

**Submission to the Productivity Commission
Gambling Inquiry**

Australian Casino Association

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Executive summary

Australia's casino industry has a much shorter history than most other forms of gambling. Since the first legal casino opened its doors for business in 1973, the industry has become a multi-billion dollar business employing thousands of people.

Casinos offer world class gambling, entertainment and hotel facilities enjoyed by millions of Australians and many overseas visitors.

The casino industry represents just under 20 per cent of Australia's total gambling industry.

Australian casinos compete for the gambling dollar generally, compete between themselves and other attractions for tourists and face intense competition from foreign casinos in the high risk but potentially lucrative high stake premium player market.

The games offered, and the rules under which they are played, are set by State and Territory governments and the probabilities (and the long run expected house win) are essentially fixed.

Casinos have little scope to pass on costs to consumers, except perhaps in the form of reduced services. This is particularly important in the context of the current tax reform debate.

In 1996-97 the Australian casino industry:

- had around 9 400 EGMs (less than 10 per cent of the Australian total), 1 170 gambling tables and total income of \$2.3 billion;
 - 85 per cent of income came from gambling;
- employed 22 508 people and paid wages of \$627.4m;
- paid gambling taxes and levies of \$372m, casino licence fees of \$12.7m and \$40.3m in other taxes (excluding company tax) and charges;
- purchased \$1 billion worth of goods and services;
- earned an operating profit before tax of just \$27m; and
- contributed \$1.3 billion of value added to the Australian economy.

In 1991-92 the industry enjoyed a profit margin and return on assets greater than all industries. By 1996-97 the profit margin was just 1.2 per cent and the return on assets had dropped to 0.5 per cent. Preliminary information suggests that 1997-98 was not a strong year for the industry.

Recent performance shows that a casino licence is not a 'licence to print money'. There is no scope to increase the tax and regulatory burdens on the industry.

Casinos are one of Australia's major attractions with more than 30 million visitors per year. More than 80 per cent of visitors are from local areas. Premium players represent less than 1 per cent of casino visitors but account for 25-35 per cent of gambling income.

The casino industry is heavily taxed with gambling taxes equivalent to 20 per cent of gambling income. Casino taxes vary from State to State and compared to other forms of gambling. Casino taxes represent 11.4 per cent of State and Territory gambling revenue and just 1.2 per cent of all State and Territory revenue.

Tax reform proposals specify that a GST on casinos will be levied on the house win (the mirror image of consumer expenditure) but casinos will not be able to pass this on. Given the financial performance of the industry, casinos can ill-afford this additional impost. States and Territories must reduce their casino taxes if a GST is introduced.

The casino industry is regulated more than other forms of gambling and other industries more generally. The regulatory regime reflects concerns, largely undemonstrated, about the so-called negative effects of casino gambling.

Regulations impose costs on producers and consumers. In particular, regulations can inhibit the ability of casinos to appropriately respond to emerging commercial developments.

The benefits consumers receive from gambling are often overshadowed by concerns about problem gambling. Paternalism is an important part of the problem gambling debate - a view that adults are not able to make their own decisions about their welfare and others are better placed to do so on their behalf.

Gambling is one of many adult activities which involves risk but other activities, for example starting a business, investing and getting married, are not subject to similar concerns.

There is general agreement that problem gambling affects only a small proportion of the adult population. Nonetheless, the casino industry has a number of programs in place to deal with it. The industry is totally opposed to costly measures such as identity cards and interruptions to games.

Internet gambling has the potential to have a significant impact on the casino industry but it would be naïve to believe that it will just go away. However, there is an issue concerning existing exclusive casino licences in Australia and whether exclusivity should continue to apply in Australian States where legislation allows Internet gambling.

In broad terms there is adequate coverage of the casino industry by official statistics. However, more detail on the various taxes and charges and international players would be welcome, along with the recognition that taxes form part of the industry's contribution to the economy.

1. Introduction

Gambling in Australia has a long history. The first 'official' horse race was held in the early 19th century and since then the range of legal gambling options has considerably expanded although the ability of consumers to enjoy these activities has been limited by governments.

The casino industry has a much shorter history than other forms of gambling. In 1998 the industry is celebrating its 25th anniversary. Australia's first legal casino opened its doors for business in 1973 in Hobart. The Northern Territory followed in 1978-79 but it was not until 1985-86 that some of the larger states (Queensland, South Australia and Western Australia) allowed casino gambling. Casino gambling is a much more recent development in New South Wales and Victoria.

Australia's casinos now constitute a multi-billion dollar industry employing thousands of people. They offer world class gambling, entertainment and hotel facilities enjoyed by millions of Australians and many overseas visitors.

The Australian Casino Association (ACA) welcomes the opportunity to make a submission to the Productivity Commission inquiry into gambling in Australia. The ACA is the peak body representing Australia's casino industry. The submission focuses on the major issues facing the industry in total, rather than individual casino issues, and emphasises the structure and performance of the industry, its contribution to the economy, taxation and regulation, consumer benefits and so-called 'problem gambling' and the development of Internet gambling. The submission concludes with a discussion of available statistics on the casino industry and suggestions as to how the provision of data might be improved. Many of the issues raised in this submission are complex and it has not been possible to address all of them in full detail. Rather, the submission provides an overview of the industry, points to areas for more extensive analysis and provides a framework for consideration of the industry in a more balanced and less emotive way than is often the case.

2. Australia's Casino Industry

2.1 Overview of the casino industry

2.1.1 Industry scope

Australia's casino industry consists of 14 casinos located in capital cities and major regional areas (Table 1). Most States and Territories have one casino. However, Queensland has four and Tasmania and the Northern Territory have two. While gambling is the major source of revenue for casinos, they also offer a range of other facilities including international standard accommodation, theatres, sporting facilities, concert and exhibition venues and a range of food and beverage outlets. Casinos compete for the gambling dollar more generally, they compete between themselves and other attractions for tourists (airlines and travel agents include casinos as part of package tours) and face intense competition from foreign casinos in the high risk but potentially lucrative high stake premium or commission player market.

Table 1: Australian Casinos

Casino Name	Location
Star City	Sydney
Hotel Conrad and Jupiters Casino	Gold Coast
Conrad Treasury Casino	Brisbane
Sheraton Townsville Hotel & Casino	Townsville
Burswood Resort Casino	Perth
Reef Hotel and Casino	Cairns
MGM Grand	Darwin
Lasseters Casino	Alice Springs
Christmas Island Resort Casino*	Christmas Island
Adelaide Casino	Adelaide
Casino Canberra	Canberra
Wrest Point Casino	Hobart
Country Club Casino	Launceston
Crown Casino	Melbourne

* Suspended operations April 1998.

2.1.2 The nature of casino gambling

There is a major difference between casinos and many other goods and services consumed in Australia — casinos are constrained by the rules of the various games and probabilities associated with those games. The games on offer and the rules are determined by State and Territory governments and it is difficult to change them. As a result, casinos have little or no room to pass on costs whether they originate from changes to current tax rates, new taxes, regulations or other non-gambling commercial factors. This point needs to be clearly understood by policy makers.

In the long run the ‘price’ gamblers pay for casino services is the theoretical win resulting from the house advantage on the various games on offer. The theoretical win is essentially fixed by the rules of the various games and the probabilities of winning. While there is scope for skill to be a factor in some card games for example, there are limits to this. In the long term the theoretical yield from games is constant although it can, and does, vary in the short term depending on the number of winners and losers at any one time

Under the rules applying in Australia, the approximate theoretical yields or house advantages for some popular casino games are:¹

- Roulette 2.7 per cent;
- Sic Bo 7.5-8.5 per cent;
- Baccarat 1.2-1.25 per cent;
- Money Wheel 7.7 per cent; and
- Blackjack 1-2.5.

It should be noted that the house advantage on each game (of the same type and rules) is similar to prevailing advantages in other countries. The critical point is that the long run house advantage on table games cannot be changed by casinos unless the games are dishonest (certainly not the case in Australia). This means that new costs (taxes, regulations and so on) must ultimately be borne by the house. In this respect, casinos are like export industries such as coal where Australian producers are ‘price takers’.

2.1.3 Main industry features

Australia’s 14 casinos in 1996-97 had approximately 9 400 electronic gaming machines (EGMs), 1 170 gambling tables and total income of \$2 308m (Table 2). In total, casinos had less than 10 per cent of all EGMs in Australia although the position varies considerably from State to State depending on gambling regulation more generally in each jurisdiction (for

¹ Note that these can vary slightly due to the variant of the game being played.

example in WA the casino has all EGMs in the State whereas in NSW the casino has less than 2 per cent of EGMs). In 1996-97 casinos had labour costs of \$674.3m of which \$627.4m (or 93 per cent) represented wages and salaries. Income grew strongly up to 1995-96 but growth slowed to 3 per cent in 1996-97. In that year gambling taxes amounted to \$372m, down from \$475m in the previous year. In 1996-97 operating profit for the industry was just \$27m, a sharp decline on the previous year. Since 1991-92 operating profit for the industry as a whole has shown significant variation. Industry performance is discussed in more detail later in this submission.

The main source of industry income is gambling, with table games accounting for the largest share (Table 3). In 1996-97 income from gambling was \$1 951.4m or 85 per cent of total industry income. In 1991-92, income from gambling represented around 70 per cent of total casino income. The second major source of income is food and beverage at \$242m per year or 10 per cent of the total.

Table 2: Casino industry summary

	1991-92	1994-95	1995-96	1996-97
Casinos at end June (no.)	8	13	14	14
Employment at end June				
Permanent employees (no.)	5 712	11 281	14 038	17 490
Casual employees (no.)	3 506	4 556	4 452	5 018
Total (no.)	9 218	15 837	18 490	22 508
Gambling equipment at end June				
Gaming/poker machines (no.)	n.a.	7 282	8 225	9 408
Gambling tables (no.)	n.a.	863	993	1 171
Income				
Takings from gambling (\$m)	558.1	1 381.8	1 881.2	1 951.4
Other income (\$m)	250.3	268.7	349.5	356.7
Total (\$m)	808.4	1 650.5	2 230.7	2 308.1
Expenses				
Labour costs (\$m)	244.8	441.9	595.2	674.3
Poker machine, keno and other gambling taxes/levies (\$m)	101.2	296.1	474.8	371.8
Other expenses (\$m)	372.6	807.8	1 066.1	1 241.3
Total (\$m)	718.6	1 545.8	2 036.1	2 287.4
Operating profit before tax (\$m)	119.2	107.4	198.0	27.4

Source: Australian Bureau of Statistics (1997, 1998), Cat.No. 8683.0.

In recent years casino gambling revenue has experienced strong growth, in large part due to more casinos being licensed. However, casino gambling income should be placed in the correct context. Chart 1 shows gambling income from all sources and casino gambling income since 1972-73. In 1972-73 casino gambling income was \$1.75m or 0.4 per cent of total gambling income. By 1996-97 this had risen to \$1 951m and represented 19.5 per cent of total gambling income — a large but not dominating part of the overall gambling industry.

Table 3: Sources of casino income

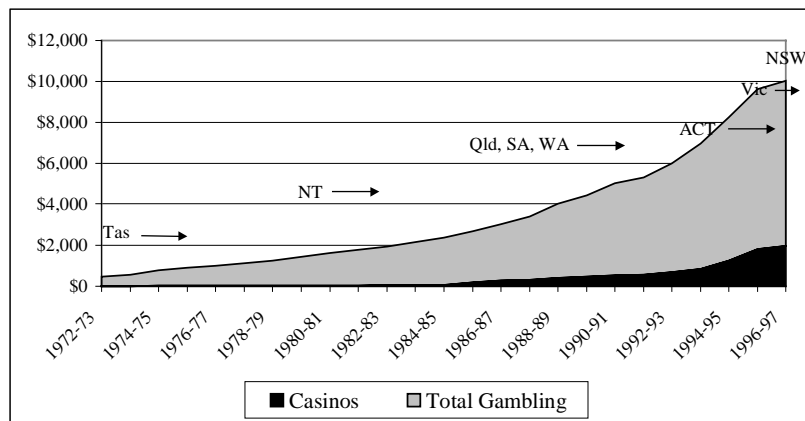
Sources of Income	1991-92 \$m	1994-95 \$m	1995-96 \$m	1996-97 \$m
Sales of goods and services				
Takings from gambling				
Takings from poker/gaming machines	n.a.	343.6	462.7	556.3
Takings from keno	n.a.	25.5	37.0	38.7
Takings from other gambling	n.a.	1 012.7	1 381.5	1 356.5
Total takings from gambling	558.1	1 381.8	1 881.2	1 951.4
Commissions from TAB operations/sports betting operations	n.a.	0.9	1.2	1.2
Takings from meals	75.5	92.3	112.8	126.7
Sales of beer, wine and spirits	67.3	91.1	118.1	115.1
Takings from accommodation	n.a.	42.9	48.2	47.5
Other retail sales	1.2	4.4	5.3	7.4
Rent, lease and hiring income	n.a.	3.1	4.5	4.3
Takings from car parking operations(a)	n.a.	n.a.	n.a.	17.7
Other operating income(b)	106.2	26.8	52.7	21.7
Total sales of goods and services	808.4	1 643.3	2 224.0	2 293.0
Interest income	n.a.	4.6	4.6	6.4
Other non-operating income	n.a.	2.6	2.0	8.8
Total	817.8	1 650.5	2 230.7	2 308.1

(a) Takings from car parking operations for 1994-95 and 1995-96 included in other operating income.

(b) For 1991-92, included takings from accommodation.

Source: Australian Bureau of Statistics (1997, 1998), Cat.No. 8683.0.

Chart 1: Gambling income: all gambling and casinos, and year of introduction of casino gambling



Source: Tasmanian Gaming Commission (1998)

2.2 Casino industry performance

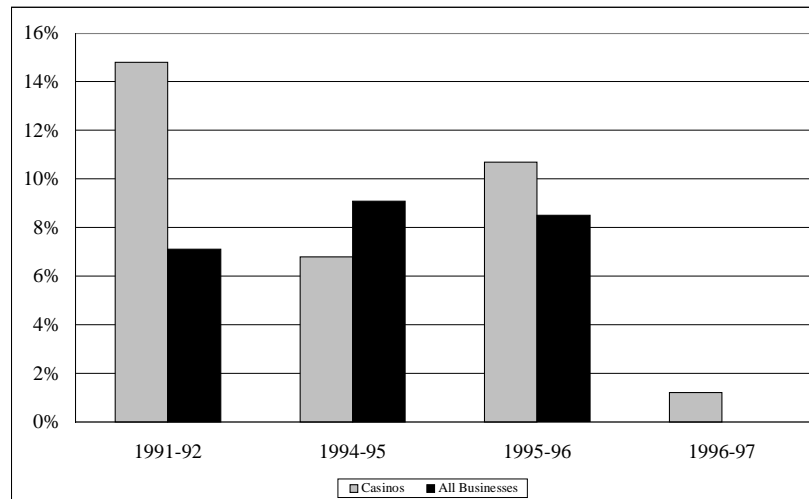
In recent years the casino industry has experienced wide fluctuations in operating profit. Increased competition (including from overseas casinos) for the casino dollar, economic conditions both in Australia and elsewhere and individual commercial decisions made by some casinos are likely to be important factors affecting industry performance. In some instances, the heavy regulation of the industry limits the ability of casinos to make normal, rational decisions about and responses to emerging commercial realities. This aspect is further discussed in below.

In 1996-97, industry operating profit (before tax) slumped from \$198m in the previous year to just \$27.4m. Absolute levels of profit (and loss) are of interest but more informative measures are provided by key performance ratios which also provide a useful means of comparing the performance of the casino industry with other sectors of the economy.

Chart 2 shows the profit margin (the percentage of sales of goods and services available as operating profit) for casinos and all businesses. Chart 3 shows the return on assets (operating profit before tax as a percentage of the total book value of assets) for the casino industry and other businesses along with the 10 year bond rate. While the casino industry enjoyed a profit margin and return on assets greater than all business in 1991-92, the industry's position has steadily declined to a situation where in 1996-97 the operating profit margin was just 1.2 per cent and the return on assets was just 0.5 per cent. At the time of preparing this report, ABS figures for all businesses were not available for 1996-97 but it is unlikely that the casino industry outperformed the rest of the economy in that year. Moreover, media and other published reports suggest that 1997-98 was, historically, not a strong year for the casino industry. The return on assets in the casino industry has, in recent years, been consistently well below the 10 year bond rate.

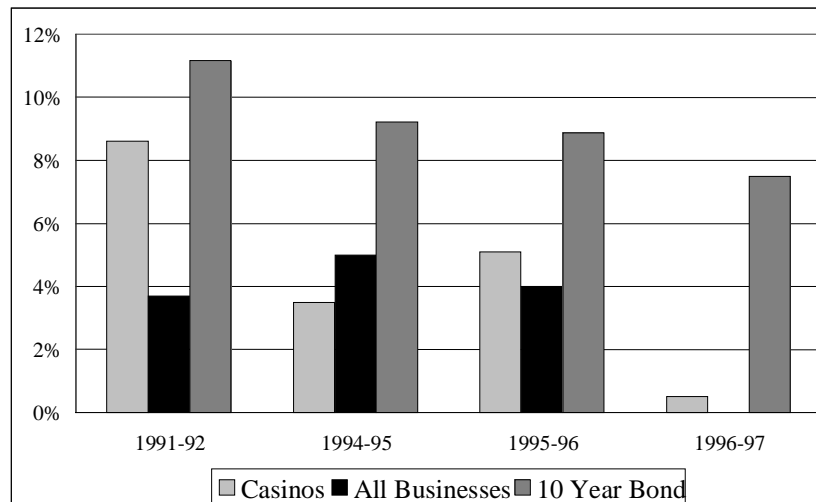
The recent performance of the industry indicates that there are not large 'rents' being earned. Contrary to conventional wisdom, a casino licence is not a 'licence to print money'. There is no scope to increase the tax and regulatory burdens on the industry.

Chart 2: Profit margin: all businesses and casinos



Source: Australian Bureau of Statistics (1997, 1998), Cat. Nos. 8140.0 & 8683.0

Chart 3: Return on assets: all businesses, casinos and the 10 year bond rate



Source: Australian Bureau of Statistics (1997, 1998), Cat. Nos. 1350.0, 8140.0 & 8683.0

2.3 Casino industry employment

Since Australia's first casino opened its doors for business in 1973, casino industry employment has markedly increased. At June 1997, the industry employed 22 508 people, an increase of more than 3 000 per cent since 1973 or an annual average increase of about 15.5 per cent. Of course, much of that growth can be attributed to the introduction of new casinos and consumers being able to express their preferences for casino related activities. The industry in total is a significant employer and individual casinos are often the major employer (or one of the major employers) in a

city or region. Eight of Australia's 14 casinos are in non-capital city regions.

Table 4 summarises industry employment between June 1992 and June 1997. Even during the five year period to June 1997, employment growth was an impressive 144 per cent. Two-thirds of those employed in casinos are full-time while 54 per cent are male and 46 per cent female. Around 30 per cent of those employed are under 25 years of age.

Some opponents of gambling in general, and casinos in particular, have questioned the value of jobs generated by gambling. Implicit in this view is the belief that a dollar of economic activity generated from casino operations is somehow less important or less worthy than a dollar generated from something else, as are the associated jobs. This view is, at best, misguided — casinos provide quality jobs, with a career path and the ability to use the skills acquired in the hospitality industry more widely and beyond.

Table 4: Characteristics of casino employment

Type of employment	Full-Time Persons	Part-Time Persons	Total Persons
Permanent employees (no.)	14 200	3 290	17 490
Casual employees (no.)	456	4 562	5 018
Total employment end June 1997 (no.)	14 656	7 852	22 508
Proportion of total (%)	65.1	34.9	100.0
Total employment end June 1996 (no.)	13 840	4 650	18 490
Proportion of total (%)	74.9	25.1	100.0
Total employment end June 1995 (no.)	11 005	4 832	15 837
Proportion of total (%)	69.5	30.5	100.0
Total employment end June 1992 (no.)	6 908	2 310	9 218
Proportion of total (%)	74.9	25.1	100.0

Source: Australian Bureau of Statistics (1998), Cat.No. 8683.0.

The composition of casino employment is set out in Table 5. Licensed gaming staff represent the single biggest occupational category (41.5%) but the more traditional hospitality occupations (food and beverage and accommodation) are also important accounting for more than 30 per cent of those employed.

The casino industry has a strong commitment to training, both at the entry level and for those moving through the various career paths available. The industry spends more than \$6m per year on training, providing more than 18 500 training opportunities. Individual casinos offer in-house nationally accredited training programs in a wide variety of activities.

Table 5: Main casino occupations, 1996-97

	Persons at end June 1997	Proportion of total
	no.	%
Managers/administrators	104	4.7
Other clerical and administrative staff	2 001	8.9
Licensed gaming staff	9 341	41.5
Chefs	1 003	4.5
Bar managers and attendants	2 349	10.4
Waiters/waitresses	2 373	10.5
Kitchen hands	622	2.8
Security officers/surveillance staff	1 050	4.7
Maintenance staff	343	1.5
Cleaning staff	688	3.1
Housekeeping staff	580	2.6
Other	1 1099	4.9
Total	22 508	100.0

Source: Australian Bureau of Statistics (1998), Cat.No. 8683.0.

2.4 Premium players

The premium player market is an important, but often misunderstood, element of the casino industry. It has a direct impact on the competitiveness of individual casinos, overall gambling and taxation revenue and has important implications for taxation policy.

'Premium player' is a term which is often loosely applied to high stake players but the most important component of that market is the commission player market.² Commission players represent less than 1 per cent of casino visitors but can account for between 25-35 per cent of industry revenue and a large part of casino taxes. Commission player revenue is export income. Not all casinos are in the commission market — participation is a commercial decision made by each casino. Tax rates in particular jurisdictions can be an important factor in deciding whether to enter the market.

Commission players (which may be groups or individuals) are high stake international players whose attendance at a casino may be organised by an operator/promoter and where the player or operator receives from the house an agreed rate of commission on the amount wagered.³ A 'group' may comprise a single player. Players also receive complimentary. As commission players prefer to play baccarat which has the lowest theoretical win for the house of all casino games, paying a commission

² Commission players are sometimes referred to as 'junket players'.

³ The commission is paid irrespective of the winnings of the group members.

effectively reduces the theoretical win and the potential margin to be earned by the casino. The commission market is high risk for casinos.

Group players dominate the Australian commission player market. The group commission business is global and intensely competitive. Australian casinos do not have a table game monopoly in the commission player market. Australia has become a prime location for groups but this has taken many years to develop. Because the market is global, operators will be active where the best terms and conditions are available. 'Price' is very important but other factors are also relevant such as climate, safety, privacy, quality of gambling and accommodation facilities, activities for accompanying families and so on.

Australia is able to offer quality non-price attributes. There are many competing locations in Australia's region: Malaysia, Macau, Philippines, Korea, dedicated gambling cruise ships and, in addition, casinos in many other parts of the world have competitive group commission programs.

Because the market is so competitive and casinos do not have table game monopolies in this area, the issue of whether or not current taxation regimes are appropriate (for the market segment) becomes important. Also, because international commission players contribute such a large proportion to casino industry revenue, measures of casino gambling revenue per adult Australian must be appropriately discounted to avoid misleading conclusions.

There is another level of premium players, often Australians, who gamble, say, in the range \$10 000 to \$20 000. The market for these players is also highly competitive as they will often travel to different Australian casinos to play. Again, Australian casinos do not have a monopoly in table games for this market segment.

2.5 Contribution of the casino industry

2.5.1 Value added

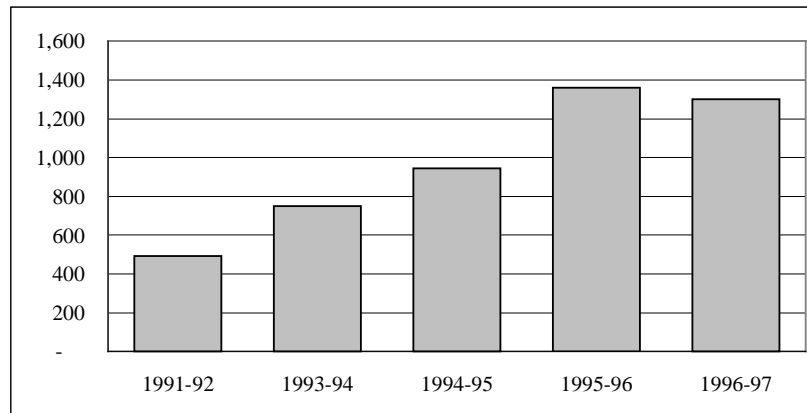
An industry's direct contribution to the economy is not given by the size of its gross revenue but by its value added:

- value added is the return to land, labour and capital employed in an activity supplying products or services, including taxes paid. It is the value of output ('sales') of these activities less the costs of goods and services used in the production process (such as raw materials, business services or electricity). The sum of the value added for all individual activities across the economy totals Gross Domestic Product (GDP).

Estimates of casino industry value added are presented in Chart 4.

Industry value added has been on an upward trend since at least 1991-92 (the earliest period for which data are available) although value added declined slightly in 1996-97 reflecting the general downturn in casino industry performance. In 1991-92, casino industry value added was \$490m. By 1996-97 it had risen to \$1 300m.

Chart 4: Casino industry value added



Source: Australian Casino Industry estimates using Australian Bureau of Statistics (1998), Cat.No.8683.0 and ACA industry survey results.

Over the three years to 1996-97 casino industry value added averaged \$64,000 per employee compared to \$59,000 for all industries.

In 1996-97, wages and salaries represented the largest component of casino industry value added (48%) followed by gambling taxes (29%), gross (before tax) gross profit (15%) and other labour costs and taxes (8%).

2.5.2 Indirect contribution

Casinos purchase around \$1 000m of goods and services a year. One of the major inputs is food and beverage at \$88m (1996-97). The total wage bill is almost \$630m and the vast majority of this feeds back into local casino regions. In addition to the retail and entertainment facilities which are part of casino complexes, casinos also attract new businesses to the area nearby and provide a boost to established businesses in the direct vicinity. In many cases, the advent of a casino has revitalised the immediate area, not just with business activity but also by drawing more residents to the area.

It is sometimes argued that casinos do not add to economic activity but simply divert money from supposedly more worthwhile activities — the so-called ‘substitution effect’. This argument appears to be more prevalent in areas where casinos are a relatively recent occurrence rather than where casinos have been in operation for many years and are an accepted part of

economic life. The fact is that the increase in significance of casinos is an ongoing process of structural change where consumers are now able to express their preferences for casino style activities. In the past, due to regulation in some jurisdictions consumers were not allowed to express their preferences for casino gambling. Structural change due to changing tastes and new technologies or changes in regulation is a fundamental part of Australian economic life. There are many examples of this: the decline in the carriage and blacksmith industries due to the motor car, the shutting down of petrol stations due to new independent retailers like Woolworths entering the market, the decline of drive-ins as a result of the video revolution (VHS not Beta!) and so on. Resources will flow to those activities which consumers prefer. Restricting consumer choice (tariffs, quotas, various regulations) impose costs on consumers (and infringe their rights) and on the economy through inefficient resource allocation.

2.6 Visitors to casinos

Casinos are one of Australia's major attractions. The number of visitors has been steadily on the rise. The ACA estimates that Australian casinos had more than 32 million visitors in 1996-97 (Table 6). The number of visitors to casinos is well ahead of the combined total for other popular attractions such as AFL football, first class cricket and theme parks. The large number of people visiting casinos indicates their high level of acceptance.

Visitors to casinos are overwhelmingly from local regions (more than 80 per cent). International commission players represent less than 1 per cent of visitors to casinos.

The estimates of casino visitors relate to those adults who actually enter the gambling facilities of casino complexes. Of those entering gambling areas, around 20 per cent do not play. They may simply watch others play, use restaurant and bar facilities or pass through on their way to a theatre, exhibition or convention. On a busy night, one of the larger casinos can have around 50 000 people through the gambling area.

Casino complexes also have many visitors who do not enter the gambling areas but go to casinos for other reasons, including using the retail outlets, staying in one of the more than 3 000 hotel rooms available, attending the theatre or enjoying a meal and so on.

Table 6: Casino visitors

	1993-94	1995-96	1996-97
Casino Visitors (million)	17.2	31.8	32.6

% change	n.a.	84.9%	2.5%
Visitor Origin			
Residents of local region	80.2%	78.8%	83.2%
Residents from elsewhere in Australia	16.3%	15.1%	13.6%
Commission players	0.4%	0.8%	0.4%
Other international players	3.1%	5.3%	2.8%
Total	100.0%	100.0%	100.0%

Source: Australian Casino Association

3. Casino Taxation

3.1 The nature of casino taxation and charges

Australia's casino industry is heavily taxed. In addition to the taxes faced by other businesses (company tax, payroll tax and wholesale sales tax), casinos face a range of taxes, charges and levies imposed by State and Territory governments. These vary from State to State and include casino licence fees, community benefit levies and gambling turnover taxes.

Gambling taxes (mainly on gross revenue) are the largest component of casino taxes. In some cases large up front payments were made to State governments to establish casinos. These payments have been used for a range of activities, for example the \$100m paid to establish the Brisbane casino was used to fund the Brisbane Convention Centre.

The various taxes and charges are set out in Table 7. A number of reasons have been put forward in support of high casino taxes — none of which have been rigorously tested. Reasons include the need to raise taxes to offset so-called casino related negative externalities (the 'sin tax' element) and to extract for the community some of the 'super profits' which would otherwise be earned by casinos (even though up front payments and ongoing licence fees should in-principle take account of any so-called 'super profits'). Because the rationale for the various tax regimes has not been established, the rates appear to have been set on a hit-or-miss basis. Moreover, there are instances where casinos are taxed differently to (and higher than) other forms of gambling

In some States, revenue raised from casinos through community benefit levies constitutes the largest contribution to community benefit funds. To the extent that these funds are used for addressing problem gambling, undertaking gambling related research and so on, the casino industry is carrying the bulk of the burden for the entire gambling industry. Funds are also used for non-gambling related activities.

In 1996-97, casinos paid \$372m in gambling taxes.⁴ This is equivalent to around 20 per cent of casino gambling revenue and 16 per cent of total casino revenue. Casino licence fees amount to a further \$12.7m. When other taxes (payroll, land, fringe benefits and so on) are included, the tax take rises to \$425m or 22 per cent of gambling revenue.

⁴ Estimate taken from ABS Cat.No.8683.0.

Table 7: Casino Taxes — States and Territories

	NSW	VIC	QLD	WA	SA	TAS	NT	ACT
Licence fee:	A once only non refundable lump sum payment of \$376m	Crown has agreed to pay a further \$100.8 million in monthly instalments of \$2.8 million beginning January 1996, over three years, as an additional licence fee payment in return for the Government agreeing to an increase in the number of tables in the permanent casino which opened on 8 May 1997.	\$125,000 per quarter	\$1.74 million p.a (indexed to CPI).	\$5,000 per month.	\$60,800 per month, indexed annually.	Not imposed.	\$540,000
Tax Rate:	20% of gross revenue from table gaming and 22.5% of gross revenue from slots plus super tax on table revenue above \$222.6m p.a. at 1% per each \$5.565m to a maximum of 45%. 10% tax on commission play.	Regular Players: 21.25% of gross gaming revenue plus super tax. Super tax – 1% for each \$20m of gross gaming revenue above \$500m (CPI adjusted from 1994). The maximum total tax on marginal revenue is 41.25%. Commission-based Players: Concessional rate of 9% plus a super tax (additional 1.0% for every \$20m) on gross gaming revenue above \$160m (CPI adjusted from 1994) to a maximum tax on marginal revenue of 21.25%	20% of gross revenue for Gold Coast and Brisbane casinos and 10% of gross revenue for Townsville and Cairns casinos. Junkets: 10% of gross gaming revenue for Gold Coast and Brisbane casinos and 8% for Cairns and Townsville casinos.	15% of gross revenue.	Higher of: 20% of net gambling revenue; <u>OR</u> Table games at 13.75% of net gambling revenue <u>plus</u> gaming machines based on annual net gambling revenue in a financial year at: \$0-\$900,000 \$315,000 + 40% of excess.	Federal Hotels Ltd has exclusive rights to conduct casino operations and operate gaming machines in Tasmania. The tax is based on Federal Hotels; total gross profit earned in a financial year. Video gaming (poker machines): <\$30m: 25% \$30m - <\$35m: 30% of excess \$35m: 35% of excess. Other gaming – 15% of gross revenue	General Casino Tax at the rate of 8% of gross profit derived from all gaming other than poker machine gaming	20% of gross revenue Junket Operations: 10% of gross revenue
Other State Charges:	Community benefit levy of 2% of gross gaming revenue from non-commission play.	1% of gross revenue (Community Benefit Levy).	1% of gross revenue to Community Benefit Fund.	1% of gross revenue for upkeep of Burswood Park				

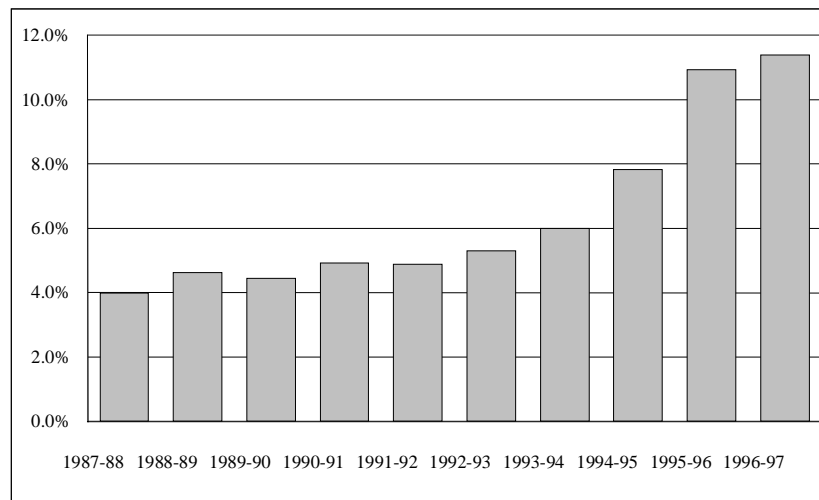
Applicability								
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The above measure of the tax burden is an average across all casino gambling activities. However, because of different rules and probabilities associated with different casino games (especially table games), taxes have a widely divergent impact at the margin. Of particular concern in this regard is the tax impact on table games favoured by overseas premium players. As noted above, these players prefer baccarat which has the lowest 'house advantage'. There are fine margins on premium play, made finer by high taxes. Indeed, it could be argued that in a market as competitive as the premium player market, the tax rates should be lower. In any case, an increase in the tax burden will destroy the commercial viability of this type of activity — a point which needs to be carefully borne in mind by policy makers in the context of the Commonwealth Government's tax reform package (discussed below).

3.2 Trends in casino taxation

Revenue from casino gambling taxes and charges has been steadily increasing for a number of years both in dollar values and as a proportion of total State and Territory gambling taxes (Chart 5). The increase is not surprising given that the number of casinos has been on the increase. In 1987-88, casino revenue represented 4 per cent of total State and Territory gambling revenue. By 1996-97, the proportion had increased to around 11.5 per cent (not insignificant but certainly not the dominating source of gambling revenue Australia-wide).

Chart 5: State & Territory gambling revenue from casinos as a % of total State and Territory gambling revenue



Source: *Tasmanian Gaming Commission (1998)*

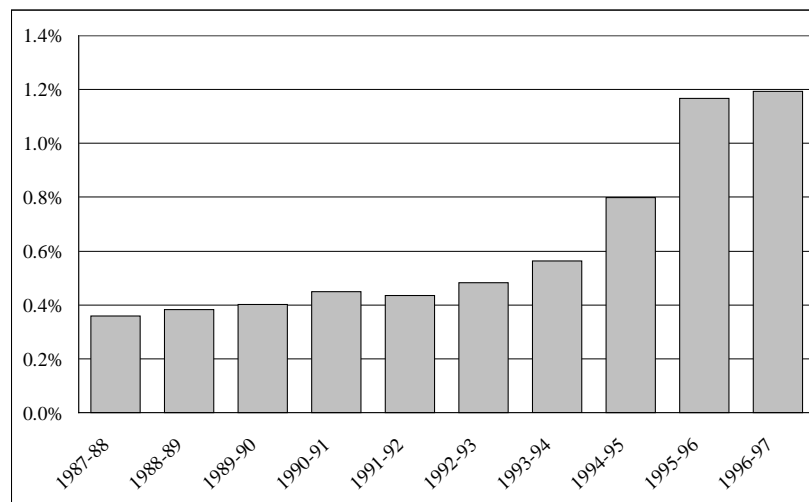
Gambling revenue from all sources represents about 10 per cent of all State and Territory revenue. In contrast, the contribution of the casino

industry, while steadily rising, has increased from less than 0.4 per cent in 1987-88 to just 1.2 per cent in 1996-97 (Chart 6).

Casino revenue is far from being one of the most important contributors to State and Territory revenue (Chart 7). Casino revenue is a long way behind revenue from FID, land taxes and vehicle registration and about the same as drivers' licences.

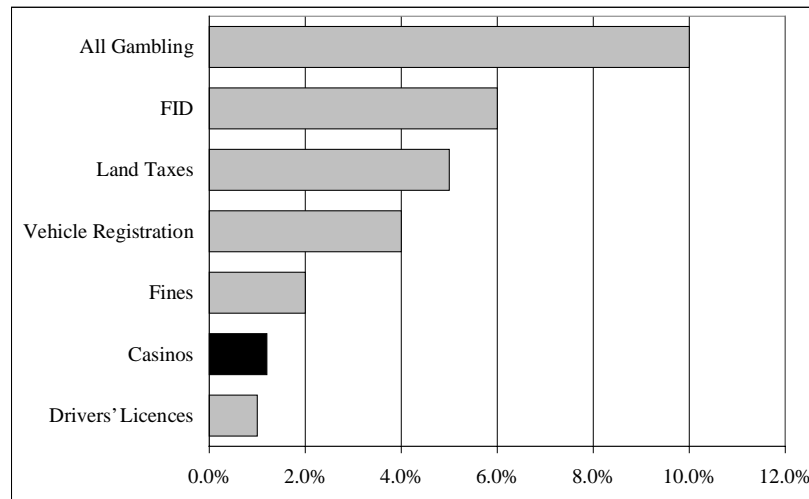
Critics of the casino industry, and gambling more generally, often argue that State and Territories rely too heavily on revenue from gambling. This is used as an argument in favour of restricting the provision of gambling services, and in the extreme, reducing them. In the case of casinos, the States and Territories are not heavily dependent on the revenue. But in any case, that is largely irrelevant. The problem is not with the casino industry but with the tax system (especially the tax base) and Federal/State financial relations. Reform of the tax system is the appropriate response, not more restraints on casino activity.

Chart 6: State and Territory gambling revenue from casinos as a % of all State and Territory revenue from taxes, fees & fines



Source: Australian Bureau of Statistics (1997), Cat. No. 5506.0 & Tasmanian Gaming Commission (1998)

Chart 7: % contribution to State and Territory revenue by selected revenue sources, 1996-97



Source: Australian Bureau of Statistics (1997), Cat. No. 5506.0 & Tasmanian Gaming Commission (1998)

3.3 Tax reform and the casino industry

Reform of Australia's tax system is at the forefront of the Commonwealth Government's policy agenda. The ACA supports the view that Australia's tax system is in urgent need of repair.

However, while supporting the need for tax reform, the ACA has concerns about how the blind application of a GST to gambling in general, and casinos in particular, would discriminate against casinos relative to other activities. The tax reform package currently under consideration in Australia will, if implemented, apply a 10 per cent GST on the net win of casinos. The net win is the mirror image of consumer expenditure. This approach has been adopted because of the practical difficulties of levying a GST on consumers of casino gambling services (and other forms of gambling as well). In effect, casinos would not be able to pass on a GST to consumers of their gaming products (because, as noted above, the rules of the game are effectively fixed). A GST would be a business tax on casinos not a consumption tax, and would make the gaming tax burden faced by casinos even more severe. The casino industry already pays a GST equivalent of around 20 per cent due to State and Territory taxes. Based on 1996-97 data, a 10 per cent GST would add a further \$195m to the industry's tax bill effectively placing a 30 per cent GST on the industry which would have to be borne by the casinos. In 1996-97, total casino industry profit was \$27m. A 10 per cent GST on gaming revenue would mean a significant fall in profit to -\$168m.

The heavily taxed nature of the casino industry, and gambling more generally, and the problems faced by the industry in relation to a GST have been recognised by the Commonwealth Government:

“The GST will apply to the operator’s margin of these activities, not to the prizes paid out. That is, the tax will apply to the difference between total ‘ticket sales’ or ‘bets taken’ by the operator of the gambling or lottery activity and the value of the prizes or winnings paid out. However, operators cannot always adjust their prices because these are often set by the rules of the game or by State government legislation relating to levels of pay-out. As the States already tax gambling highly there may need to be corresponding reductions in State gambling taxes.

Source: Commonwealth Government (1998, p.98)

In the final analysis it will be the States and Territories which determine the impact of tax reform on the casino industry. However, the ACA is firmly of the view that the Productivity Commission should give particular attention to the issue of tax reform in its general consideration of tax and gambling issues.

4. Industry regulation

The casino industry is heavily regulated. It tends to be regulated more than other forms of gambling and other industries more generally. With the exception of Christmas Island, casino regulation is a function of State and Territory governments. The industry accepts that regulation is the right of each jurisdiction in which casinos operate — and in some respects it is part of the price paid for exclusive licenses — but it is nonetheless important to ensure that regulation is not excessive. The costs need to be weighed up against the perceived benefits. In the spirit of the Hilmer reform process initiated in recent years, the onus of proof for retaining existing, or introducing new, regulations should be on those advocating regulation.

The ACA acknowledges that regulation provides local entry barriers but casinos have paid for exclusivity through large up front payments and ongoing licence fees. Despite locational exclusivity casinos do compete with each other, and with overseas casinos, and with other forms of gambling and entertainment. Moreover, exclusivity is not open ended. In at least one case, the exclusivity period has expired and other exclusivity arrangements are drawing to a close.

Reasons put forward for heavy regulation of casinos include concerns over problem gambling, protecting consumers' interests, exclusion of criminal influence and so on. But the question needs to be answered as to whether the degree of regulation is necessary. Regulations can inhibit and distort investment decisions, reduce consumer choice and often lead to a waste of resources. In particular, compliance costs associated with regulations are significant. In addition, costs can be imposed on casino operators due to delays associated with preparing submissions and gaining approval to pursue a particular course of action. Lobbying for change (or even for the status quo) in the context of the regulatory framework requires resources which could be better used in other ways. The high degree of regulation of the industry has not, to ACA's knowledge, been formally assessed in a benefit cost framework.

Casinos take their role as responsible corporate citizens very seriously. Many of them are public companies with responsibilities to shareholders. There are strong incentives for casinos to undertake the sorts of activities prescribed by the various regulations, but at less cost.

Many other activities which adults take part in involve risk (driving a car, crossing the road, eating, rock climbing, playing contact sports) but are not subject to anywhere near the same degree of regulation (including taxation) as casinos. The degree of regulation between casinos in different jurisdictions is also a source of distortion — those that are more heavily regulated are less able to compete with casinos elsewhere (both in Australia and other countries), yet it is difficult to see how perceived

'problems' associated with casino gambling would differ greatly from State to State. Casino regulation is very pervasive, sometimes extending beyond the casino itself. For example, there are instances where suppliers to casinos must be screened and approved.

It is beyond the scope of this submission to address every casino related regulation, a few specific examples illustrate some of the difficulties.

Regulations can affect the day-to-day commercial operation of casinos. The high costs of control contribute to casinos being higher cost producers than need be. There needs to be a more appropriate balance between regulations designed for non-commercial reasons and their impact on business operations. Casino operators are not always able to use available resources in the most efficient manner, reducing returns (including to shareholders) and taxes and consumer welfare. For example, prescribed ratios between the number of EGMs and tables and/or caps on the number of EGMs and table games may prevent a casino from easily meeting existing, and shifts in, consumer demand. In addition, licence requirements, while perhaps reflecting a judgement about commercial realities at the time a licence is granted, may not be appropriate over time. An example here is some kind of requirement to undertake a particular type of investment or provide certain facilities even though shifts in the market clearly indicate that pursuing the activity would be commercially undesirable.

A further example (of many) is advertising. There are constraints on casino advertising and promotion and there are from time to time calls by some to further restrict how, when and where casinos can pursue these activities for what are, after all, legal products which the majority of adult Australians find acceptable⁵. Advertising is an important avenue for consumers to identify products and their attributes and suppliers of those products, assisting them to make more informed choices. Advertising is more likely to have an impact on the distribution of gambling (and other products) rather than increasing aggregate gambling (this should not be confused with regulatory changes, such as new casino licences, which allow more gambling services to be provided). Advertising also allows suppliers to establish brand characteristics and this could help promote responsible gambling.

Casino regulation is complex. The ACA is not advocating the blanket removal of casino regulation but unwarranted and excessive regulation

⁵ See New Zealand Business Roundtable (1996) for a discussion of regulating gambling advertising and promotion, and gambling regulations more generally.

should be addressed. The present inquiry provides an opportunity for the Productivity Commission to carefully weigh up the benefits and costs of the various casino industry regulatory regimes.

5. Consumer benefits and problem gambling

5.1 Consumer benefits

Casino gambling, and gambling more generally, is sometimes portrayed as all cost and no benefit to consumers. The fact that so many Australians and others attend Australian casinos is a strong indication that people generally gain a benefit from casino gambling, even if they lose. Casino patrons enjoy the benefit of playing for its own sake plus they have the prospect of winning. Patrons enjoy casino gambling to the extent that they are prepared to spend \$1 951m on it in a year. Casinos deliver more than just gambling facilities - they are multi-faceted venues which even non-gamblers can enjoy. It is important then to ensure that consumers continue to have the ability to consume casino products to the extent they wish. Regulation can constrain this as noted earlier. In particular, concerns over so-called 'problem gambling' experienced by a few should not be the basis for excessive regulations which reduce the welfare of the vast majority of casino patrons who gamble responsibly.

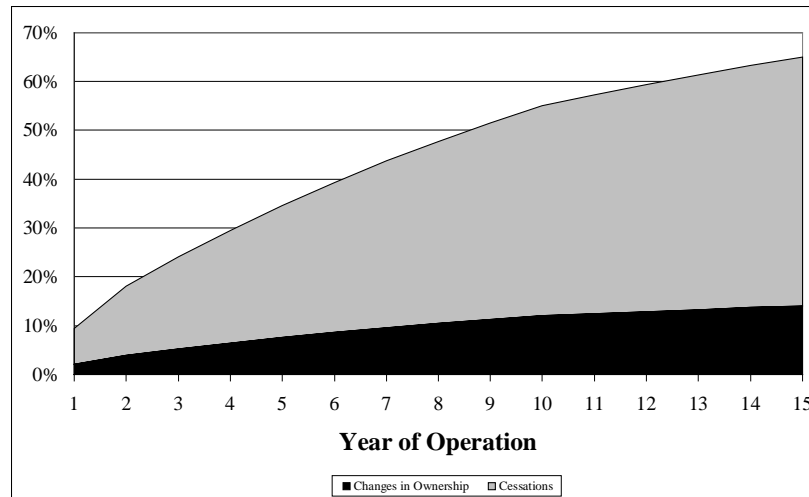
5.2 Problem gambling

The debate in Australia about gambling in general has tended to focus primarily on the issue of problem gambling. The public hearings associated with the present inquiry also reflect this concern to a large extent. While the ACA does not take the issue of problem gambling lightly, it should be considered in the appropriate context. The ACA notes that there is a good deal of paternalism in the debate about problem gambling along the lines that people are not able to make their own decisions and others are better placed to make decisions on their behalf. Interestingly, the same concerns are not demonstrated to a similar extent in relation to other risky activities that adults take part in such as those mentioned in the previous section and those which involve financial risk and may affect the immediate family — changing jobs, getting married, investing in a rental property and so on. Perhaps the best example is starting a business.

Chart 8 shows that after 8 or 9 years around 50 per cent of businesses disappear. The ABS points out that this is largely due to business failure. Failed businesses are often associated with severe financial stress, including on the families of the people involved. Family homes can be lost. Moreover, some people try, and fail, again and again. The failure rates are very high yet this is regarded, quite correctly, as the outcome of risk taking by responsible adults. People also engage in activities at high private cost

which they pursue often to the exclusion of almost everything else such as restoring old cars collecting stamps to name just two.

Chart 8: Cumulative exit rates, all businesses



Source: Australian Bureau of Statistics (1997), Cat. No. 8144.0

Problem gambling has been the subject of many research programs and reports both in Australia and elsewhere. Australian experts argue that the US definition of pathological gambling is “not compatible with the Australian attitudes and social perspectives on gambling” (Dickerson *et al*, 1997). In other words, the enjoyment of gambling is acceptable behaviour in Australia for many people. However, Dickerson *et al* (1997) also proposes an alternative definition:

“‘Problem gambling’ refers to the situation when a person’s gambling activity gives rise to harm to the individual player, and/or to his or her family, and may extend into the community.”

In the definition there is a high degree of subjectivity involved in determining who is a problem gambler (a problem associated with other approaches as well). Moreover, some of the ‘harm’ however defined would represent purely private costs to the individual concerned rather than society more generally.

Some of the research available is more qualitative than quantitative but there is some agreement that the proportion of problem gamblers in Australia is low, perhaps around 1 per cent and even lower in some States. However, the ACA does have a concern that more general subjective definitions like the one above could lead to the problem gambling net being cast too wide. That said, Australian casinos play an active role in addressing the issue of irresponsible gambling. In fact, casinos have a strong commercial incentive to establish and promote responsible approaches to gambling.

In some respects, there is a greater ability to implement appropriate programs within the confines of a casino than through a large number of facilities. Casinos work closely with community and welfare groups, appropriate signage is placed in and around gambling areas and counsellors are available if required. Casinos also contribute to the funding of problem gambling research and programs available more generally. Gamblers can be self-excluded from casinos but of course there will be a small number who attempt to get around this. Nonetheless, the ACA is opposed to more intrusive and costly forms of controlling entry by means of identity cards and so on.

6. Internet Gambling and the Casino Industry

Internet gambling has the potential to have a significant impact on Australia's casino industry. Interest by adult Australians in Internet gambling is currently not high but experience shows that when Australians become comfortable with new technology, they rapidly adopt it (VCRs, mobile telephones and the Internet itself). According to a survey conducted by the ABS, in early 1998 just 3.4% of adult Australian expressed an interest in gambling on the Internet whereas 46% expressed an interest in accessing education services on the Internet. Moreover, in the two years to February 1998, interest in gambling on the Internet fell by 36%⁶. The relatively low level of interest might be a reflection of consumer preferences for 'live' casino style games rather than interactive Internet based games because of the atmosphere, opportunities for socialising, the additional non-gambling facilities offered by casinos and so on. Alternatively, the availability of Internet gambling might not be generally known or consumers may have concerns over security and being paid if they win. On the other hand, there will be some people who prefer to gamble in the privacy of their own homes and Internet gambling might be an attractive option once real and perceived difficulties are removed.

That said, it would be naïve to assume that Internet gambling will just go away. Analysts in the US estimate that there are already around 40 Internet sites around the world, most offering casino style games, and the number continues to grow. Two years ago, Internet gambling was virtually unheard of. Some of the Internet operators are regulated by their governments. At least one site in Europe has official support of, and is regulated by, the national government of concern but it is also linked to the Red Cross which benefits from the revenue raised. Links with well-known charitable organisations would contribute to consumer confidence in such sites and contribute to their competitive edge.

The US Senate has passed a Bill which would prohibit Internet gambling and impose fines and prison terms on both *providers* of gambling services and *players* (how they would be caught is another matter). There is still a way to go before the Bill becomes law, including receiving the assent of the US President. In order to enforce the ban, should it become law, the US will need the co-operation of foreign governments. In effect, the US will be trying to control and regulate the Internet for the entire world.

⁶ Australian Bureau of Statistics (1998), Cat. No. 8128.0

Given the state of technology and the nature of the Internet, it is difficult to see how the US ban would work. Even if the ban could be somehow enforced in the US, experience shows that prohibition of an activity which the community at large regards as acceptable, and people would like to pursue, does not work. The US experience with alcohol prohibition should serve as a major warning signal to legislation in that country.

There are a number of issues of concern in relation to Internet gambling such as security, taxation regimes, crime, gambling by minors and problem gambling (to the extent that is in fact a 'problem'). None of these concerns are insurmountable even with today's technology. For example, in terms of security, stringent conditions can be placed on Internet betting both from a provider and player point of view. Taxation is a particularly important issue but one which is not confined to gambling — it has been the topic of much discussion in the context of e-commerce more generally. The latest thinking on the issue is that taxation should be based on the residency of the person purchasing the product or service. There is the issue of the degree of regulation of Internet gambling. If it is lighter than for existing casinos (or other forms of gambling for that matter), there will be distortion between forms of gambling and incentives to seek the same treatment for non-Internet gambling.

From the casino industry's point of view, the spread of Internet gambling could threaten the competitive position of individual casinos. Casino operators have paid large up front and ongoing licence fees as well as high taxes for the right to operate exclusive location-based casinos. The advent of large numbers of Internet competitors undermines the rules of operation already in place and raises questions about how appropriate current tax arrangements might be (existing casinos paying large taxes and interactive casinos paying none) in light of this new competition.

The ACA believes that trying to prohibit Internet gambling is probably a waste of time but cyberspace operators should at least face the same regulatory regime as physical casinos. Australian State and Territory governments have recognised the reality of Internet gambling and developed a regulatory control model (the Draft Model) which is meant to underpin State and Territory legislation. Queensland and the ACT have already implemented legislation which conforms to the Draft Model and a number of other States have indicated an interest in doing so. The Northern Territory has modified its gambling legislation to allow Internet gambling but it does not generally follow the Draft Model.

The Draft Model and the Queensland and ACT legislation make provision for the integrity of industry participants, specifies advertising arrangements for legal providers, allows for the proper accounting of taxes (including the important principle of allocating taxes to the player's jurisdiction, at least in Australia), credit gambling is prohibited, anti money laundering conditions are included along with provisions directed at compulsive gambling.

The ACA supports the Draft Model in-principle in that it at least attempts to place Australian providers on a more equal footing (nothing much can be done about providers from elsewhere). It also provides a basis for Australian casinos to enter the market if they wish — it may even provide Australian casinos with a competitive edge as consumers both in Australia and elsewhere will be able to place bets with known and trusted providers. However, there is an issue regarding existing exclusive casino licence agreements and whether these should also apply to Internet gambling in specific Australian jurisdictions. The ACA is of the view that these arrangements should be recognised.

7. Adequacy of ABS Casino Industry Statistics

From time to time it has been argued that there is not sufficient information on Australia's gambling industry in general, and the casino industry in particular. From the point of view of the casino industry, there is adequate coverage of the industry and its performance in broad terms, however the ACA would like to bring to the attention of the Productivity Commission a number of specific instances where improvements could be made.

In 1993 the Australian Bureau of Statistics published the first official comprehensive survey of Australia's casino industry (relating to 1991-92). Since then the ABS has published detailed industry results for 1994-95, 1995-96 and 1996-97. In the years between 1991-92 and 1994-95, the ACA filled the gap by conducting its own survey (in a fact census) which obtained similar information to the ABS. From time to time the ACA also collects information from members of a kind which supplements that published by the ABS, for example information on visitor numbers and commission ('junket') players. This information is used in a variety of ways including submissions to governments and for inclusion in information brochures published by the ACA. This material is often of a commercial-in-confidence nature and not for public release. Individual casinos also collect a range of data including market research on who attends casinos, which games are preferred and so on. Again, some of it is commercial-in-confidence and public release might compromise the competitive position of individual casinos.

The ACA understands that the ABS casino survey will now be annual. Interestingly, there has only been one published survey of the gambling industry in general (for 1994-95). The decision to carry out an annual survey of the casino industry may have more to do with the fact that it is relatively inexpensive to do so (only 14 high profile members of the industry) rather than a reflection of a view that casinos are the major part of the gambling industry and associated so-called 'problems'. The ACA is concerned that the focus of the ABS on casinos as opposed to all forms of gambling might lead to an unwarranted public view of the casino industry and its place in the industry as a whole. More attention paid to other forms of gambling is the solution rather than reducing the coverage of the casino industry.

The combination of now regular casino statistics from the ABS and the data prepared by the Tasmanian Gaming Commission provides a comprehensive picture over time of the structure, performance and general activity of the casino industry. However, as noted above the ACA would like to draw the Productivity Commission's attention to some areas for improvement. It would be helpful if the ABS published a more detailed

analysis of various taxes, charges and levies paid by casinos. The ACA would like to see community benefit levies separately reported rather than being 'hidden' in total gambling taxes. Also, payments for casino licence fees should be separately identified along with fringe benefit, payroll and land taxes (currently the latter three taxes are grouped together). These issues have been raised with the ABS by the ACA.

A further area for improvement is the treatment of domestic versus international players, especially premium commission players. International commission players, while small in number, contribute a significant amount to casino industry gambling revenue. Some commentators, analysts, opponents of casinos (and gambling more generally) and the media take the amount of gambling revenue published by the ABS and divide by the adult population to get casino gambling per capita. The Tasmanian Gaming Commission also takes this approach. This will significantly overstate the figure for the Australian population and States where commission play is important. The inclusion in the ABS survey of a split in gambling revenue between international commission players and others would help overcome the misuse of casino gambling statistics. However, the ACA acknowledges that it may be difficult to collect these figures due to the intensely competitive nature of the international commission player market and the reluctance of some casinos to release such commercially sensitive information (even though it would only be used in aggregate).

The major concern the ACA has with ABS statistics is the treatment of industry gross product. Value added in 1996-97 is estimated by the ACA to be around \$1 300m. The ABS estimate of industry gross product for the same year is \$920m. The difference is approximately equal to the amount of gambling tax paid by the industry. Industry gross product and value added are conceptually similar measures. However, ABS does not include gambling taxes as part of industry gross product. Presumably this is because they are defined to be part of selected expenses. Gambling taxes are an 'expense' in that they impact on profit but they are not something bought in from outside of the casino business to generate income – taxes are derived from the income of the industry and should properly be included in value added (or industry gross product). For most industries in Australia industry gross product and value added will be the same because most industries do not have special taxes like gambling taxes (alcohol and tobacco are in a similar position to gambling). By not including gambling taxes in industry gross product (or publishing an estimate of value added), official casino industry statistics understate the direct contribution of the casino industry to the Australian economy. The ACA has raised these concerns with the ABS on a number of occasions and the ABS indicated that it would look into the issue but to date the issue has not been resolved.

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