment facilities. Also of interest is the general demand for hospitality and entertainment services at a later time. The change in social norm has created demand for hospitality establishments to provide services on a 24 hour basis.

## **IMPLICATIONS OF NEW TECHNOLOGY**

The potential effect of on-line services through the Internet medium on the everyday operation and competitiveness of traditional gambling service providers is of major concern.

Some of the known advantages of on-premise gambling services include relatively easy regulation due to its physical location, responsible service practices and an overall detailed knowledge of time customers are present and their likely spend. The Internet medium will make these regulating controls more difficult and in some cases impossible to police.

### **Gaming Machine/Casino Technology**

Technological advances have made it possible for gambling providers to improve their services, make their services more user friendly and overall a more enjoyable entertainment experience.

The information technology industry is currently developing at an exponential rate and it has ensured more enticing entertainment for the public. Computers, home entertainment systems and a number of other entertainment products are continually developing to maintain customer interest and to ensure an edge over other competitors. Gambling service providers must also update their systems to maintain customer interest.

The AHA does not perceive updated technology in gaming machines as a problem, but rather as an improvement to the playability and entertainment value of the service.

Like any technologically based entertainment medium, gaming machine popularity is highly reliant upon continual advancement and improvement of product.

Within the ACT, clubs currently have access to all of the latest gambling technologies and also have unrestricted poker machine numbers within these venues. Hotels, however, have access to limited numbers of machines with outdated and inefficient technology. These machines are no longer thought as 'entertaining' by the general public and are not utilised due to their limited

appeal. Turnover through these outdated machines continues to decline and the provision of gambling services now, in many cases, is an unfeasible option for hotels.

The following table highlights the decreasing appeal of the current EGM's accessible to hotels within the ACT and highlights the need for establishments to be able to update their systems according to customer expectations. Similarly, the table also highlights the continued patron interest in ACT clubs that have access continued improvement in technology.<sup>28</sup>

**ACT Hotels:**

<b>Financial Year</b>	<b>No, of "B" Class Machines</b>	<b>Turnover</b>	<b>Percentage Increase/ Decrease</b>	<b>Average Turnover per Machine</b>
<b>1993/94</b>	53	\$5.8 million	Base year	\$109,434
<b>1994/95</b>	55	\$4.6 million	-20.69%	\$83,636
<b>1995/96</b>	56	\$3.7 million	-19.62%	\$67,857
<b>1996/97</b>	66	\$2.9 million	-3.45%	\$42,424
<b>Estimated 1997/1998</b>	66	\$2.8 million	-3.45%	\$42,424

**ACT Clubs:**

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<sup>28</sup> The Allen Consulting Group. Gambling and Related Legislation in the Australian Capital Territory Gamblign and Related Legislation in the Australian Capital Territory, 1998 p 71.

<b>Financial Year</b>	<b>Number of "C" Class Machines</b>	<b>Turnover</b>	<b>Percentage Increase/ Decrease</b>	<b>Average Turnover per Machine</b>
<b>1993/94</b>	2,646	\$659.6 million	Base year	\$249,281
<b>1994/95</b>	4,198	\$974.6 million	47.76%	\$304,752
<b>1995/96</b>	3,615	\$1.126 billion	13.45%	\$311,479
<b>1996/97</b>	3,914	\$1.138 billion	1.06%	\$290,751
<b>Estimated 1997/1998</b>	4,273	\$1.202 billion	5.62%	\$281,301

Customer demand is maintained through the continual improvement of services. Gaming machines are updated and improved by providers to ensure an entertaining product. The design of machines conform to regulatory standards imposed by Government. It is essential to continually update and improve gaming machines to remain competitive with other forms of entertainment such as computer software, cinemas, and other technologically based entertainment mediums.

### **Internet Gambling**

The Australian Hotels Association recognises that Internet gambling is a new medium which needs to be addressed by regulatory bodies. There is a number of significant regulatory issues which arise with the use of this new medium including concerns with security for fund transfer, credit betting, and most importantly, access to members of society under the age of 18 years.

The Australian Institute of Criminology released a discussion paper by Jan McMillan and Peter Grabosky on the issue of Internet Gambling in June 1998 and it stipulated that the negative aspects of Internet Gambling were:

*- A gambling site on the other side of the world may or may not be legitimate. There may be very little to prevent the provider of online gambling services from taking one's money and shutting down, or failing to pay winnings.*

- *Credit card or account details may be vulnerable to capture, and funds vulnerable to theft by computer hackers.*
- *Online gambling facilities could be used as vehicles for money laundering, where proceeds of crime may be disguised as winnings.*
- *Online gambling facilities may be accessible by children.*
- *Internet gambling may be vulnerable to invasions of privacy. Information given to casino operators can be used for other purposes. For example, a 'tout' service that uses telemarketing to convince people to bet on its football betting system may be willing to pay money for a list of Internet sportsbook players.*
- *Online activity, which appears addictive in its own right for a minority of users, may interact synergistically with the propensity for problem gamblers or the intensity of their problems.*

The Australian Institute of Criminology's concerns are generally valid and need to be addressed through effective Government and industry regulation and control.

The AHA believes that the online medium may be a major driving force in gambling services in the future. This is of major concern to traditional service providers, particularly if relevant controls are not introduced and policed and taxed effectively.

The nature of Internet gambling is also one of solitude and eliminates a number of the social advantages and contact that traditional gambling venues supply. Currently, in Victoria, 40% of gamblers surveyed in a report commissioned by the Victorian Casino and Gaming Authority said that social reasons were one of their main motivating factors to gamble. 56% of EGM users/Casino patrons stated that their reason for visiting the gambling venue was for social reasons. The social implications of Internet gambling, based on the statistics, is one of concern and will need to be considered by Government when regulating the emerging industry.

The AHA would like to see encouragement of traditional gambling/hospitality venues over the promotion of Internet and private orientated gambling

services to ensure both the continued social contact and viability of the highly capitalised industry is maintained as well as the taxation base.

### **Online Gambling Legitimacy**

The potential for illegitimate entrepreneurs to set up gambling systems that are not transparent and are 'fixed' will need to be addressed. A number of Governments throughout the world are introducing Internet gambling bills in an attempt to deal with the regulation of such enterprises.

In the USA, the 'Kyl Bill' has been introduced making it illegal for both the provider and operator to participate in any form of telecommunications based gambling.

In Europe and the UK a number of countries have set about banning the development and usage of online gambling facilities but some countries have legalised it and are limiting its use to players within their jurisdictions. Of concern, however, is a few smaller countries providing licenses to operators aimed at the global market.

### **Theft/Security Issues**

Significant resources need to be engaged to ensure that on-line providers comply with stringent security standards. The regulations introduced to police on-line gambling services will need to address the significant threat associated with on-line purchases and credit card/bank detail security.

The assurance of on-line security and the minimised threat of theft is essential for the general public to accept and utilise these services.

### **Potential for Money Laundering**

The electronic medium introduces a raft of opportunities for service providers to be vulnerable to money laundering exercises. A completely transparent system of accountability is essential for the legitimate and fair operation of this industry.

### **Access To Minors**



It is an offence for minors under the age of 18 to access gambling facilities within Australia. Internet gambling/home gambling is the most difficult to regulate in this regard and a stringent system of identification checks must be introduced. The access of such gambling sites should be strictly prohibited to people under the age of 18 years and difficult to be granted entry into the site through comprehensive checks. Banks also should be required to be active participants in maintaining the integrity of the system.

### **Potential for Invasion of Privacy**

As with all forms of e-commerce the potential for operators to access personal details and other private information is a concern. Legislation addressing the invasion of privacy must also be included in any form legislation governing Internet gambling.

### **“Addictive” Nature of Internet Coupled with Gambling Services**

A small percentage of the general public appears to have developed an Internet habit. It is unclear as to the effect visual gambling services based on the Internet will have when coupled with the Internet medium. The AHA would like to see a detailed study on the habit-forming nature of Internet related gambling technology to ensure continued responsible gambling practices currently in place within hotels and casinos can be maintained through Internet providers.

### **Legislative Response**

Australia is considered to be one of the world leaders in the development and regulation of the Internet medium. A draft national code from which the States will model their legislative response has been drafted.

Queensland has already passed their legislation through Parliament addressing the matter and is only awaiting proclamation to become law. The Queensland bill is named the “*Interactive Gaming (Player Protection) Bill 1998*” and addresses all of the issues on Internet Gambling. It is predicted that all the other states will model their legislation around the Queensland Bill.

The Act specifically takes a 'regulatory' rather than 'prohibitive' approach and is designed primarily as a player protection mechanism specifying requirements such as the ability to specify maximum betting limits.

The Australian Institute of Criminology have stated that the Act included:

- *Licensing of service providers, after background checks and determination of financial capacity to pay out winnings.*
- *Requirements for player authentication.*
- *Prohibition on credit betting.*
- *Periodic audits of providers accounts and gaming software.*
- *Required reporting of relevant transactions to AUSTRAC.*
- *Prohibition on advertising unlicensed products.*
- *Facilities for players to specify maximum limits on wagering and other protection measures.*
- *Services to include contact information for problem gambling.*
- *A code of conduct developed by industry.*

The Internet medium is the first medium to offer the capability of interactive gambling from the home.<sup>29</sup>

Traditional phone betting systems are not as visually appealing as the emerging technology and are highly controlled through bookmakers, TABs and other licensed providers. The uncontrolled and possibly habit-forming nature of Internet based systems are of concern to both reputable gambling providers and social welfare groups.

Internet gambling should be run with tight regulatory supervision to ensure harm minimisation and responsible gambling practices continue.

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<sup>29</sup> J McMillen & P Grabosky. Internet Gambling, Trends and Issues, 1998 p 1.

The increased ease of playability and instant access from anywhere in the world is also a significant trait of Internet gambling. The ease of use and ease of access is a factor that must be considered.

### **Taxation of On-line Gambling Services**

Queensland has addressed the taxation levy in their Act. The formula introduced for the Queensland component of the transaction is:

$$QC = \frac{(GP \times QGT \times QR)}{GT}$$

Where:      QC = Queensland component  
                 GP = Gross Profit  
                 GT = Gambling turnover  
                 QGT = Part of gambling turnover for the game attributable to  
   The gross amount wagered by all Queensland residents  
                 QR = The rate of tax specified in the Act for the game

The participating jurisdiction's component of interactive gambling tax for the game is calculated by:

$$PJC = \frac{(GP \times PJGT \times PJR)}{GT}$$

Where:      GP = Gross profit  
                 GT = Gambling turnover  
                 PJC = Participating jurisdiction's component of interactive  
   Gambling tax  
                 PJGT = Part of gambling turnover for the game attributable to  
   the gross amount wagered by all residents of the  
   jurisdiction  
                 PJR = The rate payable under corresponding law of the

## Jurisdiction for wagers made by residents of the jurisdiction

The effect of the above taxation arrangements is yet to be determined as the legislation has not come into effect. The AHA submits that the tax system should not encourage the use of on-line betting through any form of tax concession and should recognize the current taxation arrangements of traditional venues and adjust the rate of taxation accordingly to ensure a truly equitable industry.

## **AVAILABILITY OF MEANINGFUL STATISTICS**

A number of the current statistics and studies that are available have been funded through the respective community benefit funds. Studies such as those commissioned by the Victorian Racing and Gaming Authority are essential for the long term health and sustainability of the gambling industry.

The AHA submits that further studies should be prepared regarding the effect of on-line gambling services and the potential social effects of such technologies. Given the relatively recent emergence of these services it is essential that they are fully understood and relevant systems set in place to ensure that these services do not have a detrimental effect on society.

Tasmanian Gaming Commission currently collates all state data and publishes them in the Australian Gambling Statistics and these cover the period from 1972 to 1997. These statistics are very important in the effective assessment of trends and industry development. It would be advisable, however, for the Australian Bureau of Statistics to publish data relating to the Gambling industry on a more regular basis. The current data relating to the Gambling industry in Australia on a National Basis is 1994-95. This is clearly unacceptable statistical data when the total expenditure in the industry is such a politically and socially sensitive topic.

The significant research undertaken by a number of States has provided an increased knowledge of both the social and economic rationale of gambling. It would, however, be advantageous to incorporate these State and Regional studies into a National form. The availability of National details will become more important in the future as inter-jurisdictional gambling will become more popular with the advent of gambling facilities on the Internet.

## **CONCLUSION**

The AHA does not perceive the gambling industry to be a threat to other industries and submits that it has contributed to substantial employment and has been a major contributor to a number of community facilities.

Of major concern is the taxation exemption currently extended to clubs through the mutuality principle and the detrimental effect this has on direct hospitality competitors and other associated industries.

Socially, the AHA submits that the overwhelming majority of people utilise gambling services as a form of entertainment. We do not consider problem gambling to be a major issue for the majority of the community.

Developments in technology must be carefully monitored and Governments must be prepared to act quickly to the Internet and any other form of technological advancement that threatens regulatory and taxation control.

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## **ATTACHMENTS**

- Attachment 1** Arthur Andersen, Key findings of an analysis of the financial statements of 11 selected NSW Registered Clubs.
- Attachment 2** Assorted press clippings.
- Attachment 3** Australian Hotels Association Tasmanian Branch, Responsible Serving of Gaming Course Support Manual.
- Licensed Clubs Association of South Australia and the Australian Hotels Association (SA), Smart Play.
- Queensland Hotels Association, 1999 QHA Diary & Handbook, Guidelines to Providing Responsible Gaming Machine Services. P. 45,47,49.
- Victorian Casino and Gaming Authority, Responsible Gaming, An Industry Code of Practice for Victoria, P. 1-18 and attachments.
- Licensed Clubs Association of SA & Australian Hotels Association, Social and Economic Impact of Gaming Machines in South Australia, Guidelines for the Responsible Provision of Gaming Machine Services, Attachment 7C(b).
- Australian Capital Territory Government, Responsible Gaming, A Voluntary Code of Practice for the Australian Capital Territory Gaming Industry, P. 1-8.

- Attachment 4**      Commissioner for ACT Revenue, Contributions made by Gaming Machine Licenses to Charitable and Community Organisations 1 July 1997 to 30 June 1998, P. 2-11.
- Australian Hotels Association ACT Region Branch, Report for ACT Legislative Assembly Select Committee on Gambling, Attachment 1A-12.
- Attachment 5**      House of Representatives Standing Committee on Banking, Finance and Public Administration, Taxation Relating, P. 23-24.
- Attachment 6**      Licensed Clubs Association of SA & Australian Hotels Association (SA), Social and Economic Impact of Gaming Machines in South Australia, Guidelines for the Responsible Provision of Gaming Machine Services, Section 4, P. 9-12.
- Attachment 7**      M A Quinn & Co, Tax Implications of Registered Clubs.
- Attachment 8**      Australian Hotels Association (SA), Hotel Care.

DLSEP19/12.7