



The Productivity Commission's Gambling Inquiry: 3 Years On

Gary Banks

*Presentation to the
12th Annual Conference
of the National Association
for Gambling Studies
Melbourne, 21 November*

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Foreword

This paper is an edited version of my address to the 12th Annual Conference of the National Association for Gambling Studies, on 21 November in Melbourne. It is being reproduced in 'hard copy' following requests for it to be made more accessible.

The paper responds to the coincident timing of the NAGS conference with the third anniversary of the Commission's report on *Australia's Gambling Industries*, by reflecting on key developments since then. It considers how the Commission's assessment of the extent and impacts of problem gambling has stood up, examines trends in gambling expenditure, and how effective government and industry responses to problem gambling have been. The paper concludes by identifying some policy development and regulatory issues that need priority attention.

Research for the paper has had to rely primarily on public sources. I am grateful to Monika Binder and Ross Wilson, from the Commission's Canberra office, for invaluable assistance in collecting and analysing the available information.

Gary Banks

Chairman

December 2002

Key Points

- Considerable progress has been made in addressing problem gambling since the Productivity Commission's inquiry.
 - Recognition within the industry that there *is* a problem, and acceptance by both governments and industry that existing measures were inadequate to deal with it, are perhaps the most significant changes.
 - Regulatory and self-regulatory initiatives that have been introduced are extensive, with some useful innovations.
- It remains unclear whether problem gambling and its associated impacts have moderated.
 - Since 1997-98, expenditure on gambling has risen by 15 per cent to reach \$14 billion, or \$1000 per adult. This is slower growth than previously, which may partly reflect some policy actions. But the slowdown can be more plausibly attributed to maturing markets for gaming machines.
 - The gaming machine share of gambling expenditure has risen further to 57 per cent in 2000-01 from 52 per cent in 1997-98 (and 34 per cent in 1991-92). This is significant, because the costs of problem gambling were found to loom larger for gaming machines than other gambling modes.
- Despite the slowdown in expenditure, State and Territory budget forecasts indicate a continuing rise in government dependency on gambling taxes.
- Significant deficiencies remain in the regulatory environment for gambling. Areas deserving priority attention by governments include:
 - more research on what actually works among possible consumer protection measures;
 - the need to establish arrangements to ensure truly independent and transparent research;
 - a need for effective monitoring and enforcement of industry compliance with consumer protection regulations; and
 - further reforms to policy-making and regulatory governance arrangements, especially to ensure the substantive independence of the regulator.

Introduction

It is almost three years to the day since the Productivity Commission delivered to Government its final report on *Australia's Gambling Industries* (PC 1999). In releasing the report, and issuing his Government's initial response, the Prime Minister observed:

The Productivity Commission report is the first comprehensive investigation of gambling in Australia and it is the first time we have had a complete picture not only of the economics and regulatory structure of the gambling industries, but also of the social consequences of the recent rapid expansion of gambling in this country. (Howard 1999)

The 1000 page report was the culmination of an independent public inquiry that lasted some 16 months and attracted 320 submissions. It involved a draft report, two rounds of public hearings across all states and territories, six roundtables with interest groups and experts, and 60 meetings 'on location' with governments, the industry, community groups and individuals. The analysis in the report also drew on an extensive literature, both in Australia and overseas, supplemented by three national surveys and other original research by the Commission itself.

The report's essential message was that liberalisation of the gambling industries had generated major social costs as well as benefits. It also found that the social impacts, related to 'problem gambling', had not been adequately addressed, either in policy formulation or industry regulation.

The report evoked a variety of reactions, ranging from laudatory to hostile. There was support for, or at least acceptance of, the report by governments at all levels. And non-government organisations praised it. But the industry's reaction was mixed. Some, although critical of aspects of the report, responded constructively. Others were vehemently opposed to the report and its findings.

Since then, there has been a flurry of activity directed at ameliorating problem gambling. The Commonwealth Government initiated a Ministerial Council on Gambling and introduced legislation banning interactive gambling. Most state and territory governments introduced or proposed new 'responsible gambling' policies. And those in the industry who were initially hostile to the Commission's report, began introducing their own responsible gambling measures. Indeed, the Commission's report is increasingly being invoked as an authoritative source to support the industry's position on gambling issues, including problem gambling.

Looking back at our inquiry and at subsequent developments, this paper addresses three main questions:

- How well has the Commission's assessment of the extent and impacts of problem gambling stood up?

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- What has happened to the level and composition of gambling activity?
 - How effective has been the response by government and industry, and what are the priorities for the future?

How many ‘problem gamblers’?

Perhaps the most startling finding, for many people, was the Commission’s estimate that nearly 300 000 Australian adults had significant problems with their gambling, with 130 000 experiencing severe problems.

These findings should not have come as a surprise, as they were consistent with a number of other studies. However, the extent of problem gambling had tended to be downplayed, by referring merely to their 1 to 2 per cent share of the total population. This is sometimes also misconstrued as 1 to 2 per cent of gamblers. However, as the Commission found from its survey, the proportion of *regular* gamblers experiencing significant problems Australia-wide was more like 15 per cent. And, because problem gamblers spend a lot more time and money at it than other (‘recreational’) gamblers, their prevalence in a gambling venue at any time would normally be higher again. Indeed, the Commission estimated (again consistently with some earlier studies) that problem gamblers accounted for around one-third of the industry’s total revenue.

Key sections of the industry initially disputed these findings and the methodology on which they were based. They either denied any causal connection between gamblers’ problems and gambling, or saw the impacts as having no regulatory implications, being simply the product of rational choice.

The public relations consequences of this stance contributed to the gaming industry re-thinking its strategy, forming the Australian Gaming Council (AGC) in June 2000 to represent it nationally. Since then, there has been a marked turnaround in the industry’s public advocacy. In 2001, the AGC’s executive director stated:

We recognise and acknowledge that some of our customers have problems with their gambling, with devastating consequences for themselves and their families, and costs for the broader community. (Flannery 2001)

The Commission’s assessment of the prevalence of problem gambling used the South Oaks Gambling Screen (SOGS), buttressed by self-assessment questions and other indicators. As noted, using the SOGS, the Commission estimated that about 2.1 per cent of the adult population were problem gamblers, with 1 per cent having ‘severe’ problems (applying the ‘Dickerson method’).

While there have been no other national surveys conducted since then, there have been a few done at the state or regional level. However, most have made significant modifications to the SOGS, rendering comparison difficult. (A selection is provided in table 1). Of these, one conducted in South Australia by the Centre for Population Studies in Epidemiology, using a much larger sample for that State than the Commission could manage, estimated that 1.9 per cent of adult South Australians were problem gamblers (SOGS 5+) compared to the Commission's estimate of 2.5 per cent (which we had acknowledged was probably biased upwards). Another, commissioned by Tattersall's from ACIL and applying just to gaming machines in Ballarat, Victoria, came up with a lower estimate of 1 per cent for that district.

A better comparative test was a survey of 5445 adults in the Australian Capital Territory, conducted by the University of Western Sydney's Australian Institute of Gambling Research for the Gambling and Racing Commission. It broadly followed the Commission's methodology and yielded a comparable estimate.

The SOGS has been the most widely used and validated test around the world, including Australia, and was therefore a logical choice. But it is not without its limitations and the Commission supported the development of more refined tests, provided they are themselves appropriately validated.

The Queensland Government conducted a large sample survey in that State this year, using a recently developed screen from Canada: the Canadian Problem Gambling Index (CPGI). Like the Commission's own approach, the CPGI is based on the notion of a problem gambling 'continuum', rather than a simple yes or no categorisation. While the Queensland research found that only 0.83 per cent of adults scored above a defined problem gambling threshold, it estimated that another 2.7 per cent were in a 'moderate risk' group.

The search for an 'ideal' screening instrument is worthwhile, but we should not allow it to become a distraction. What does seem important is to apply a given test, around which there is reasonable professional agreement, consistently across jurisdictions and over time. Otherwise there is a danger of creating more confusion than clarity about the extent of problem gambling and, importantly, whether it is actually responding to remedial measures.

Whether the actual *number* of problem gamblers, equates to 1, 2 or 3 per cent of the population, we are still talking about hundreds of thousands of Australians, and several hundred thousand more who are directly affected by their affliction. The precise number is a nicety, with little bearing on the need for effective policy action.

Table 1 Recent estimates of problem gambling prevalence

<i>Study</i>	<i>Region</i>	<i>Survey methodology</i>	<i>Problem gambling screening tool</i>	<i>Prevalence estimates</i>	<i>PC estimates for the relevant state or territory^{a, b}</i>
Australian Institute for Gambling Research (2001)	ACT	Random survey of 5445 adults in the ACT stratified, for example, by gender and age and using the CATI (computer assisted telephone interview) system.	SOGS and other indicators of harm.	SOGS 5+: 1.9% or 5297 adults. SOGS 10+: 0.45% or 1250 adults.	SOGS 5+: 2.06% or 4588 ACT adults. <i>Dickerson method:</i> 0.73% or 1629 ACT adults. SOGS 10+: 0.07% or 146 ACT adults.
Centre for Population Studies in Epidemiology (2001)	SA	Random survey of 6045 adults throughout SA using the CATI system.	Modified SOGS and self-assessment ratings.	2.0%, or 22 000 adults consisting of: <i>Modified SOGS 5+:</i> 1.9% and <i>Self-assessment:</i> 0.1% rating gambling problem between 5 and 10 on a scale of 1 to 10.	SOGS 5+: 2.45% or 27 809 SA adults. <i>Dickerson method:</i> 1.38% or 15 627 SA adults.
ACIL (2001)	Ballarat, Victoria	Random survey of 1006 adults in Ballarat using the CATI system.	Modified SOGS and self-assessment.	<i>Modified SOGS 5+:</i> 1% of adult population have problems as a result of playing gaming machines. <i>Self assessment:</i> 1% rated their gambling problem 7 and higher on a scale of 1 to 10. Another 3% rated their gambling problem as 5 or 6.	SOGS 5+: 2.14% or 75 925 Victorian adults. (Roughly three quarters of whom as a result of gaming machines.) <i>Dickerson method:</i> 0.82% or 28 974 Victorian adults.
Qld Government (2002)	Qld	Random survey of 13 082 adults throughout Qld using the CATI system.	The recently developed CPGI (Canadian Problem Gambling Index).	<i>CPGI score of 8 to 27 (problem gambling group):</i> 0.83%, or 21 910 adults. <i>CPGI score of 3 to 7 (moderate risk gambling group):</i> 2.70% or 71 227 adults. <i>CPGI score of 1 to 2 (low risk gambling group):</i> 8.18% or 215 824 adults.	SOGS 5+: 1.88% or 48 609 Qld adults. <i>Dickerson method:</i> 0.76% or 19 665 Qld adults.

^a Estimates based on the Dickerson method relate to severe gambling problems (PC 1999, pp. 6.44–46, table 6.11). In its report, the Commission noted that state and territory prevalence rates, particularly for South Australia, were generally less reliable due to smaller samples sizes. ^b The estimates relate to all modes of gambling. The Commission estimated that 71 per cent of problem gamblers were so because of gaming machines.

Anyone obsessed with decimal points should also bear in mind that *all* survey screens are likely to understate the extent of problem gambling — however they may choose to define it — simply because people have a natural reluctance to reveal the facts about such matters. That is why the estimate of gambling expenditure from the Household Expenditure Survey is one-quarter of the actual amount based on industry statistics — rendering that instrument of little use for analysis of gambling patterns or problems. The Commission asked 400 self-confessed problem gamblers in counselling how they would have responded to a survey prior to them actually seeking help. Only 29 per cent said they would have answered honestly; one-third said that they would have concealed their problems, and some 24 per cent said they would have refused even to answer the survey!

With this in mind, arguably the biggest practical challenge confronting prevalence studies is not the precise screening instrument, but rather the extent to which the design and presentation of the questionnaire can counter this inherent downward bias. The extent to which that happens in practice will hinge partly on the motives and interests of the survey sponsor, and on the skill and persistence of the interviewer.

Cost and benefits of liberalising gambling

A novel feature of the Commission's study was its attempt to quantify the (social) costs of gambling as well as the benefits. This was seen as necessary to counter the natural tendency to ignore what cannot be valued.

The real benefits are to consumers

A second source of novelty was the Commission's approach to measuring the benefits of the gambling industries. Typically, these had been seen as deriving primarily from the jobs and income associated with the industry. The Commission showed that this was a 'furphy'. Unleashing a previously constrained activity like gambling does not in practice create many new jobs. What it does do is enable people to spend more on gambling and less on other things. (The vocal complaints of retailers whenever new gambling operations set up in their vicinity bear testimony to this at work.) But that also means that the jobs and income created in the gambling industry have a counterpart in jobs and income destroyed in other parts of the economy. Except in depressed areas where unemployment is very high, the gambling industry's new jobs will be some other industry's existing jobs.

The real benefits from the deregulation of gambling come from people having increased access to something they like doing (better than some other things) and at

a price lower than they would ultimately be prepared to pay. This ‘consumer surplus’ — while not without conceptual limitations — can be estimated, and it turned out to be sizeable, amounting to billions of dollars.

The industry, while puzzled and upset at the Commission’s dismissal of the production-side gains from its expansion, was gratified at the discovery that there were quantifiable benefits on the *consumption* side, which had not previously been estimated. (Some members of community groups and the press, however, were not so sure.)

But where the Commission again parted company with the industry — or at least some of its consultants — was in not treating the consumption gains equally for recreational and problem gamblers, discounting them for the latter group to a level that corresponds to more normal expenditure. The fact that many problem gamblers report an inability to control their gambling, despite a desire to do so, and resort to self-exclusion and other devices to constrain themselves, provides strong support for this approach.

Social costs need to be accounted for

When it came to the *costs* of gambling, the Commission recognised that the psychic or emotional impacts on problem gamblers and their families — such as through family break-up and depression — are valid societal costs for which a value should also be assigned. That is not straightforward, of course, and it was necessary to use proxy measures and provide low and high estimates. Even then we erred on the conservative side (not attempting, for example, to place a value on the social cost of the 35 to 60 suicides attributed annually to problem gambling). As with the benefits, the costs turned out to be substantial.

The upshot was our estimate that the net impact on society of the liberalisation of gambling could be anywhere from a net loss of \$1.2 billion to a net benefit of up to \$4.3 billion. There were found to be significant differences by gambling mode, however, with lotteries showing a clear net benefit, whereas gaming machines and wagering included the prospect of a net loss. The reason for this is the much higher incidence of problem gambling for these modes.

The Commission’s methodology has been broadly endorsed by most (though not all) of those professional economists who have acquainted themselves with it. And, since the inquiry, there have been a number of studies on the regional impact of poker machines that have drawn on the Commission’s approach.

Comparison with more recent studies

The South Australian Centre for Economic Studies, in a study commissioned by the Provincial Cities Association of South Australia, found predominantly negative impacts (net losses) from gaming machines in small regional economies (even with the assumed reinjection of money lost in taxes), but with some possibility of a net benefit for the State as a whole. This was broadly consistent with the Commission's own findings (table 2).

Table 2 Comparison of net benefit estimates

Study	Gambling mode	Year	Region	Range	PC equivalent ^a
				\$m	\$m
PC (1999)	All gambling	1997-98	Australia	-1221 to +4277	not applicable
PC (1999)	Gaming machines	1997-98	Australia	-2634 to +1122	not applicable
SA Centre for Economic Studies (2001)	Gaming machines	1998-99	SA provincial cities	-43 to -0.6	not estimated
			Other non-metro	-24 to +9	not estimated
			Adelaide metro	-213 to +44	not estimated
			SA	-280 to +54	-213 to +91
ACIL (2001)	Gaming machines	2000-01	Ballarat, Vic.	+98 to +277	-19 to +8

^a estimate for the same region based on the Commission's methodology.

ACIL's study for Tattersall's on the impact of gaming machines in Ballarat (Victoria), which purported to be based on 'the same framework as the Productivity Commission applied', as well as the Commission's estimates of the social costs of problem gambling, produced a much more beneficial outcome. On expenditure of \$74 million in 2000-01, ACIL estimated that there would be a net gain to Ballarat ranging from \$98 million to \$277 million.

In contrast to the South Australian study, this result was far more positive than would be inferred from the Commission's work. Puzzled by this, I asked the Commission's researchers to examine the study more closely. What they found was that ACIL's methodology differed from that of the Commission (and the South Australian Centre for Economic Studies) in two crucial respects: *first*, it did not discount estimates of consumer benefits for problem gamblers (indicating a continuing attachment to the 'rational choice theory' of problem gambling); and *second*, it used highly inappropriate assumptions about the demand for gambling (namely constant demand elasticities, which should only be used to measure the impact of small changes — not something close to a ban).

When the Commission’s analytical framework was consistently applied, the outcome for Ballarat ranged from a net *loss* of \$19 million to a maximum gain of only \$8 million — well short of the \$1/4 billion gain produced by ACIL (table 2).

This illustrates a theme to which I will return: namely the importance of securing arrangements for independent research in this complex and highly contentious area of public policy. Otherwise we will end up with a lot of research which is mainly directed at satisfying the needs of its sponsor. (This has already become a major problem in the United States, where the ‘pedigree’ of a piece of gambling research has become the surest guide to its findings, and the public debate is the poorer for it.)

Gambling regulations were inadequate

The Commission recognised that its quantification exercise could only produce ‘ballpark’ estimates that would be of limited usefulness for policy. What the exercise did make clear, however, was that the social costs as well as the benefits of gambling were likely to be substantial. This affirmed the need for considerable care in regulating the conditions of access to gambling. It also supported the Commission’s general principle that regulation should be directed at effectively limiting the costs of problem gambling, without unduly impacting on the benefits for recreational gamblers.

In practice, regulatory processes and measures in all jurisdictions were found to fall well short of that ideal. The Commission observed an ‘incoherent’ regulatory environment, one characterised by complexity, fragmentation and inconsistency. Regulation was found to be driven mainly by revenue-raising and probity considerations, rather than the more fundamental objectives of consumer protection and amelioration of social costs.

Deregulation had greatly expanded the availability of legal gambling — particularly gaming machines — to an extent unprecedented in the Western world. But there had been little attempt to ensure that people could be adequately informed about the price and nature of the product, its risks to their wellbeing, or sources of assistance. On the contrary, advertising and promotion typically spread the message that “*everyone* can be a winner!” There was also little attention to issues such as the access of problem gamblers to cash and credit on gambling premises, or to containing potentially hazardous features of machine design (such as spending rates or bill acceptors). Moreover, mechanisms to enable problem gamblers to exclude themselves from venues were limited (or poorly implemented) and the scope to

provide gamblers with pre-commitment options to limit their losses had hardly been considered (other than for the emerging Internet gambling industry).

This was a pretty tough report card; however, most governments took it on the chin. From the outset of the inquiry they began to modify aspects of their regulatory frameworks to address a number of its deficiencies. (In some cases, they conducted their own supplementary reviews to facilitate this, and to provide for some differentiation in response.)

As noted, the gaming industry itself began to appreciate that its initial state of denial was not sustainable and, through the newly formed AGC, developed more proactive strategies to address the social costs associated with its activities. As the Council's executive director has said:

Clearly if the industry, especially one as subject to regulation as ours, is to have a long-term and healthy future, it cannot afford to be out of step with community attitudes. (Flannery 2001)

The Council accordingly developed a Responsible Gaming Code, as did the Australian Hotels Association (AHA), New South Wales Clubs and a variety of other segments of the industry.

Before looking at these initiatives more closely, it may be instructive to see what has happened to expenditure on gambling in the period since the Commission's inquiry. Problem gamblers account for a sizeable proportion of total gambling expenditure, or industry revenue. If measures to address the problem are working, this could be expected to become apparent in the data.

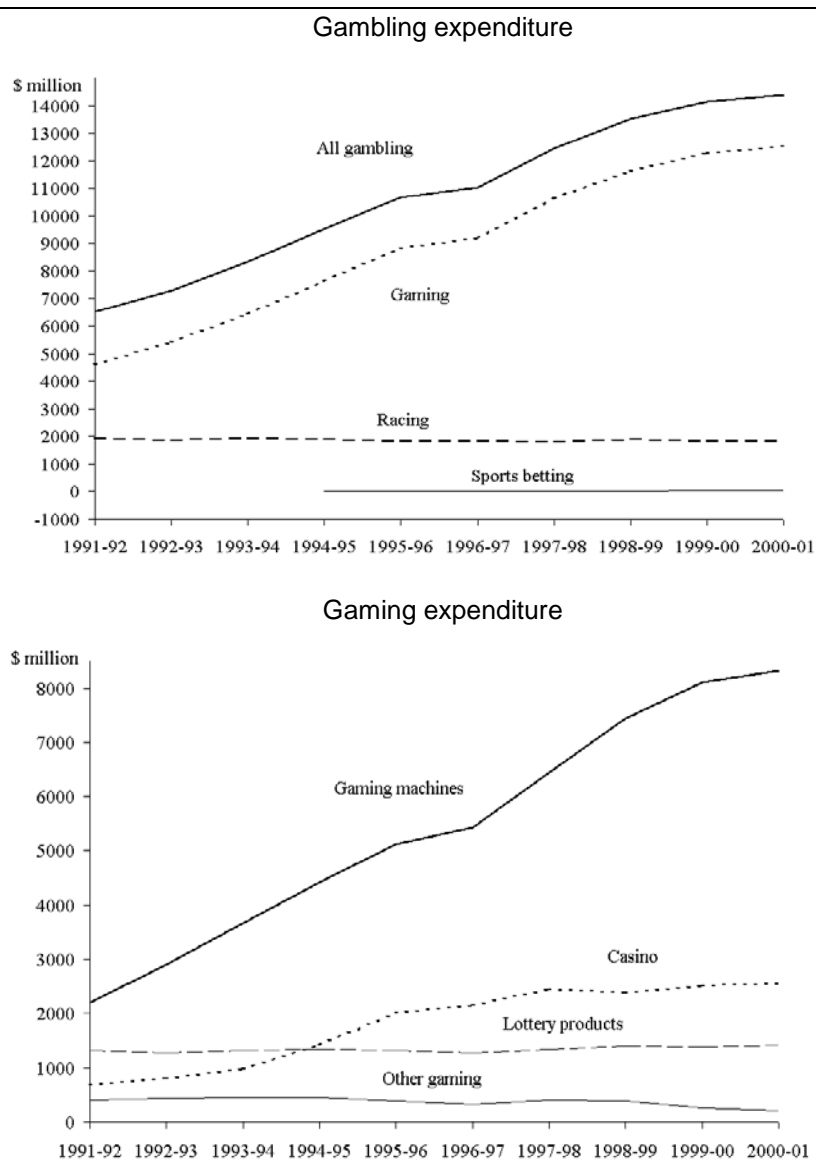
A recent tapering in 'expenditure' growth

In the decade before the Commission's inquiry, expenditure on gambling ('losses' in common parlance) more than doubled in real terms, rising from 2 to 3 per cent of household disposable income, or an average of around \$800 for each adult in this country.

Most of this came from the liberalisation of gaming machines, the number of which more than trebled, reaching some 185 000. (As the industry itself first noted, and detailed Commission research confirmed, this was about one-fifth of the number of *comparable* machines in the world at that time — and five times as many per person as in the United States). The *accessibility* of gaming machines also increased greatly, as they spread from their original stronghold in New South Wales clubs, to include pubs and clubs across all states and territories except Western Australia.

Since 1997-98, gambling expenditure has continued to rise, reaching \$14 billion in 2000-01, or \$1000 per adult. But its growth has slowed discernibly (figure 1) largely reflecting a slowdown in gaming machine expenditure. Expenditure has risen by 15 per cent (in 2000-01 dollars), compared to a rise of 30 per cent over the preceding three years.

Figure 1 Trends in aggregate gambling expenditure^{a, b, c}

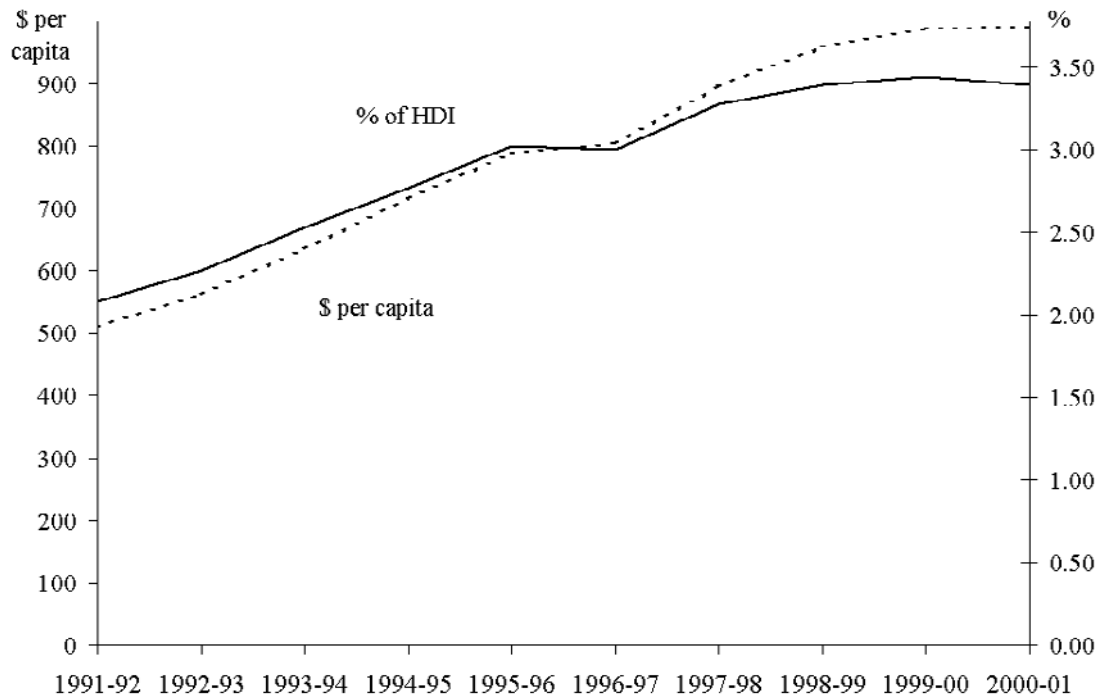


^a Expressed in 2000-01 values. ^b 'All gambling' is gaming, racing and sports betting. 'Gaming' is gaming machines, casino, lottery products, minor gaming and keno. 'Racing' is betting with bookmakers and totalisators, both on racecourses and off-course (TAB). 'Sports betting' is the wagering on all types of local, national or international sporting activities other than the established forms of racing. Expenditure on sports betting is about \$42 million in 2000-01 compared with about \$13 million in 1994-95 when data was first collected. ^c Gaming machines' do not include gaming machines in casinos. 'Lottery products' is lotto, tattsлото, general lotteries, instant money and soccer pools. 'Casino' is wagers on table games, gaming machines and keno systems. 'Other gaming' is minor gaming and keno.

Data source: Tasmanian Gaming Commission (2002).

The ‘tapering’ of expenditure is more obvious on a per capita (adult) basis, or as a proportion of household disposable income (HDI) — where there has actually been a decline in the most recent year, from a peak of close to 3.5 per cent (figure 2).

Figure 2 Trends in gambling expenditure shares^{a, b}



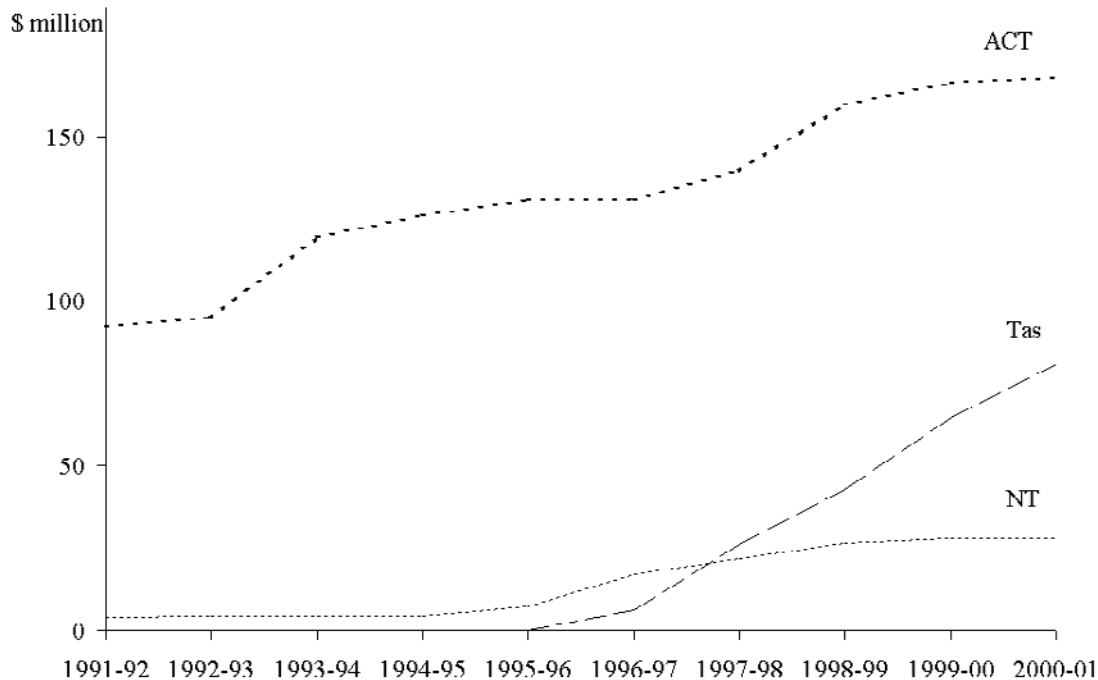
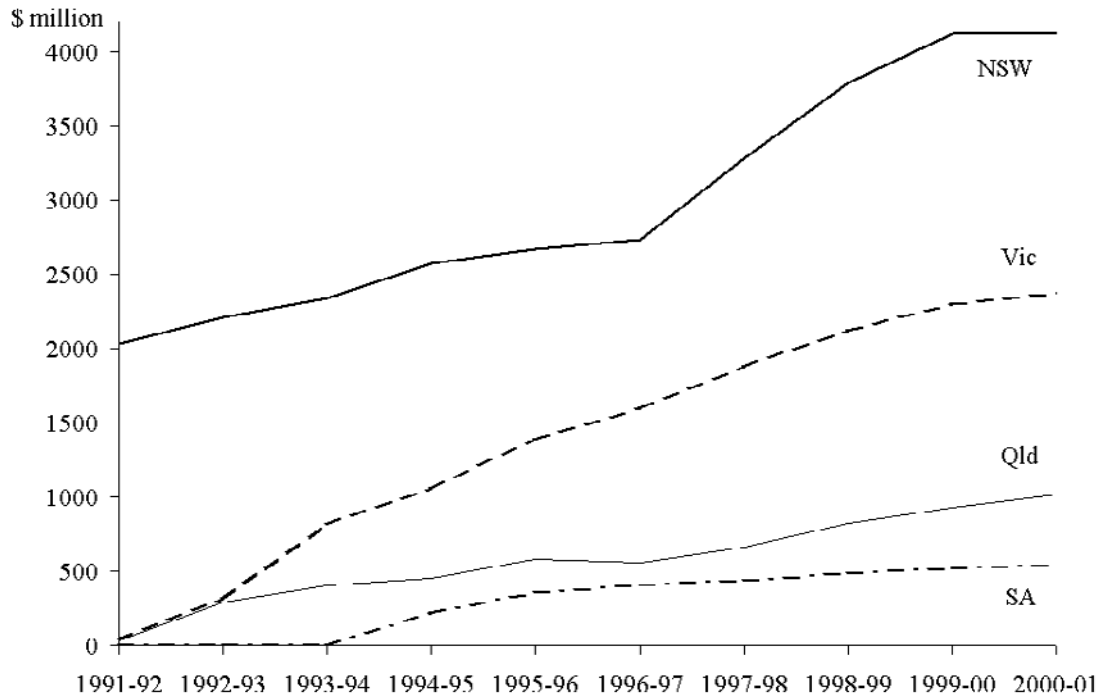
^a Expressed in 2000-01 values. ^b Per capita represents persons over the age of 18.

Data source: Tasmanian Gaming Commission (2002).

At face value, this might suggest that initiatives to moderate problem gambling have had some success. While the slowdown commenced before many harm minimisation measures came into effect, the most marked change in spending occurred in the most recent year, especially in New South Wales and the Australian Capital Territory. (Indeed, in New South Wales, revenue growth from gaming machines, which had still been buoyant in 1999-00, stopped dead in 2000-01.) Moreover, there were other influences that had kicked in earlier, including the expansion of gambling help services in most jurisdictions and the heightened public awareness of gambling problems at the time of the inquiry.

However, the fact that the slowdown or decline has not been consistent across jurisdictions complicates matters and — assuming that the differences cannot be attributed simply to differences in the measures taken — raises the possibility of other explanations (figures 3 and 4).

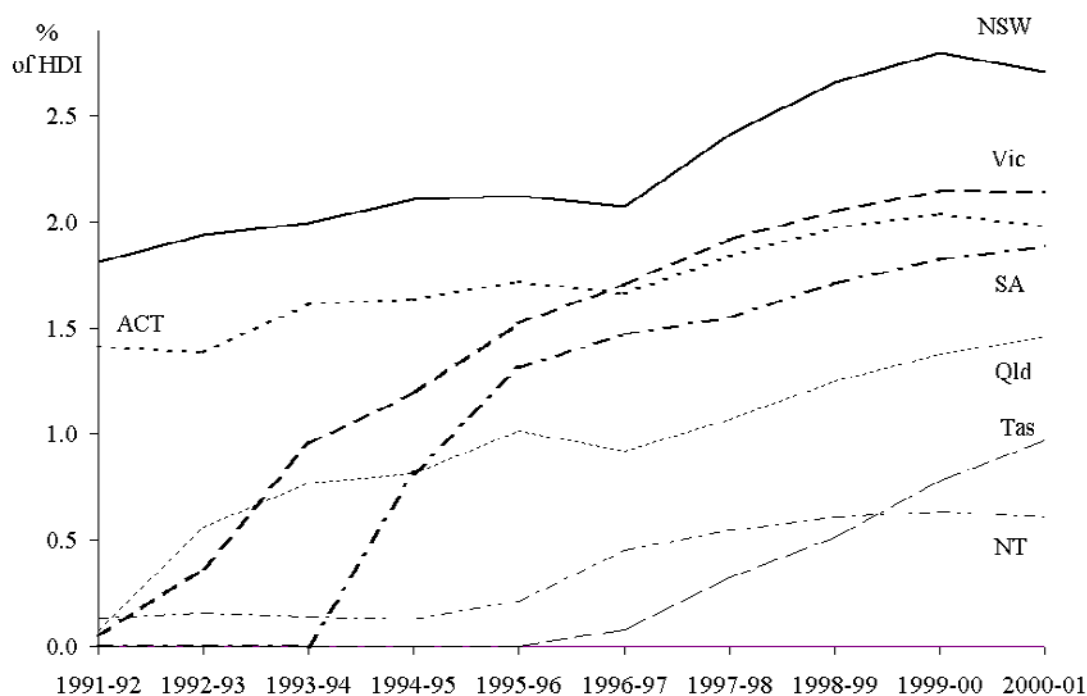
Figure 3 Trends in gaming machine expenditure, by state and territory^{a, b, c}



^a Expressed in 2000-01 values. ^b 'Gaming machines' do not include gaming machines in casinos. Hence, although the series for Tasmania begins in 1995-96, it does not take account of gaming machines in the casino which existed prior to that time. ^c Gaming machines (outside the casino) are prohibited in Western Australia.

Data source: Tasmanian Gaming Commission (2002).

Figure 4 Trends in gaming machine expenditure as a share of HDI, by state and territory



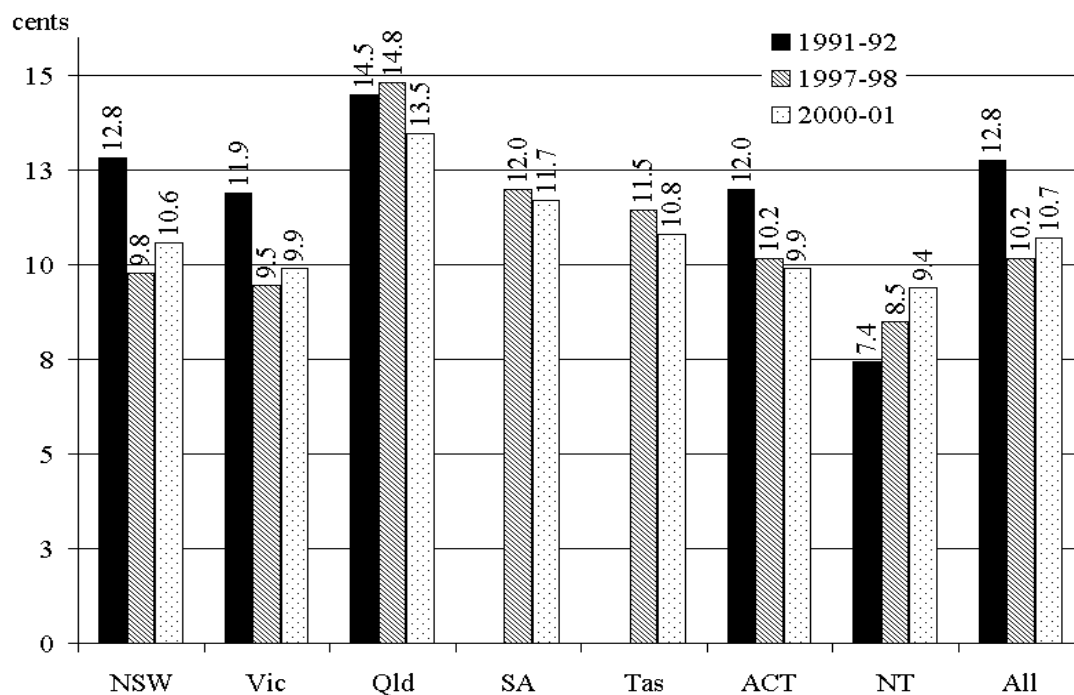
Data source: Tasmanian Gaming Commission (2002); Commission estimates.

One possibility is that demand has been affected by what appears to have been a decrease in the rate of return, or increase in the 'price', to gamblers in Victoria and New South Wales over the past two years (figure 5). But the implied price sensitivity of demand required to explain the observed impact on expenditure, making some assumptions about the counterfactual trend, is implausibly high (up to 5.4, according to 'back of the envelope' calculations).

A 'maturing' market?

A plausible explanation of the different expenditure trends across jurisdictions is that they simply reflect the maturation (or emerging saturation) of the gaming machine market. The typical market growth pattern for any new good or service is one of relatively rapidly rising expenditure initially, while consumers 'come on board', followed in time by a slowing and then levelling out of expenditure (or proportionate expenditure) as demand becomes satisfied. The fact that the gambling market contains a special group of compulsive consumers, whose wants do not conform to the normal pattern, needs of course to be taken into account. However, there is a limit to the spending of even problem gamblers (as their frequent resort to theft and larceny illustrates) and over time many will become 'cured' and leave the pool.

Figure 5 Implicit gaming machine prices^{a, b}



^a Price is obtained by dividing expenditure by turnover, expressed as (1-machine return rate). For example, if a person put \$1 through a machine in NSW in 2000-01, he or she could expect to lose 10.6 cents. ^b Other than in casinos, there were no gaming machines in South Australia and Tasmania in 1991-92, and none over the period in Western Australia.

Data source: Tasmanian Gaming Commission (2002).

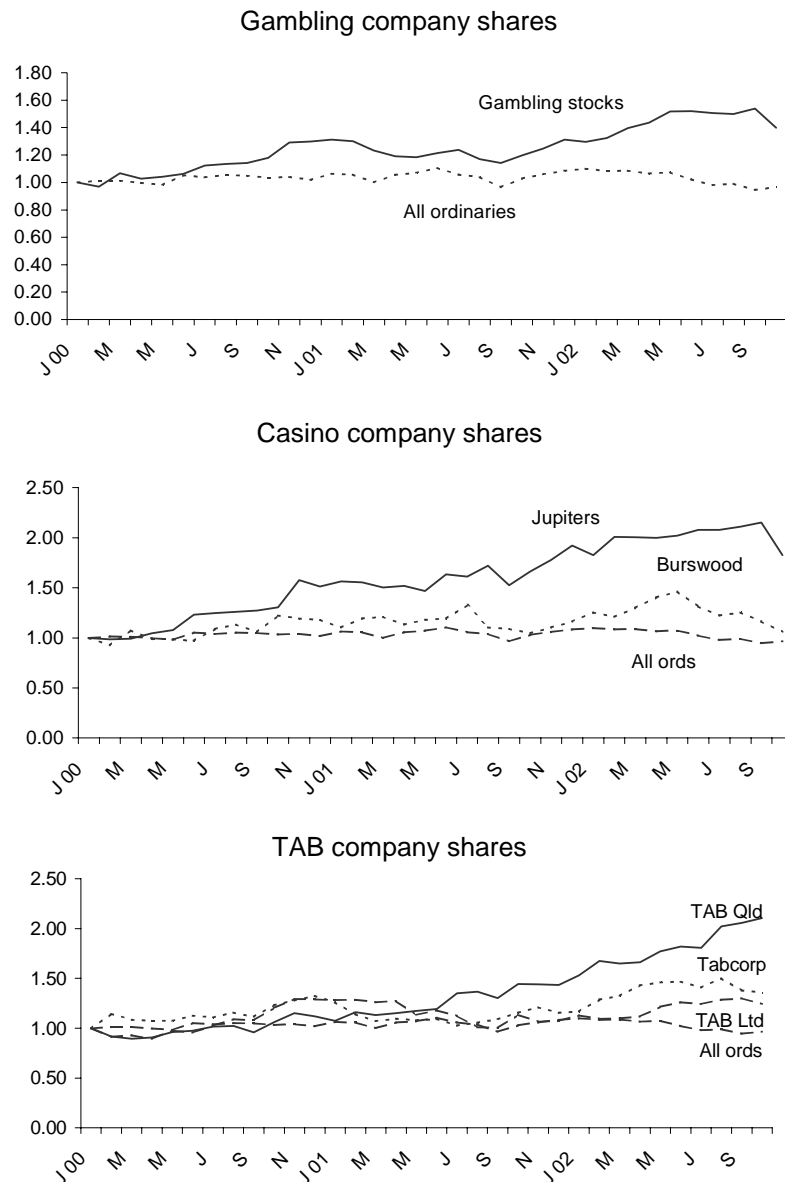
Thus, we observe that the tapering of expenditure is most pronounced in New South Wales and the Australian Capital Territory, which have had access to gaming machines for longer, and it is generally also more pronounced in those jurisdictions where household spending on gambling is highest.

The main exception is the Northern Territory, but this could reflect the dual influence of a longstanding market, yet a relatively constrained one in terms of accessibility of gambling relative to the total population. The relative accessibility of gambling could also explain why the tapering of expenditure in New South Wales has occurred at a higher share of household disposable income than in the Australian Capital Territory and Victoria. New South Wales has substantially more gaming machines per capita than Victoria, and the Australian Capital Territory's machines are confined to clubs and the casino.

That the tapering of gambling (and gaming machine) expenditure — or industry income — reflects maturing markets, particularly in the larger states, may find some additional support in stock market trends. Gambling stocks have outperformed other stocks on average for much of the past three years, suggesting that the industry's

prospects have continued to look relatively good to investors. However, if we look more closely at individual gaming stocks, it is clear that the gambling enterprises in New South Wales and Victoria have recently done less well than in Queensland (figure 6). (Tattersall's is of course a private company and we have no public basis for assessing its relative performance.)

Figure 6 **Gambling company shares: January 2000 to October 2002^a**
Index of end of month values



^a The index for gambling shares is a weighted average of the share prices for Tabcorp, TAB Ltd, TAB Queensland, Jupiters and Burswood.

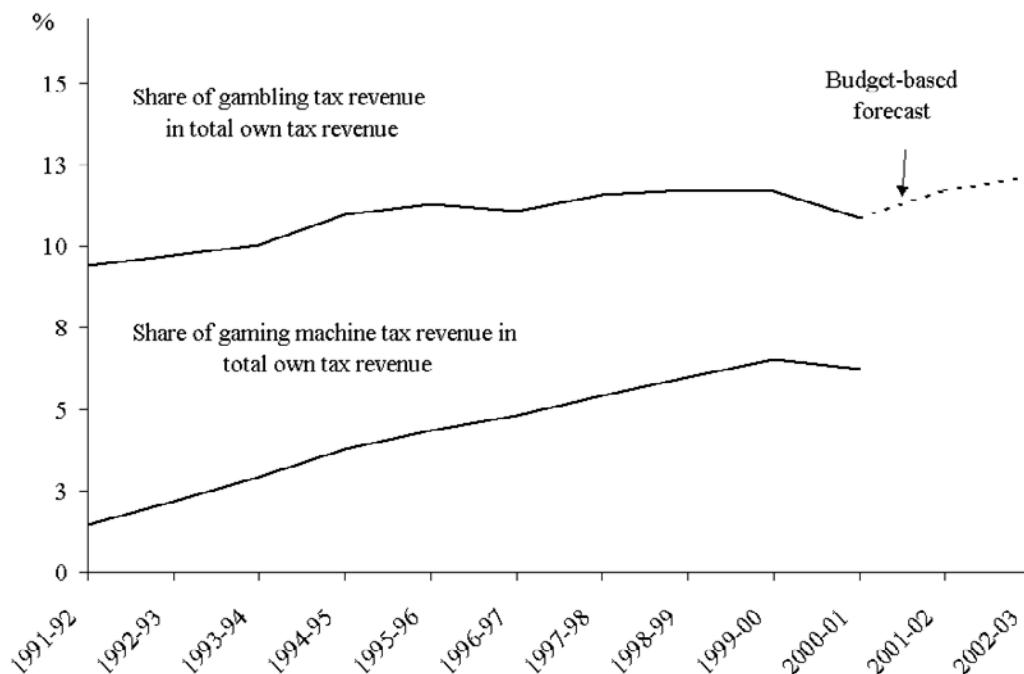
Data sources: ASX and Commission estimates.

Tax is trending up

If gaming machine expenditure growth is slowing, this does not seem to be reflected in state and territory budget projections, which generally forecast a significant rise in the proportion of total own-tax revenues derived from gambling (figures 7 and 8) — although admittedly the projected growth in New South Wales and the Australian Capital Territory is somewhat lower than for most other jurisdictions.

Interpreting trends in the tax take from gambling is complicated by the introduction of the Goods and Services Tax, which by agreement between the Commonwealth, states and territories resulted in an offsetting initial reduction in state and territory taxes on gambling. Factoring this in, it is reasonable to conclude that we are seeing a continuing rise in the overall dependency on taxes from gambling — at least in all jurisdictions other than Western Australia. The rise in fiscal dependency on gambling is in turn attributable to rising revenue from gaming machines. Even if that stagnates, the states and territories retain the option of putting tax rates up again, and indeed that is what South Australia has effectively done with its ‘super profits’ surcharge on gaming venues.

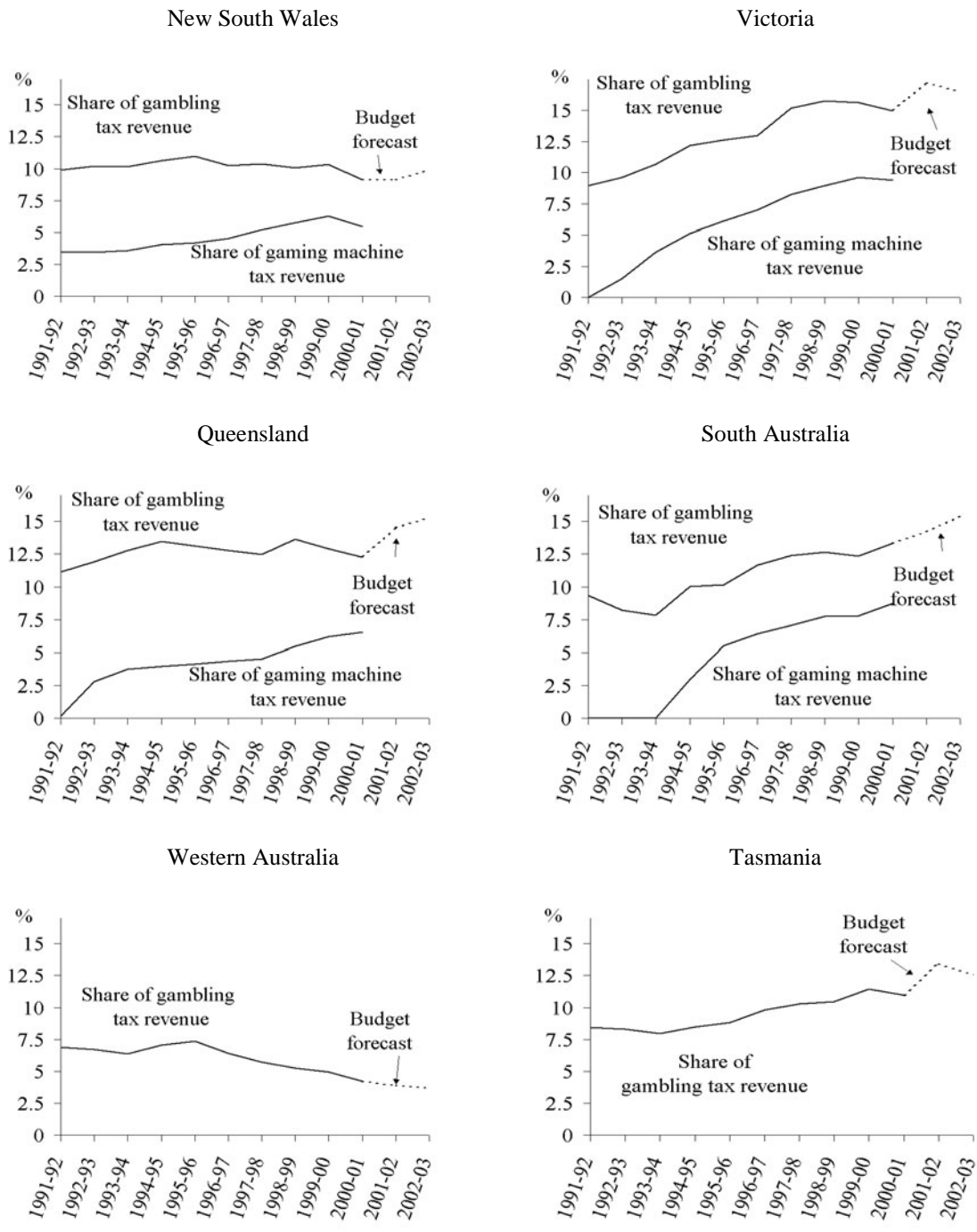
Figure 7 Trends in gambling tax dependency, all states and territories^a



^a According to the ABS, ‘gaming machine tax revenue’ in principle captures all gaming machines whether in clubs, hotels or casinos.

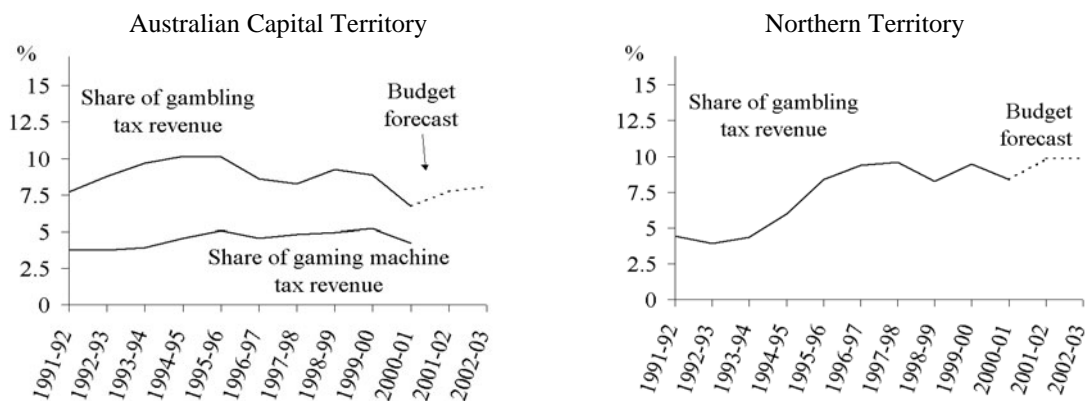
Data source: ABS commissioned data; state and territory budget papers for 2002-03; Commission estimates.

Figure 8 Trends in gambling tax dependency, by state and territory^a



(Continued on next page)

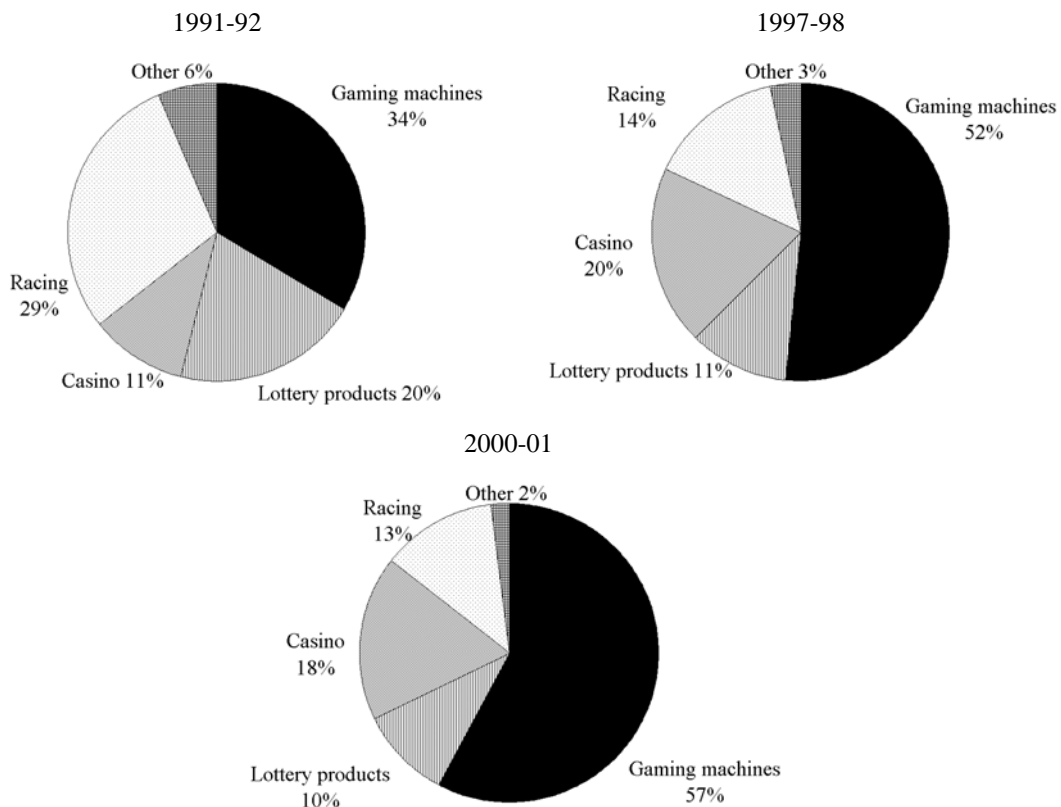
Figure 8 (continued)



a According to the ABS, 'gaming machine tax revenue' in principle captures all gaming machines whether in clubs, hotels or casinos. The share of gaming machine tax revenue in total own state/territory tax revenue in Tasmania, Western Australia and the Northern Territory is negligible or not applicable.

Data source: ABS commissioned data; state and territory budget papers for 2002-03; Commission estimates.

Figure 9 Expenditure on main gambling types, Australia^{a, b}



a Expressed in 2000-01 values. **b** 'Gaming machines' do not include gaming machines in casinos. 'Lottery products' includes lotto, tattsлото, general lotteries, instant money and soccer pools. 'Casino' includes wagers on table games, gaming machines and keno systems. 'Racing' includes betting with bookmakers and totalisators, both on racecourses and off-course (TAB). 'Other' includes sports betting, minor gaming (such as raffles, bingo, lucky envelopes) and keno.

Data source: Tasmanian Gaming Commission (2002).

In fact, the gaming machine share of total expenditure on gambling has risen further to 57 per cent in 2000-01 from 52 per cent in 1997-98 (and only 34 per cent in 1991-92) (figure 9). This is relevant to the broader question of what expenditure trends may mean about the costs of problem gambling, as the social costs loom larger for this mode than for say lotteries, which has experienced a reduction in its share of gamblers' spending.

In sum, a number of developments since the Commission's inquiry have reaffirmed that problem gambling remains an important issue for public policy. At this relatively early stage it is unclear whether problem gambling and its associated impacts have moderated. That will take longer to ascertain and will ultimately depend on the efficacy of the measures taken, some of which have yet to be, or have only recently been, introduced. I will now examine these in a bit more detail.

Developments in regulation

In its report, the Commission identified a variety of harm minimisation or consumer protection measures which could be taken, rating them against the principle that they needed to target sources of social cost without detracting unduly from the undoubted consumer benefits to be derived from gambling. In that way, the benefits of action were likely to exceed the costs, although there are also compliance costs to consider (which can be significant in some cases).

Apart from the important area of counselling for those problem gamblers who seek it, there are three broad categories of measures that we identified (table 3). Two of these — relating to what might be called 'informed choice' and 'consumer control' — are essentially about empowering *all* consumers, including problem gamblers, to make informed and deliberate choices. They are therefore likely to satisfy our guiding regulatory principle, providing win-win outcomes for all gamblers.

The third category involves constraints which would potentially benefit problem gamblers, but could also detract from the enjoyment of recreational gamblers. Such measures were therefore seen as requiring more careful assessment of their costs and benefits. Nevertheless, we considered that, at face value, restricting venue-based access to additional money, and limitations on spending rates, looked promising.

Since then, actions have been taken by both industry and government in many of these areas.

Table 3 Potential harm minimisation and prevention measures

<i>Informed choice</i>	<i>Consumer control</i>	<i>Venue/games restrictions</i>
<ul style="list-style-type: none"> • Meaningful 'price' and odds information • Expenditure statements • Warnings • Help service information • Ethical promotion • How games work 	<ul style="list-style-type: none"> • Self exclusion • Pre-commitment <ul style="list-style-type: none"> – spending – duration 	<ul style="list-style-type: none"> • ATMS <ul style="list-style-type: none"> – location – withdrawal limits • Credit restrictions • Bill acceptor limits • Cheque payouts • Spending rates • Enforced breaks • Machine caps • Opening hours • Advertising restrictions • Lighting, sounds and clocks

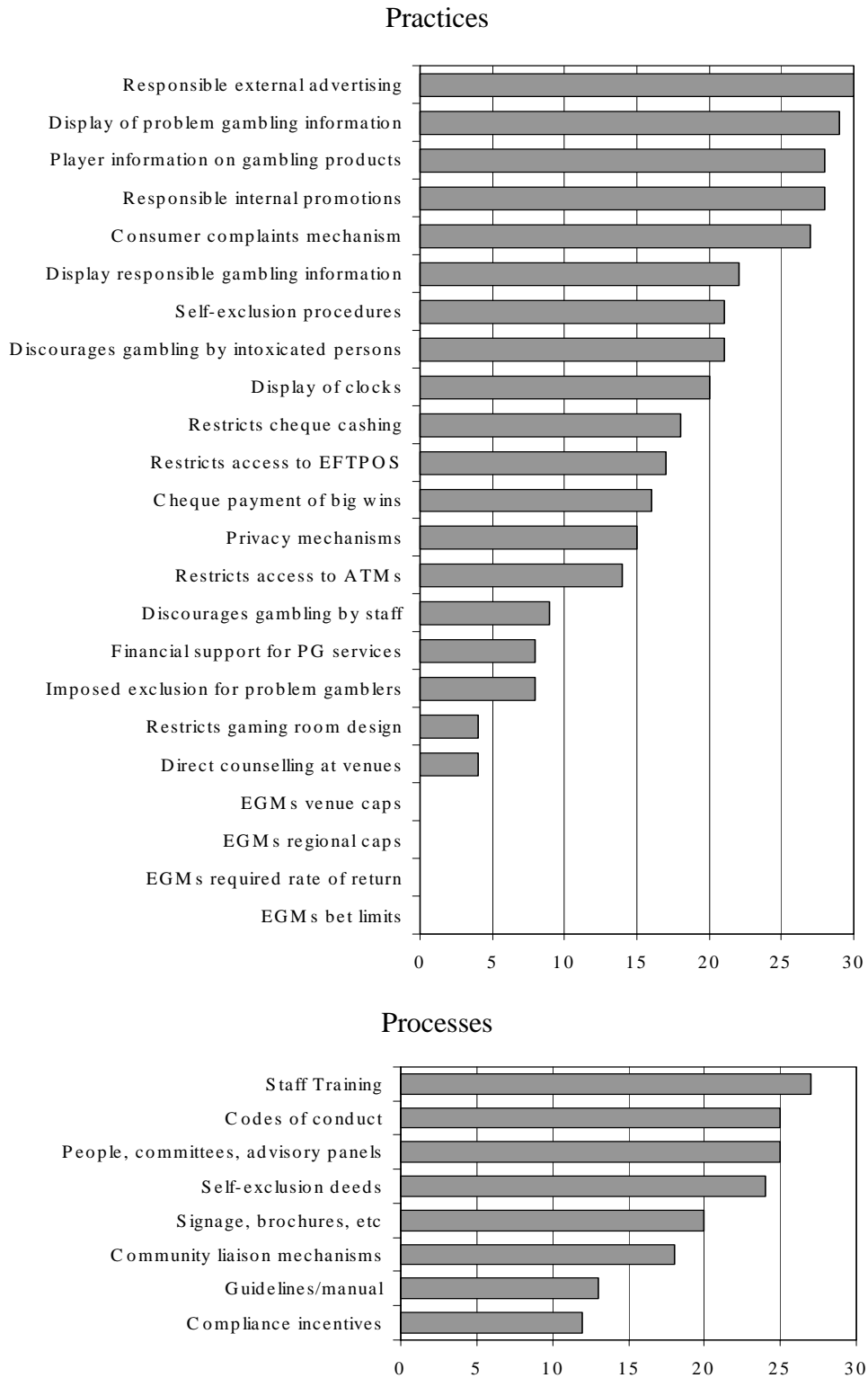
Industry 'self-regulation' initiatives

According to a recent report prepared for the Australian Gaming Council, some 30 voluntary codes of practice have been developed relating to gaming alone. Among the more significant of these are the AGC's own Responsible Gambling Code, the New South Wales Clubs' Clubsafe 2000, the Victorian Gaming Machine Industry Code of Practice and, most recently, Queensland's Responsible Gambling Code of Practice.

The latter is arguably one of the more comprehensive and, unlike most others, is the product of tripartite agreement between industry, government and community groups. It sets out a range of practices covering the provision of information, interaction with customers, exclusion provisions, the physical environment in venues, financial transactions and advertising (box 1).

However, not all voluntary initiatives are so extensive or detailed. For 33 gaming organisations surveyed by Hing and Dickerson (2002), it is apparent that the most commonly applicable measures tend to be the 'softer' or more discretionary variety, like provision of information or warnings. Less than half of the organisations were covered by provisions relating to, for example, restricting gamblers' access to cash through ATMs, EFTPOS, cheques or major winnings (figure 10).

Figure 10 'Responsible gambling practices' and 'stewardship processes' contained in voluntary initiatives



Data source: Hing and Dickerson (2002)

Box 1 Queensland Responsible Gambling Code of Practice

This voluntary Code was launched on 29 May 2002. It was developed by the Responsible Gambling Advisory Committee, consisting of community, industry and government representatives. The Code seeks to minimise the potential harm from gambling. It sets out a range of responsible gambling practices including the following:

The provision of information

- A responsible gambling mission statement to be clearly displayed.
- Information about the potential risks of gambling and where to get help to be displayed in all gambling areas and near relevant ATM and EFTPOS facilities.
- Information to be displayed about the availability upon request of specific types of information.
- Meaningful and accurate information on the odds of winning major prizes to be prominently displayed in all gambling areas and in proximity to relevant games.

Interaction with customers and community

- Effective links to be established with local gambling-related support services and relevant community consultative networks.
- Trained staff to be nominated to perform a customer liaison role, provide relevant information for customers with gambling problems, support staff in providing assistance to those customers, and provide assistance to staff with gambling problems.
- Customer complaints resolution mechanisms to be established.
- Mechanisms for providing appropriate responsible gambling training and information to staff and managers to be established.

Exclusion provisions

- Self-exclusion procedures and supporting documentation to be established.
- Contact information about counselling agencies to be offered to customers seeking self-exclusion.
- Self-excluded customers to be given support in seeking self-exclusion from other gambling providers, where practicable.
- Correspondence or promotional material not to be sent to customers who are excluded or who formally request that this information not be sent.

Physical environment

- Minors to be prohibited from gambling and excluded from gambling areas.
- Service of alcohol to be managed to encourage customers to take breaks in play.

(Continued on next page)

Box 1 (continued)

- Intoxicated customers to not be permitted to continue gambling.
- Child care facilities to provide safe and suitable standards of care in accordance with relevant legislation.
- Staff to not encourage customers in gambling areas with gratuities.
- Customers to be made aware of the passage of time.
- Practices to be implemented to discourage customers from participating in extended, intensive and repetitive play.

Financial transactions

- ATMs not to be located in close proximity to gambling areas or in entry to gambling areas, where safe and practicable.
- Limits to be set above which all winnings are paid by cheque or electronic transfer.
- Gambling winnings above the set limit that are paid by cheque and not to be cashed on the premises until the next day or within 24 hours of the win.
- Certain cheques (for example, cheques not made payable to the gambling provider, cheques not made payable to the person presenting the cheque, multiple cheques) to be cashed only by prior arrangements.
- Credit or lending of money to not be provided for the purpose of gambling.

Advertising and promotions

- Strategies to be developed and management to ensure advertising and promotions are delivered in a responsible manner. The strategies are to ensure, among other things, that any advertising or promotion:
 - complies with the Advertising Code of Ethics;
 - is not false, misleading or deceptive; and
 - does not implicitly or explicitly misrepresent the probability of winning a prize.

The Code is supported by a resource manual developed for each sector of the gambling industry. All gambling venues in Queensland are to implement the Code through the development of a policy document specific to their operations. The Code is to be periodically reviewed to evaluate outcomes and the effectiveness of the practices.

Source: Responsible Gambling Advisory Committee (2002).

Moreover, the researchers found that none of the codes contained processes for independent monitoring of their implementation or the collection of independent evidence of compliance rates, and few contained processes for periodic independent review and evaluation.

This is a significant deficiency, because as the Commission emphasised in its report, the danger of relying on such voluntary codes of behaviour is that venue operators face an inherent conflict of interest in dealing with problem gambling, given the extent to which their earnings depend on the disproportionate spending of problem gamblers. Indeed, they have a strong financial incentive to do as little as they can get away with. This is not to denigrate them. It is entirely understandable and logical.

Let me give just one example from my own recent experience. In Victoria, new regulations require all gaming advertising to contain warnings. (These are pretty tame stuff compared to the sorts of warnings that are now common for smoking or driving.) One of them observes “Gambling can become addictive for some people”. Strolling up Bourke Street last week from the hotel where I usually stay, I noticed that the gambling parlour over the road had increased the extent of its signage soliciting my custom, including an offer of a cheap meal. But I could not quite make out any *warnings*. In fact, as I discovered only once I had crossed the road, a warning *was* displayed — it was just very hard to find (box 2).

Self-regulation works best when there are either inherent incentives to comply or external disciplines that create such incentives. The first condition clearly does not hold and, as recent test cases relating to a common law duty of care illustrate, there are currently weak external disciplines that could be brought to bear without explicit regulation (*Reynolds v. Katoomba RSL All Services Club* and *Philo v. Hurleys Arkaba Hotel and Hurley*).

That measures to address problem gambling and broader consumer protection cannot simply be left to the industry has been broadly accepted by governments and the wider community. Most jurisdictions have undertaken a range of legislative and other regulatory actions since 1999.

Box 2

An example of a warning in gambling advertising



Developments in government regulation

The following overview of recent developments is based on a broad, rather than deep, examination of existing and proposed arrangements. The limited availability of information in public sources, such as government websites, has been a constraint. (This is an issue in its own right to which I will return.)

Informed choice

In the area of providing for more informed choice, most jurisdictions have introduced some key measures.

- Several governments now require venues to provide information to enable a reasonable understanding of the odds and to address false perceptions of how games work. The way in which the media seized on the Commission's *Black Rhinos* calculations showed how little appreciation there was of the low odds of winning a big prize (PC, 1999, pp 16.17 – 16.18). The Commission also found that one of the most widespread misconceptions about how gaming machines work was that the prospect of a payout increased the longer the time spent. Redressing such misconceptions, which experts see as contributing to problem gambling, is not straightforward and should desirably involve trials. It is unclear whether any such testing was undertaken and I have seen no assessments yet of how well these regulatory requirements are working.
- Most governments have now introduced requirements for warnings about the dangers of excessive gambling, and information about the signs of an emerging problem, as well as of sources of advice and assistance. While normally it is desirable to avoid being too prescriptive in regulating such matters, the Bourke Street example shows that the letter of such regulation can often be met without meeting its objectives. If information is to be effective, it needs to be *seen*.
- There are now also regulatory requirements in most jurisdictions relating to advertising and promotions. Some of these are quite restrictive – including (in New South Wales) prohibitions on gambling-related advertising and external signage and (in the Northern Territory) prohibitions on the advertising of any inducement to gamble (including free transport or cheap meals).
- A requirement to provide gamblers participating in loyalty schemes with statements of their expenditure (losses) has been introduced in Victoria and New South Wales. This is unlikely to involve much cost — venues already use such schemes to compile market intelligence on their customers — and it could prove particularly useful for 'at risk' players. (More entrenched problem gamblers may prefer to leave such schemes rather than run the risk of being exposed at home through the post.)

Consumer control

In the second category — giving problem gamblers options for self-imposed constraints on their spending — there has been a considerable extension and improvement of self-exclusion provisions. For example, in New South Wales a venue is not permitted to refuse a request for self-exclusion; it must also ensure that the person can be readily identified and provide information about counselling services; and the arrangement must apply for a minimum of three months.

So far there is little provision for self-exclusion to be readily extended *across* venues: an important requirement for full effectiveness. An exception is the voluntary arrangements overseen by the AHA in Victoria, which provide for multiple identification of venues in the deed of self-exclusion. The more general applicability of self-exclusion arrangements may be facilitated in time by technological developments such as smart cards (or even voluntary identification bracelets, as are reportedly being trialed in the United States).

Self-exclusion is an important option for problem gamblers, but going ‘cold turkey’ is an extreme measure, and possibly unsustainable for many. The Commission saw a need to explore options to enable a gambler to continue gambling, but to set self-imposed limits on his or her losses prior to commencing gambling, when good intentions are more likely to prevail. At the time, such pre-commitment mechanisms were only being developed for Internet gambling

The practicability of such an approach in venue-based gambling once again hinges on having technology to enable tracking of expenditure across machines and, ultimately, different venues. Smart cards and tokens (rather than notes and coins) are technologies which facilitate such pre-commitment arrangements and it is good to see that experimentation in this area appears to be happening in a couple of jurisdictions (although it is difficult to get all the facts). For example:

- South Australia has reportedly undertaken trials of cashless gaming and player loyalty devices, although legislation currently precludes the unauthorised operation of such methods.
- New South Wales legislation, introduced in 1999, makes explicit provision for approval of gaming machines operated by cards. Trials have been conducted by a company called eBet, using a magnetic stripe card system. This allows gamblers to hold money in special accounts and transfer funds as required. According to the company, the trials evinced a 90 per cent player acceptance rate, with 60 per cent of players agreeing that the system would help them better control their spending (eBet 2001a,b,c).

Venue and games restrictions

With respect to the third category of measures – imposed ‘constraints’ — there has been considerable regulatory activity, although the cost-effectiveness of measures has not always been tested prior to their implementation.

- As noted, most governments have introduced, or will soon introduce, constraints on access to cash in venues (such as ATM withdrawal limits) and prohibitions on credit or cheque cashing, as well as requirements for ATMs to be located away from gaming areas. The Commission’s survey provided some compelling support for action on ATMs. Only 5 per cent of recreational gamblers reported using ATMs ‘often’, whereas this was the reported experience for 60 per cent of (severe) problem gamblers.
- The Commission was more circumspect about the net benefits of banning bill acceptors on machines, or reducing programmed spending rates, and it saw little utility in enforced breaks. Such measures needed trialing, both to determine their efficacy for problem gamblers and their potential impacts on recreational gamblers. The only such trials of which I am aware were conducted by Blaszczynski and colleagues for the Gaming Industry Operators Group (Blaszczynski, Sharpe and Walker 2001). They found that of three mooted measures — reconfiguring bill acceptors to accept bills no larger than \$20, slowing reel spin speed, and reducing the maximum single bet from \$10 to \$1 — only the latter would be an effective strategy. (This is despite the fact that limiting the denominations on bill acceptors was found to reduce expenditure by 42 per cent, more than any other single modification. Earlier Commission research found that a much higher proportion of problem gamblers used bill acceptors than did recreational players.) Such work is potentially valuable and there should be more of it, preferably commissioned by government and undertaken prior to measures being implemented.

A number of the measures which seemed less promising to the Commission — such as light and clock requirements, and (minor) modifications to venue operating hours — were generally among the first to be introduced. They have populist appeal, but their potential effectiveness has not been demonstrated. (While governments were at it, why not also ban those garish carpets that seem to afflict the floors of all gambling venues?)

Gaming machine ‘caps’ are widespread

The most common imposed constraint on the gambling industry, pre-dating the Commission’s inquiry, are caps on the number of machines permitted in different jurisdictions.

Since the inquiry, most states and territories have introduced various changes to caps on gaming machine numbers, or ‘frozen’ existing caps pending review. For example, the New South Wales Government introduced recently a state-wide cap of 104 000 machines and a cap on each club of 450 machines, while maintaining a pre-existing cap on each hotel of 30 machines. The Victorian Government introduced regional caps on gaming machines in five ‘vulnerable’ regions. And the Australian Capital Territory Government extended a cap of 5200 gaming machines (that it introduced in 1998) to 30 June 2003 and is now considering whether to retain the cap or introduce venue-based caps.

The Commission was at best ambivalent about caps as a harm minimisation mechanism for two reasons. One is that, if binding, they impact on the accessibility of services to recreational gamblers. The second is that their effectiveness in limiting the extent of problem gambling is unclear, depending on the size and reach of the cap. (What is effectively a zero cap in Western Australia, for example, will produce quite different results to Victoria’s cap of 27 500 machines.)

One obvious problem in constraining supply is that it can place upward pressure on the ‘price’ of gambling (compounding problem gambler’s spending difficulties). Another is that it provides strong incentives on both the demand and supply sides for the more intensive use of available machines. Thus Victoria, with one-third the machines in New South Wales (table 4), has spending rates per machine that are twice as high — and expenditure per head is three-quarters that of New South Wales.

With geographic caps, there will be a tendency for machines to migrate to those locations and venues where they can be used most profitably. A common complaint by hotel owners in Victoria during our inquiry was that the duopolists who ‘own’ the machines would generally remove them from any venue that was not getting enough out of them. This can obviously exacerbate incentives for venue owners to ignore the welfare of problem gamblers.

With such considerations in mind, the Commission saw venue-based caps as being preferable to state-wide or regional caps. While it recognised that caps can potentially serve a failsafe role, it saw a need over time to reduce reliance on this blunt instrument as more targeted measures proved their worth. That remains my view.

Table 4 Growth in gaming machine numbers since 1999^{a, b}

	<i>Clubs</i>		<i>Hotels</i>		<i>Casinos</i>		<i>Total</i>	
	<i>1999</i>	<i>2001</i>	<i>1999</i>	<i>2001</i>	<i>1999</i>	<i>2001</i>	<i>1999</i>	<i>2001</i>
NSW	74 206	74 710	23 966	25 452	1 500	1 500	99 672	101 662
Vic	13 479	13 730	13 632	13 714	2 500	2 500	29 611	29 944
Qld	17 948	19 171	11 308	16 028	3 138	3 192	32 394	38 391
WAC ^c	-	-	-	-	1 180	1 383	1 180	1 383
SA	1 468	1 642	10 681	12 454	763	771	12 912	14 867
Tas	226	1 303	1 125	1 606	1 099	1 154	2 492	4 063
ACT	4 953	4 939	60	60	-	-	5 013	4 999
NT	508	557	136	149	608	622	1 252	1 328
Total	112 788	116 052	60 908	69 463	10 788	11 122	184 526	196 637

^a The data for 1999 are obtained from the Commission's report (PC 1999, table 13.1, p. 13.5). The data for 2001 are obtained from the Australian Gaming Commission website (AGC 2002, Fact Sheet 3 – Australian Gambling Businesses). This data are drawn from state/territory gaming authority annual reports for 2000-01 and industry interviews. ^b Gaming machines are not permitted in clubs and hotels in Western Australian and in the casino in the Australian Capital Territory. ^c The Minister for Racing and Gaming recently reaffirmed the Western Australian ban on gaming machines outside the casino and noted that the Gaming Commission of Western Australia is currently considering whether to approve an extra 200 machines for Burswood Casino (Griffiths 2002).

The Internet gambling ban

Another complicated area for policy analysis is the question of Internet gambling. The Commission acknowledged the threat from the quantum leap in accessibility afforded by this new medium. (The Reverend Tim Costello's memorable line was "You can lose your home without leaving it"!)

But the Commission also recognised some moderating features, such as the greater potential for proximity of family, and the scope for more effective consumer protection mechanisms — including complete transaction records, and (most importantly) effective mechanisms for pre-commitment on spending. Taking these into account, and recognising the technical difficulties in enforcing a ban on overseas sites, the Commission on balance favoured what it called a 'managed liberalisation' approach. This would require Commonwealth intervention to enforce licensing, and the replacement of an emerging hotch-potch of state and territory regulations (some of which were hard to fathom) with a consistent national framework.

As it turned out, this was not the approach adopted by the Government. It passed an Act in 2001 prohibiting the provision of 'interactive gambling services' — whether from Australia or from offshore to Australia. The Act is enforceable through a combination of 'whistleblowing' complaints and the imposition of heavy financial penalties.

I am not in a position to make informed comments about how the ban is working in practice (a review is scheduled to take place by next year). On the 'technical' issue

of whether the ban is curtailing access to sites, a recent survey conducted for the Australian Casino Association (ACA 2002) reportedly shows that Australians are still accessing online gaming sites (mostly offshore, but including Australian sites). But what does such Internet traffic data really tell us? It could be picking up online wagering, which is legal under the Act, or website hits from people who are merely ‘browsing’. It is also hard to imagine that Australian providers would not be deterred by penalties of up to \$1.1 million per day.

Offshore provision remains the main bugbear, as it is very difficult and costly to block such sites. However, the recent passage in the US House of Representatives of the so-called Leach Bill, if eventually passed into law, would be likely to facilitate Australian enforcement. (However, it may also pose difficulties for currently permissible gambling modes like online wagering.)

The impact of smoking bans

There has been some fuss in Victoria recently about the impact of new legislation restricting smoking in gaming areas of venues. Some operators are reporting significant drops in turnover. Tabcorp has said that it anticipates a \$40 million decline in annual revenue, which would presumably flow through into lower taxation revenue to the State. Likewise, in Western Australia, Burswood Casino attributed a 4 per cent decrease in revenue last financial year to its self-imposed non-smoking policy. Obviously many gamblers are also smokers.

Smoking restrictions were not on the Commission’s list of harm minimisation measures for gambling (although the necessity for gamblers to become passive smokers was a source of complaint by some inquiry participants). Its justification can be found not as an indirect means of reducing problem gambling, but rather as a public health and safety measure consistent with smoking bans in restaurants, cinemas and on air services.

As in the case of restaurants, any impact on turnover is likely to be temporary, while services are being reconfigured to accommodate those who must smoke. Thus the window of my favourite establishment in Bourke Street last week announced “Areas provided for smokers and non smokers”.

Regulatory and policy-making processes

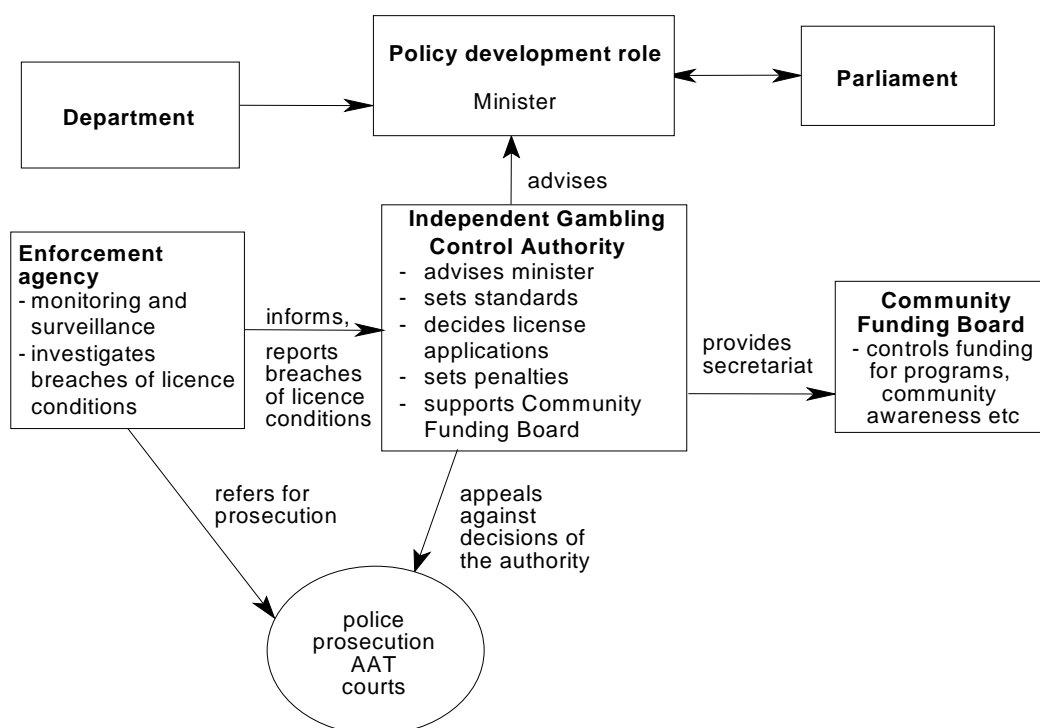
The Commission’s review of the processes by which gambling regulation had come about (or not come about), and the regulatory structures for overseeing the industry, demonstrated why the regulatory frameworks were so deficient. Decision-making

was generally poorly informed about the social impacts, ad hoc and piecemeal, with poorly specified or conflicting objectives and no systematic monitoring and evaluation of outcomes. Regulatory oversight was compromised by potentially incompatible objectives, lack of clarity in reporting responsibilities, conflicts of interest and lack of transparency.

Drawing on basic principles of good government, as well as international precedent, the Commission laid out the sort of institutional framework that it believed was necessary to remedy these shortcomings — clearly separating policy-making from regulatory functions, as well as providing independent mechanisms for the research needed to inform government policy (figure 11). In particular, it was emphatic that:

The key regulatory control body in each state or territory should have statutory independence and a central role in providing information and policy advice, as well as in administering gambling legislation. It should cover all gambling forms and its principal operating criteria should be consumer protection and the public interest. (PC 1999, p. 4).

Figure 11 The Commission’s regulatory blueprint



Source: PC (1999, chapter 22).

Since then most jurisdictions have introduced worthwhile improvements — such as the introduction of consumer protection objectives, requirements to consider the economic and social impacts of licensing applications and greater transparency and public consultation (box 3).

Box 3 Some examples of changes to regulatory and informational processes

The **New South Wales** Government introduced changes such as:

- new statutory objectives (for clubs and hotels) of gambling harm minimisation and the fostering of responsible conduct of gambling and (for the casino) of containing and controlling the potential of the casino to cause harm to the public interest and to individuals and families;
- removing the promotion of tourism, employment and economic development as a statutory objective for the Casino Control Authority;
- requiring social impact assessments of additional gaming machines (in clubs and hotels)

In its initial tranches of initiatives, the **Victorian** Government:

- inserted a responsible gambling objective as one of the objectives of the Victorian Casino and Gaming Authority;
- inserted greater transparency into processes administered by the Authority (for example, by requiring the Authority to hold public inquiries and meetings when considering specific matters as the approval of new gaming premises and the like; requiring the Authority to publish written statements of and reasons for its decisions; and allowing the Authority to divulge certain information relating to applications and casino tender documents);
- allowed local councils to make submissions to the Authority regarding applications for the approval of new gaming premises or for an increase in gaming machines in existing venues;
- required the Authority to consider the 'net economic and social impact' of applications for new gaming premises or for increases in gaming machines in approved venues;
- established a Gambling Research Panel to conduct, monitor and publish research into the social and economic impact of gambling, causes of problem gambling and strategies to minimise harm from gambling.

The Victorian Minister for Gaming has recently announced proposals which will involve the abolition of the Victorian Casino and Gaming Authority. Specific proposals are for

- the establishment of a single Commission for Gambling Regulation;
- the establishment of a Commissioner for Responsible Gambling;
- the relocation of portfolio responsibility for gambling regulation and policy from the Department of Treasury and Finance to the Department of Justice.

(Continued on next page)

Box 3 (continued)

The **Queensland** Government:

- included an object in all gambling Acts to ensure that on balance, the State and the community as a whole benefit from gambling;
- introduced requirements for applications of significant community impact (for example, applications for new gaming machine sites). Applications are to be accompanied by a community impact statement and a statement of responsible gambling initiatives. Applications must also be publicly advertised;
- established the Gambling Policy Directorate within the Queensland Treasury;
- established the Responsible Gambling Advisory Committee which brings diverse groups within the community to advise on responsible gambling;
- introduced a requirement for the Queensland Gaming Commission to consider community views on applications (for example, for new gaming machine sites) and to invite comment from entities such as local councils;
- developed a research program to:
 - examine the social and economic implications of gambling for Queensland;
 - develop new knowledge related to prevention, protection and rehabilitation initiatives;
 - evaluate the effectiveness of responsible gambling initiatives.

The **South Australian** Government re-established the former Gaming Supervisory Authority as the Independent Gambling Authority. It has new statutory objectives which are:

- the fostering of responsibility in gambling and, in particular, minimise harm caused by gambling, recognising the positive and negative impacts of gambling on communities; and
- the maintenance of a sustainable and responsible gambling industry.

The Authority has some new functions including to:

- develop and promote strategies for reducing the incidence of problem gambling and for preventing or minimising harm caused by gambling; and
- to undertake or coordinate ongoing research including into the social and economic costs and benefits to the community of gambling and the gambling industry, the likely impact on the community of any new gambling product or activity, and strategies for reducing the incidence of problem gambling and preventing or minimising the harms caused by gambling.

The Government also imposed a requirement on the Liquor and Gambling Commissioner to refuse an application for approval of a game if of the opinion the game is likely to lead to an 'exacerbation of problem gambling'.

(Continued on next page)

Box 3 (continued)

The **Australian Capital Territory** Government established the Australian Capital Territory Gambling And Racing Commission, an independent statutory authority which:

- assumed the functions of the former Casino Surveillance Authority and from within the Department of Treasury and Infrastructure relating to the regulation of gaming, lotteries, racing and betting;
- is required to perform its functions in ways that best promote the public interest and, in particular, promotes consumer protection, minimises the possibility of criminal activity and reduces the risks and costs to both the community and individuals of problem gambling;
- is charged with monitoring and researching the social effects of gambling and problem gambling. It developed a research program commencing during 2000-01;
- is considering proposals relating to gaming machines processes such as the use of community impact statements and public hearings.

The Australian Capital Territory Government also established a Centre for Gambling Research within the Australian National University funded jointly by the University and the Australian Capital Territory Gambling and Racing Commission.

The **Northern Territory** Government:

- established a Licensing Commission to take over the functions of the former Liquor Commission, Private Security Licensing Authority, Escort Agency Licensing Board, Gaming Machine Commission and Gaming Control Commission;
- introduced a statutory objective to promote the responsible operation and use of gaming machines;
- changed secrecy provisions to permit disclosure of information about the number and performance of gaming machines on individual licensed premises and the manner in which a club's profit is distributed; and
- introduced a requirement for the Commission to consider the extent to which a club has met its commitment to improve its neighbourhood when considering whether to increase or decrease the number of machines operated by a club.

But the core requirement of a truly independent regulator is still proving elusive. One jurisdiction which seems to have moved in the right direction is the Australian Capital Territory, which established by statute its Gambling and Racing Commission in December 1999. Victoria has recently acknowledged the deficiencies and reporting tensions of the Victorian Casino and Gaming Authority and has proposed changes which also appear to be in the right direction, although it is hard to tell exactly what is involved from the information that is publicly available.

In all jurisdictions, policy and regulatory responsibility currently lie either with a separate industry portfolio (like the New South Wales Department of Gaming and

Racing) or with Treasury and Finance (table 5). Neither arrangement is ideal, as the first is vulnerable to industry capture and the second is vulnerable to what might be called *budgetary* capture. The mooted re-location of portfolio responsibilities in Victoria from the Department of Treasury and Finance to the Department of Justice is a significant initiative, warranting serious consideration by other jurisdictions.

Table 5 Key gambling agencies

<i>State or territory</i>	<i>Agency</i>	<i>Portfolio</i>	<i>Main roles in relation to gambling</i>
NSW	Department of Gaming and Racing (including the Director of Liquor and Gaming)	Gaming and Racing	Has overall responsibility for the proper conduct and balanced development – in the public interest – of the gaming, racing, liquor and charity industries.
	Liquor Administration Board	Gaming and Racing	Administers liquor licences, assesses and collects gaming machine duty in clubs and hotels, approves gaming machine technical standards.
	Licensing Court of NSW	Gaming and Racing (but reports to the Attorney-General)	Grants liquor licences to hotels and certificates of registration to clubs, both of which carry entitlements to operate gaming machines. Issues licences to gaming machine dealers, sellers, technicians and advisers.
	Casino Control Authority	Gaming and Racing	Responsible for the licensing, supervision and control of casino operations, the approval of casino games and equipment, and the funding and conduct of research into casino-related matters.
	NSW Lotteries Corporation	Gaming and Racing	
	Greyhound Racing Authority	Gaming and Racing	
	Harness Racing NSW	Gaming and Racing	
Victoria	Office of Racing	Tourism, Sport and the Commonwealth Games	Fosters the growth of Victoria's racing industry and oversees development of its regulatory framework. Licenses bookmakers.
	Victorian Casino and Gaming Authority (VCGA) (including the Director of Gaming and Betting and the Director of Casino Surveillance)	Treasury and Finance	Has powers of review, regulation, and funding and conduct of research. Grants licences, decides who is suitable to hold a licence. Engages in quasi-judicial tasks including making final determinations on appeals lodged by external parties against decisions of the directors.

(Continued on next page)

Table 5 (continued)

<i>State or territory</i>	<i>Agency</i>	<i>Portfolio</i>	<i>Main roles in relation to gambling</i>
Victoria	Office of Gambling Regulation	Treasury and Finance	Previously under the VCGA. From 1 July 2001, an administrative unit of the Department of Treasury and Finance. Provides support to the Minister for Gaming, the VCGA, the Director of Gaming and Betting, and the Director of Casino Surveillance.
Qld	Treasury Department (Gambling Policy Directorate)	Treasury	Regulates and monitors Qld's gambling industries.
	Qld Office of Gaming Regulation	Treasury	Regulates almost all legalised gambling. Has licensing and compliance functions (lotteries, gaming machines and casinos).
	Qld Gaming Commission	Treasury	Has the power to grant, censure, suspend or cancel a range of licences including gaming machine licences. Determines the number of gaming machines at each venue. Hears appeals against certain decisions (appeals against its decisions go to the Minister or Magistrates Court).
	Department of Tourism, Racing and Fair Trading	Tourism Racing and Fair Trading	The recent Racing Bill 2002 introduced into parliament aims to improve the accountability and administration of the control bodies governing racing in Qld.
	Qld Thoroughbred Racing Board, Qld Harness Racing Board, Greyhound Racing Authority	Tourism Racing and Fair Trading	
WA	Department of Racing, Gaming and Liquor	Racing, Gaming and Liquor	Promotes and maintains the integrity of lawful racing, gambling and liquor activities for Western Australians to participate in, within community expectations on harm minimisation.
	TAB, Betting Control Board, WA Greyhound Racing Authority	Racing, Gaming and Liquor	
	Gaming Commission of WA	Racing, Gaming and Liquor	Responsible for policy and procedures in the administration of casino gaming. Also responsible for the licensing and regulation of minor gambling, video lottery terminals and lotteries.
	Independent Gambling Authority	Gambling	Replaced the Gaming Supervisory Authority on 1 October 2001. Responsible for licensed gambling providers with respect to the integrity of the gambling products and their impact on the community. Covers casino, gaming machines, bookmakers and the SA TAB when sold.

(Continued on next page)

Table 5 (continued)

<i>State or territory</i>	<i>Agency</i>	<i>Portfolio</i>	<i>Main roles in relation to gambling</i>
SA	Office of Liquor and Gambling Commissioner	Attorney General (liquor licensing) Treasury and Finance (gaming and casino)	Administers and regulates the casino and gaming machines in clubs and hotels. Determines applications for licences. Hears disciplinary action against licensees, and has to power to reprimand, suspend or cancel licences. Inspects and monitors gaming machine operations.
Tasmania	Department of Treasury and Finance (Gaming Operations Branch of the Revenue, Gaming and Licensing Division)	Treasury and Finance	Provides secretarial support for the Tasmanian Gaming Commission.
	Tasmanian Gaming Commission	Treasury and Finance	Oversees and monitors gaming in casinos, hotels and clubs. Administers the Community Support Levy.
	Department of Infrastructure, Energy and Resources	Infrastructure, Energy and Resources	Responsible for the administration of racing through Racing Services Tasmania.
	Racing Services Tasmania	Infrastructure, Energy and Resources	Responsible for stewardship, registration, licensing, integrity controls and bookmaker activities covering all three codes of racing in Tasmania – thoroughbred, harness and greyhound.
NT	Department of Treasury	Treasury	Responsible for racing, gaming and licensing.
	Licensing Commission	Treasury	Established on 14 February 2000. Assumed responsibilities previously dealt with by the Gaming Machine Commission and the Gaming Control Commission.
	Racing Commission	Treasury	Regulates and controls racing, bookmaking and TAB.
ACT	ACT Gambling and Racing Commission	Treasury	Established 1 December 1999, assuming the functions of the Casino Surveillance Authority and other gambling-related functions within the Department of Treasury. Responsible for regulating all forms of gambling in the ACT. Responsible for overseeing the operations of ACTTAB.

One possible spinoff from introducing a more ‘neutral’ policy and regulatory setting in each jurisdiction — apart from getting better decisions and regulatory outcomes — might be more effective coordination or cooperation among jurisdictions. While different policy approaches and regulatory ‘experiments’ provide desirable learning opportunities in a Federal system, divergent approaches to research and information gathering do not and this has been compounded by lack of transparency. The current balkanized approach to research is wasteful of scarce resources and missing

important opportunities to apply common methodologies to explore common issues of concern (such as the effectiveness of harm minimisation measures and treatment techniques).

In its report, the Commission favoured the establishment of a national research institute to be block funded by all governments. Apart from the useful national perspective that it could bring, it could be a key source of advice untainted by the real or perceived tensions that arise with research sponsored by special interests (whether industry, community or political).

There have been two promising developments. At its meeting in September 2001, the newly formed Ministerial Council agreed to fund an Australian Gambling Research ‘Secretariat’. Its primary function would be to pursue a research agenda identified by the Council. The draft agenda looks like a good start. But my understanding is that the Secretariat would only be a vehicle for *commissioning* research: in my view it needs also to be supported by an independent research capability (both to undertake research itself and to screen the quality of what is commissioned).

The second promising development is that the nucleus for such an independent research resource has recently been established at the Australian National University — the Centre for Gambling Research — with core funding from the Australian Capital Territory Government and the University. Wider governmental contributions were apparently sought without success, but this matter could be revisited. It might even be a good topic for the next Ministerial Council meeting (14 months have gone by since the last one).

Some priorities

Three years on from the Commission’s inquiry it is apparent, even from this cursory review, that significant progress has been made. Recognition that there *is* a problem is perhaps the most important change, together with acceptance by governments and industry that existing policies and practices were inadequate to deal with it. The many regulatory and self-regulatory initiatives since the inquiry began are impressive in their breadth and coverage of the industry, with some useful innovations occurring in harm minimisation measures.

However, measured against the ultimate policy objective of maximising the net contribution of this industry, by reducing its social impacts without detracting unduly from its benefits, a number of gaps and deficiencies still stand out. I shall identify several that I believe deserve priority attention.

First, there is a burning need for more research on what actually works among the many possible harm minimisation measures. (This is particularly important for those which can involve significant compliance and other costs.) If we are serious about doing things that are effective, rather than just being seen to be doing things, trialing and testing of different approaches is critical. In many cases, this needs to be done *before* measures are introduced. There is a particular need to devote attention to pre-commitment strategies and the ability to cost-effectively harness new technologies.

A *second* and related issue — one that I have not spent much time on in this address — is the need for more follow-up analysis on what forms of remedial treatment (counselling) work best. Significant resources are being directed at help services, but there has been little ‘performance auditing’ of programs or detailed analysis of outcomes over time that I am aware of. (This is itself not without resource implications, but would nonetheless represent a good investment.)

This leads me to my *third* priority: the need for much greater transparency about what research is being done and, more importantly, what results are emerging. Lack of transparency can encourage suspicions that only ‘convenient’ research sees the light of day.

My *fourth* priority, therefore, is the need for governments to establish arrangements designed to promote independent research and *fifth*, much greater coordination in data collection and research methodologies across jurisdictions. A jointly funded national research centre could be an important focus for this. Current arrangements under the Ministerial Council are in the right direction, but in my view do not go far enough (and the Council itself has made little progress generally thus far).

Sixth, there is a need to have effective arrangements in place to monitor and enforce industry compliance, whether with government regulations or self-regulation. Penalties on venues that don’t meet required standards of harm minimisation need to be enforced as readily as those which neglect matters of probity. A pre-condition for observance of regulation is that it is well understood by those who must apply it. In this brief review, largely confined to publicly available information, I have not always found it easy to identify exactly what is required. More transparency and clarity seem warranted.

This brings me to the *last* and, in my view, *highest* priority: the need to reform policy-making and regulatory governance arrangements. Ensuring the substantive independence of the core regulator in each jurisdiction is central to this. It has demanding requirements, which the Commission spelt out in its report. In most jurisdictions those requirements have not yet been met.

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