



**Independent Review of Wagering in NSW
- a framework for future growth and
sustainability of the NSW Racing Industry**

**Greyhound Racing New South Wales
Submission**

31 July 2008

Greyhound Racing NSW
Quad 2 Level 2
8 Parkview Drive
Homebush Bay NSW 2127

Correspondence
PO Box 170
Concord West NSW 2138

Phone 02 9764 6255
Fax 02 9764 6244

www.grnsw.com.au
admin@grnsw.com.au

1.	Introduction.....	4
1.1	Role of GRNSW.....	4
1.2	Structure of Submission.....	5
1.3	Definitions.....	5
2.	Executive Summary	7
2.1	Key Points.....	7
2.2	Summary of Recommendations	9
3.	Section 2 Racing Paper - Overview of the NSW Racing Industry and the Health of the Greyhound Racing Industry	12
3.1	The Racing Paper.....	12
3.2	Industry Income & Expenditure.....	12
3.3	Racetracks and their use	15
3.4	Level of Prizemoney vs. Other States	19
3.5	Level of Prize Money v's Cost of Participation.....	20
3.6	Participation in the Industry	23
3.7	Attendances at Races.....	24
3.8	Contribution to Economy/ Economic Significance of Industry	24
3.9	Employment.....	24
3.10	Contribution to Community	25
3.11	Comparison of Greyhound Racing Industry in NSW with Interstate Greyhound Racing Industries	25
3.12	Section 2 Questions and Issues	28
4.	Section 3 of the Racing Paper - Funding of NSW Greyhound Racing Industry and Financial Outlook.....	29
4.1	NSW Wagering Market: Historical trends and State of Play.....	29
4.2	NSW TAB's Revenue Projection to 2013, 2018 and 2028.....	31
4.3	Greyhound Racing Industry Revenue Projection to 2013, 2018 and 2028.....	33
4.4	Required Level of Funding.....	34
4.5	Bookmaker's Contribution to Funding.....	35
4.6	TAB's Contribution to Funding.....	36
4.7	Inequalities of the Distribution Arrangement under the Inter-Code Agreement.....	36
4.8	Amending the Inter-Code funding Arrangements	39
4.9	Race Fields Legislation and the Gentleman's Agreement.....	41
4.10	Potential Sources of Funding.....	42
4.11	Section 3 Questions and Issues	43
5.	Section 4 of Racing Paper - Forces Shaping the NSW Wagering Industry: Section 4	44
5.1	Five Forces Analysis in Issues Paper.....	44
5.2	Implication of a More Competitive Market on Funding of the Greyhound Racing Industry	44
5.3	Section 4 Questions and Issues	44
6.	Section 5 of Racing Paper - Specific Questions.....	45
6.1	The Base Case	45
6.2	Sustainability.....	45
6.3	Social and Cultural Issues of Importance	45
6.4	Inter-Code Funding Arrangements	46
6.5	Structural Changes to Administration of Industry.....	46
6.6	Race Field Data Legislation.....	46

6.7	Financial Contribution of Bookmakers	46
6.8	Packaging of Broadcasting Rights	46
6.9	Contribution of Breeders	47
6.10	Protection and/or Enhancement of Existing Sources of Revenue	47
6.11	Gaming Machines	47
7.	Section 2 of Wagering Paper - An Overview of the NSW Wagering Industry	48
8.	Section 3 Wagering Paper - Issues Facing the NSW Wagering Industry	49
8.1	Bookmakers Structures and Operating Conditions	49
8.2	Publication of Betting Odds	50
8.3	Fixed Odds Betting	51
8.4	Totalisator Odds Betting	51
8.5	Pooling	51
8.6	New Technology and Wagering	52
8.7	Sports Betting	52
8.8	Betting Exchanges	52
8.9	NSW Advertising Laws	52
8.10	Responsible Wagering	53
9.	GRNSW Response to Other Submissions	55

1. Introduction

GRNSW understands that the New South Wales Government has commissioned this independent review of wagering in New South Wales in order to provide a framework for the future growth and sustainability of the New South Wales racing industry¹.

This submission is made by Greyhound Racing New South Wales (GRNSW) in response to the Racing Industry Issues Paper dated March 2008 (**Racing Paper**) and the Wagering Background Paper dated June 2008 (**Wagering Paper**) (collectively, **Papers**) produced by Alan Cameron with the assistance of PricewaterhouseCoopers both of whom we understand were engaged by the New South Wales Office of Liquor, Gaming and Racing (OLGR).

Please direct any inquiries regarding this submission including any requests for further information to Brent Hogan, Chief Executive, GRNSW either by telephone (02) 9764 6255 or by email bhogan@grnsw.com.au.

1.1 Role of GRNSW

Established in February 2003, GRNSW is an independent statutory body constituted by the *Greyhound Racing Act 2002* to oversee the commercial interests of the NSW greyhound industry.

Our charter is to represent the commercial interests of the NSW greyhound industry, and to fund and control commercial operations. This includes:

- (a) Registering greyhound racing clubs and greyhound trial tracks;
- (b) Distribution of funds to clubs and the funding of racing facilities;
- (c) Developing and reviewing policies relating to greyhound breeding and grading;
- (d) Setting and allocating race dates;
- (e) Marketing and public relations; and
- (f) Initiating, developing and implementing policies for the promotion, strategic development and welfare of the NSW greyhound industry.

Our vision is to be Australia's premier supplier of greyhound racing, delivering an innovative wagering product that is attractive to consumers and focused on long-term sustainable growth that will drive increased prizemoney returns to participants.

Responsibility for the regulatory functions of stewarding, licensing and the conduct of grading are currently performed by the Greyhound & Harness Racing Regulatory Authority (**GHRRA**) under the *Greyhound and Harness Racing Administration Act 2004*. However fundamental changes have recently been proposed in the *Statutory Review of the Greyhound Racing Act 2002*² (**Statutory Review**) and the *2008 Independent Review of the Regulatory Oversight of*

¹ Hon. Graham West MP, Minister for Gaming & Racing, News Release "NSW Government to Commission Independent Wagering Review", 6 November 2007

² NSW Office of Liquor, Gaming and Racing, *Section 63 Review: Greyhound Racing Act 2002 and Section 66 Review: Harness Racing Act 2002*, Sydney, June 2008

*the NSW Racing Industry*³ (**the Scott Report**) which both recommend the transfer of all regulatory functions to GRNSW and the establishment of a tri-code company *Stewards New South Wales Pty Ltd* to conduct stewarding operations across all three codes of racing.

1.2 Structure of Submission

The structure of this submission follows the structure of the Papers including the use of similar headings for ease of cross referencing to the corresponding sections of the Papers. However, where necessary additional sections have been included to reflect additional information which GRNSW has provided.

1.3 Definitions

In this submission:

ABS means Australian Bureau of Statistics

Asset Review means the review of NSW greyhound racetracks undertaken by GHD in February 2007

Betfair Decision means the decision handed down by the High Court in *Betfair Pty Limited & Anor v State of Western Australia* (2008)ALJR 600

Brown Review means 2006 Independent Review of the NSW Thoroughbred Racing Act 1996 conducted by Ken Brown AM and reported on in September 2006.

GHRA means the body known as Greyhound and Harness Racing Regulatory Authority

Greyhound and Harness Racing Administration Act means the *Greyhound and Harness Racing Administration Act 2004* (NSW)

Greyhound Racing Act means the *Greyhound Racing Act 2002* (NSW)

GRNSW means the body known as Greyhound Racing New South Wales

Inter-Code means the Racing Inter-Code Deed between NSW Racing Pty Limited, Racing NSW, Harness Racing New South Wales and GRNSW dated 27 February 1998 as amended from time to time.

Minister means the NSW Minister for Gaming and Racing

NSW Race Fields Legislation means the amendments to the *Racing Administration Act 1998* (NSW) made pursuant to *Racing Legislation Amendment Act 2006* (NSW) and the *Racing Administration (Publication of Race Fields) Regulation 2008* (NSW)

NSW TAB means the TAB Limited (ACN 081 765 308)

Racing Paper means the *Independent Review of Wagering in NSW - a framework for future growth and sustainability of the NSW Racing Industry Issues Paper*, prepared by Alan Cameron and PricewaterhouseCoopers and released in March 2008

³ Malcolm Scott, *Independent Review of the Regulatory Oversight of the NSW Racing Industry*, Sydney, June 2008

RDA means the Racing Distribution Agreement between NSW TAB, Tabcorp Limited, Racing NSW, GRNSW, and Harness Racing New South Wales and dated 11 December 1997 as amended from time to time

Registered Persons any owner, trainer or owner/trainer registered under the *Greyhound and Harness Racing Administration Act*

Scott Report means the *Independent Review of the Regulatory Oversight of the NSW Racing Industry* prepared by Malcolm Scott and published in June 2008

Statutory Review means the Report on the *Greyhound Racing Act 2002 (NSW)* and the *Harness Racing Act 2002 (NSW)* prepared by the NSW Office of Liquor, Gaming and Racing and published in June 2008

Thoroughbred Intra-Code means the Intra-Code Deed between Racing NSW, Australian Jockey Club, Sydney Turf Club, Provincial Association of NSW, and NSW Country Racing Council dated 3 March 1998 and as amended from time to time

Wagering Paper means the *Independent Review of Wagering in NSW - Wagering Background Paper*, prepared by Alan Cameron and PricewaterhouseCoopers and published in June 2008

2. Executive Summary

2.1 Key Points

2.1.1 Facilitating Industry Innovation, Growth and Performance

Since the privatisation of the NSW TAB in 1998, the NSW racing and wagering industry has suffered a decline in its share of the entertainment market. One of the major contributors to this decline has been the failure of the NSW industry to keep pace with and properly embrace and adapt to the technology revolution that has occurred over the last 10 years. This technology revolution has "nationalised" the Australian wagering market, and created opportunities for greater competition within the industry. Most notably has been the rise of Northern Territory corporate bookmakers.

If the industry continues to follow this path, and together with government, does not take the necessary steps to combat the decline of racing and wagering's share of the gambling market and NSW's falling share of the national wagering market, the size and scope of racing in NSW will also decline.

During the period of change that has occurred over the last 10 years, the NSW industry has operated under a 99 year industry agreement between the three codes of racing (the Inter-Code), which was entered into at the time of privatisation. The Inter-Code does not take into account the changing landscape of the industry, nor provide any incentive or reward for efficiency, innovation or growth, and as a result, the racing industry is currently locked into inappropriate and anachronistic distribution arrangements as between the codes for a period of 99 years. As stated in the Racing Paper, under this arrangement the three codes receive fixed percentages of the NSW TAB distribution, set over 10 years ago which no longer reflect each code's contribution to NSW TAB revenue.

Since the inception of the Inter-Code greyhound racing has achieved substantial growth through promotion of its product and innovation within the industry. For example, during this period one great innovation and success was the greyhound industry's move into the twilight wagering market. The greyhound industry's ability to be flexible and seize opportunities as they arise has allowed it to achieve substantial growth, reflected as a very significant increase in its absolute and proportionate contribution to NSW TAB wagering revenue or, in other words, its market share.

Despite this, the Inter-Code has not been amended to reflect this increased market share and in no way has the greyhound industry been rewarded for its achievements. Indeed over the past 11 years the greyhound industry has subsidised thoroughbred and harness racing in NSW by some \$92 million⁴.

The fixed percentage structure in place under the Inter-Code has not only failed to reward the greyhound industry for its innovation and growth, but in fact hinders it from further growth and marketing opportunities, as at present the greyhound industry does not have the funds to pursue new opportunities, nor any incentive to do so. For example and in a clearly ludicrous situation, under the current distribution arrangements it is more beneficial for the NSW greyhound industry to run the minimum number of races under its contractual obligations than to invest in conducting more races. The irony of this is that the NSW greyhound industry is the only code which currently has the product to significantly expand.

⁴ See Figure 25 below in Section 4.7.1

The NSW greyhound industry currently runs approximately 750 non-TAB race meetings. With the ability to significantly and quickly expand by using existing non-TAB race meetings, and the willingness to be flexible to accommodate opportunities in the national racing programme, the NSW greyhound industry has the opportunity to increase overall NSW wagering revenue by expanding its market. This could include for example conducting NSW greyhound racing in a matinee market which is currently filled with overseas racing products. This type of arrangement and the increase in wagering turnover would benefit the NSW Government, wagering operators, and all three racing codes.

For the industry to move forward and compete in the national wagering market the industry must move toward market/performance-based funding. The 99 year Inter-Code arrangements provide a significant barrier to innovation and should be amended. The racing codes should be placed on a sustainable footing which is able to meet future changes in technology and be paid based on their market share. In the first instance the three codes should be given the opportunity to improve and modernise current arrangements through negotiation and amendment of the Inter-Code.

Should the parties that currently benefit the most from the inefficient Inter-Code arrangements fail to agree to move to a market share basis of remuneration (which would require a period of adjustment in the immediate future and based on the current market will result in a decline in their percentage of the TAB distribution) Government intervention would be required to ensure that the Inter-Code is amended to promote and reward innovation in the industry and ensure a sustainable financial future.

2.1.2 Modernisation of the Industry

The Australian wagering market has undergone a significant shift in focus and direction over the last 10 years driven largely by the internet wagering boom that has seen unparalleled growth in cross border betting, both in the domestic and international sense. The geographical monopolies that previously dominated the wagering market are under extreme pressure from new low cost operators who traditionally have made no financial contribution to the NSW racing industry or the NSW Government.

Increased accessibility of alternative wagering operators via technological improvements means that consumers are increasingly choosing to bet on the basis of price, service and product.

With a limited local racing industry to support, the Northern Territory has embraced the changing environment from a regulatory perspective, licensing corporate bookmakers with licensing arrangements, operating conditions, product availability and taxation arrangements considered more favourable than those that apply elsewhere in Australia.⁵ The modernised, less restricted environment in which such bookmakers operate has caused an acceleration in the number of bookmakers vacating NSW (and other jurisdictions which have failed to modernise) to establish their base in the Northern Territory where they enjoy more favourable trading conditions.

This has led in turn to a significant leakage of NSW wagering turnover to Northern Territory bookmakers. It is estimated that over the next 5 years, the NSW TAB may potentially lose in excess of \$100 million in revenue to other online betting agencies, a vast majority of which are licensed to operate out of the Northern Territory⁶. This will also have a direct adverse

⁵ NSW Bookmakers Cooperative Limited, *Submission on the "Independent Review of Wagering in NSW"*, July 2008, p11

⁶ BIS Shrapnel Pty Limited, *Revenue Outlook for TAB Limited*, Sydney, July 2008.

financial impact on both the NSW racing industry and the NSW Government's budgetary position.

In order for NSW to reduce this leakage the Government should adopt a policy of liberalisation of the industry which would allow the industry to be competitively neutral with other States and Territories. GRNSW considers it appropriate at this time, particularly in light of the recent *Betfair Decision*⁷ and the difficulties involved in enforcing many of the existing restrictions in any event, to remove a number of the current wagering restrictions in NSW and allow NSW operators to compete effectively in the national wagering market.

2.2 Summary of Recommendations

- 2.2.1 As an overriding principle, the NSW Government adopt a philosophy that the long term financial viability of the NSW industry is dependent on it having the ability to and being incentivised to compete on at least equal terms to other jurisdictions in the national market. This involves embracing a culture of promoting and rewarding innovation, growth and performance and liberalising the legislative regime in order to be competitively neutral with other States and Territories.
- 2.2.2 The Inter-Code distribution arrangement be changed, as part of the reform package emanating from this industry review process, to include a performance based system referable to a codes' relative contribution to NSW TAB revenue derived from NSW races.
- 2.2.3 The wagering tax regime be amended so that where increased performance results in an increase in wagering revenue over and above existing levels, flowing from the recommended reforms, such additional revenue be progressively taxed at decreasing rates to reward increased performance.
- 2.2.4 The State and relevant local government subsidise the funding necessary to maintain racetrack facilities in country and regional areas that exist solely to provide community, non-TAB racing, in a similar vein to the funding arrangements which exist for other country and regional sports clubs in order to avoid racetrack closures. At current funding levels GRNSW could continue to provide funding for the administration of country and regional race clubs and payment of prize money but not for maintenance of the racetracks.
- 2.2.5 In relation to recommendation 2.2.4 above the subsidy may be able to be funded by the net increases in tax over and above current levels expected to be achieved as a result of the recommended reforms so that the net position of Government remains unchanged.
- 2.2.6 In relation to the Race Fields Legislation it is premature to make any meaningful predictions about this regime as a significant source of funding. Additionally it could reasonably be expected that similar arrangements will be put in place in other jurisdictions and therefore it may not improve the NSW greyhound industry's funding position comparative to the industry in those other jurisdictions.
- 2.2.7 Care be taken in placing too much importance or value to packaging of media rights, copyright protection or gaming machine licences as a significant source of potential funding.

⁷ *Betfair Pty Limited & Anor v State of Western Australia* (2008) ALJR 600

- 2.2.8 The racing industry is given the ability to adopt innovative approaches to generate funding including the ability to seek interstate sponsors and undertake activities such as internet white branding and portals.
- 2.2.9 The administrative structure of greyhound racing in NSW be rationalised in line with the recommendations of the Statutory Review and the Scott Report. This would involve dissolving GHRRA and transferring its regulatory functions relating to greyhounds to GRNSW, with the exception of those functions relating to Stewards, which should be carried out by a new authority charged with the regulation of Stewarding for all three codes.
- 2.2.10 The existing legislative regime in relation to wagering be liberalised by removing the following restrictions:
- (a) the ban on interstate advertising, subject to maintenance of responsible gambling and harm minimisation requirements;
 - (b) the ban on bookmakers offering internet betting on races other than feature events and the ban on doing so less than 30 minutes prior to the commencement of the race meeting at which the bookmaker is offering a market;
 - (c) the ban on the NSW TAB accepting fixed odds bets less than 30 minutes prior to the commencement of the race meeting at which the NSW TAB is offering a fixed odds market;
 - (d) the requirement that a bookmaker can only take bets electronically whilst at a racecourse and only at a time when it is lawful for betting to take place at the racecourse so as to allow such activity to occur at a registered office that is secure and available for regular inspections by Regulatory Inspectors;
 - (e) the prohibition against NSW TAB or bookmakers accepting bets on a 24/7 basis subject to recognised exemptions, e.g. Christmas Day;
 - (f) the restrictions/requirements relating to directors and shareholders of corporate bookmakers so as to allow proper corporate structures and drive investment;
 - (g) the ban on the publication off-course of on-course betting odds;
 - (h) the restrictions on the range of markets that sports wagering operators are able to field.
- 2.2.11 The review should closely examine options in relation to how to address the issue of “tote odds” betting which is causing significant leakage of wagering revenue from the NSW wagering industry ultimately to the financial detriment of the NSW racing industry.
- 2.2.12 The Government implement a regime to allow the licensing of betting exchanges in NSW subject to operators having an agreement with the relevant controlling race body along similar lines to current arrangements under sections 21A and 43 of the *Totalizator Act 1997* (NSW) and complying with appropriate regulatory measures, for example, similar to those in place in Tasmania.
- 2.2.13 New distribution channels should not only be permitted but embraced where they do not add to the opportunity to gamble - that is, they do not create additional events or

- contingencies. For example this would include Two Way TV's "Sky Racing Active" service recently implemented in Victoria.
- 2.2.14 Pooling of the NSW totalisator pool with any other pool only be permitted with pools operated by wholly related parties of NSW TAB and only on terms first agreed with the NSW racing industry. Of particular concern here is the practice of rebating and the potential for leakage as a result. Further, international pools raise issues which would need to be considered on a case by case basis.
- 2.2.15 The Government not impose a tax on greyhound breeders as it would not be financially feasible under the return/cost profile applicable to greyhound breeding.
- 2.2.16 In relation to the period after expiry of the exclusive totalisator period in 2013, the Government conduct a thorough review and consultation process prior to 2013 with a view to considering all options in line with the philosophy outlined above.
- 2.2.17 The review should conclude that wagering is one form of gambling that is less likely to involve addiction and involves the greater use of skill than other forms of gambling, including those traditionally viewed as "soft" gambling such as lotteries.
- 2.2.18 The review should not recommend, in line with the submission of the NSW Bookmakers Cooperative, that retail bookmaking kiosks be allowed at approved off-course venues. This practice would encroach on the domain of the NSW TAB as the licensed totalisator in NSW which in turn would have a detrimental effect on the revenue of the racing industry. This is particularly true given the high percentage of NSW TAB sales that are retail/agency generated.

3. Section 2 Racing Paper - Overview of the NSW Racing Industry and the Health of the Greyhound Racing Industry

3.1 The Racing Paper

Understandably the Racing Paper to a large extent focuses on the size, scope and important socio-economic role played by the thoroughbred racing industry in NSW, but it does not provide the full picture or information in relation to the greyhound industry in NSW. To the extent that it has been possible to do so, GRNSW has attempted to supplement this information deficiency in this Section 3.

Further, GRNSW makes the following corrections to the statements and statistics in the Racing Paper, which are not otherwise addressed in this submission:

(a) Chapter 2.

The Racing Paper reports ABS statistics suggesting there are a total of 1,021 volunteers engaged in the NSW racing industry in all three codes. A recent survey conducted by GRNSW of NSW greyhound racing clubs found there are approximately 570 persons undertaking volunteer work at NSW greyhound racing clubs⁸. This tends to suggest that there are likely to be more than 1021 volunteers across the three codes.

(b) Chapter 3.

Figure 17 incorrectly records the TAB distributions received by GRNSW in 2004/05 at \$21.1 million as opposed to the correct figure of \$28.1 million.

(c) Chapter 3

Figure 29 records incorrectly the number of 'Other TAB clubs' and 'Non-TAB Clubs'. The correct numbers are 11 and 27 respectively.

3.2 Industry Income & Expenditure

The funding arrangements for the industry were fundamentally changed when the racing industry signed off on the RDA in December 1997 and subsequently agreed the Inter-Code. This coincided with the privatisation of the TAB resulting in the funding arrangements of the greyhound industry becoming the responsibility of the then Greyhound Racing Authority (GRA).

The first full year after the privatisation of the TAB was 1998/99. The greyhound industry received TAB distributions of \$22.1m in that year as opposed to \$29.1m in 2006/2007.

The following chart tracks the movement of TAB distributions and key expenditure lines from that point forward.

⁸ GRNSW Survey of NSW Greyhound Clubs, June 2008

Figure 1: Industry Income & Expenditure 1998/99 to 2006/07⁹

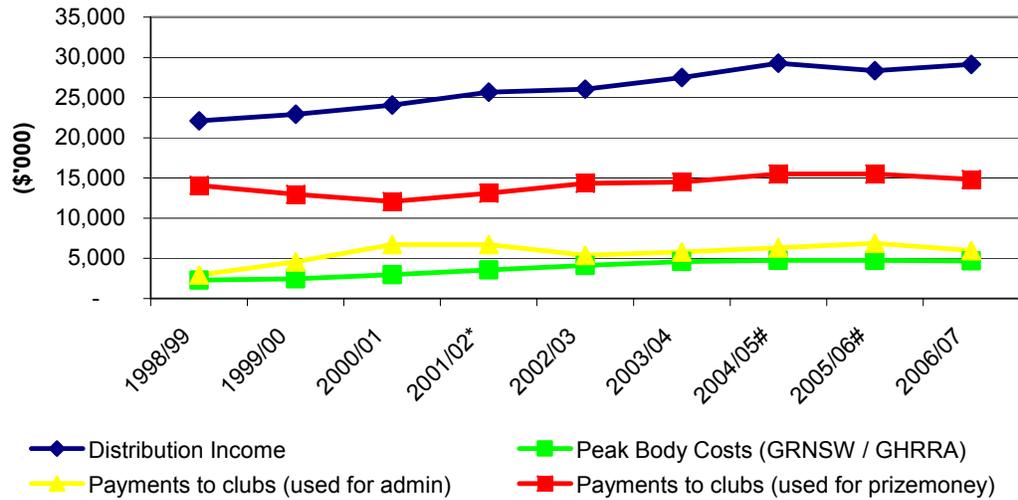


Figure 1 shows that between 1998/99 and 2006/07, industry income and expenses rose in nominal terms as follows:

- (a) TAB Distribution income: +32%
- (b) Payments to clubs (used for administration): +105%
- (c) Payments to clubs (used for Prizemoney): +5%
- (d) Peak body costs: +102%

From 1998/99 to 2006/07 prices (as measured by the Sydney CPI) rose by 28%. After allowing for this inflation the real change in industry income and expenses was:

- (a) TAB Distribution income: +4%
- (b) Payments to clubs (used for administration): +77%
- (c) Payments to clubs (used for prizemoney): -23%
- (d) Peak body costs: +74%

In other words stripped of inflation the TAB distribution income received by the greyhound industry has increased by only 4% since 1998/99.

Figure 2 also shows that peak body costs escalated sharply until 2002/03, but after GRNSW was founded in February 2003 and the initial costs of a dual board system were absorbed, peak body costs stabilised. This reflected the Minister's decision, as persuaded by GRNSW, to cap the GHRRA's budget and the efforts of GRNSW to reduce its own budget and staffing levels by more than 10% in real terms.

This conclusion is further supported by a closer analysis of administration costs before and after the empowerment of GRNSW.

⁹ Information sourced from the Annual Reports of the Greyhound Racing Authority and GRNSW

Between 1998/99 and 2001/02, the period immediately prior to the establishment of GRNSW, industry income and expenses rose as follows:-

Figure 2: Growth in TAB Distributions and Expenditure 1999 to 2002¹⁰

	Nominal Change	Real Change
Tab distribution income	+16%	+4%
Payments to clubs (used for administration)	+129%	+117%
Payments to clubs (used for prizemoney)	-7%	-19%
Peak body costs	+54%	+42%

After GRNSW's empowerment in February 2003, and between 2002/03 and 2006/07, industry income and expenses rose as follows:-

Figure 3: Growth in TAB Distributions & Expenditure 2003 to 2007¹¹

	Nominal Change	Real Change
Tab distribution income	+12%	+1%
Payments to clubs (used for administration)	+11%	0%
Payments to clubs (used for prizemoney)	+3%	-8%
Peak body costs	+13%	+2%

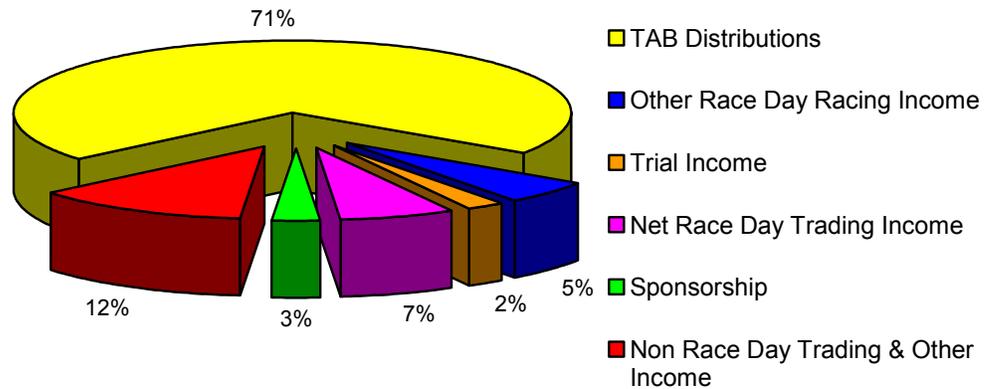
GRNSW has continually been successful in restricting administration costs and continues to work on this basis. It considers that the transfer of regulatory functions from GHRRA to GRNSW, as recommended in the Scott Report, will further assist with this and may reduce administration costs further.

The importance of TAB distribution revenue to the NSW greyhound industry is underlined by an examination of the revenue profile of NSW greyhound racing clubs. When consideration is given to the revenue of all 38 NSW greyhound race clubs, 71% of total club revenue is TAB distributions paid to clubs by GRNSW. Only 12% of club revenue is derived from non-racing opportunities. Figure 4 below shows the breakdown of NSW greyhound racing club revenue on average for the 2006/07 year.

¹⁰ Information sourced from the Annual Reports of the Greyhound Racing Authority and GRNSW and ABS data

¹¹ Ibid

Figure 4: Greyhound Racing Clubs Consolidated Revenue Profile, 2006/07¹²



If the revenue profile is broken into the different greyhound racing sectors in NSW it can be seen that the metropolitan sector derives 88% of reported income from TAB distributions. On a lesser scale, the TAB sector received 65% of its income from TAB distributions whilst for the non-TAB sector TAB distributions made up 59% of total club income.

The greyhound industry’s high reliance on TAB distributions is a significant handicap in an environment where TAB distributions are failing to grow at a rate that keeps pace with inflation.

3.3 Racetracks and their use

There are 76 greyhound racetracks in Australia of which 35 are located in New South Wales. Across the State in 2007, over 1300 race meetings were conducted totalling 13,651 individual greyhound races. However, NSW greyhound race tracks are under utilised when compared to the other leading greyhound racing jurisdictions of Victoria and Western Australia. Whilst NSW conducts an average of 37 race meetings per race track or an average of 390 races per racetrack in a year, Victoria on average conducts 661 races and 59 race meetings per year at each racetrack and Western Australia on average conducts 1,122 races and 92 race meetings per year at each of its greyhound racetracks.

The advantage of the higher number of greyhound racetracks in NSW is that it provides a higher level of accessibility for racing participants. On average a New South Wales greyhound racetrack is provided for every 282nd registered participant as compared to a greyhound racetrack for every 804th participant in Victoria. Figure 5 shows the comparison of race track utilisation across the Australian jurisdictions.

¹² Greyhound Racing New South Wales internal data

Figure 5: Utilisation of Greyhound Racing Venues in Australia¹³

	Venues	Meetings per Venue	Races per Venue	Participants per Venue
NSW	35	37	390	282
Victoria	14	59	661	804
Western Aust.	3	92	1,122	427
Queensland	9	70	643	497
South Aust.	10	34	318	201
Tasmania	3	52	515	202
ACT	1	45	451	165
Northern Territory	1	51	270	57

If consideration is only given to the TAB meetings, being the only race meetings from which the industry receives a financial benefit, track utilisation by the New South Wales greyhound racing industry further decreases (as shown in figure 6 below).

Figure 6: Utilisation of Greyhound Racing Venues in New South Wales¹⁴

	Meetings per Venue	Races per Venue
All Meetings	37	390
TAB Meetings Only	18	178

Of the 35 racetracks in New South Wales, only 14 of them (40%) are owned by a greyhound racing club. The remainder are leased predominately from local councils or from various Trusts responsible for the management of crown land.

Funding for capital works, acquisitions and major maintenance for all NSW greyhound racetracks, whether owned by race clubs or otherwise, is provided by GRNSW, which administers the Greyhound Industry Development Fund (GIDF). In the nine year period spanning financial years 1998/99 to 2007/08 the funding provided to greyhound race tracks in NSW by the GIDF was \$20.2 million.

¹³ Greyhounds Australasia Industry Snapshot, Greyhounds Australasia, 2007

¹⁴ Greyhound Racing New South Wales Clubs internal data

Figure 7: GIDF funding by Industry Sector 1998/99 to 2007/08¹⁵

Metropolitan	TAB	Non-TAB	Total
\$4,603,625	\$11,858,482	\$3,731,407	\$20,193,514

In order to ascertain the level of funding required in future years to maintain the State’s ageing racetrack infrastructure, GRNSW in 2007 appointed well credentialed asset and infrastructure experts GHD to undertake a thorough review of the greyhound racetracks in New South Wales (**Asset Review**). The review outlined the average condition of every venue’s assets, assessed them for compliance, and found that the current maintenance strategy across racing centres relies on the “fix upon fail” method, with little detailed forward planning¹⁶.

The key finding from the Asset Review was that if GRNSW was to only provide the funding required to maintain all venues at their current levels (by renewing and / or replacing assets as necessary) and not provide any significant additions or enhancements to venues, the cost until 2024 would be \$14.3 million. This does not include funding for what GHD termed minor maintenance, which in addition to capital maintenance costs GRNSW approximately \$500,000 per year. Cumulatively, this would bring the cost to \$22.8 million until 2024. However, the Asset Review did not take account of the industry’s cost exposure at Wentworth Park, which is an aging venue and as the major track in NSW requires significant funding. Accordingly the figures arrived at by GHD almost certainly understate the ultimate cost exposure to the industry. The Asset Review also did not take into account the cost of racing infrastructure repairs across all tracks including items such as starting boxes, kennels, running rails etc, which adds significant cost to the maintenance of racetracks.

Whilst the high number of racetracks ensures greater accessibility for racing industry participants, it places a significant financial burden on the sport in New South Wales just to maintain the current facilities in an operable state. There is a persuasive argument that the low level of secondary (i.e. non-greyhound racing) income earned by NSW greyhound racing clubs is directly related to the standard of facilities. Hence simply maintaining greyhound racing tracks at their existing level will not assist in improving secondary income levels. Whilst reducing the number of greyhound racetracks is one way of dealing with what is an unviable ongoing funding situation, GRNSW acknowledges there would be associated social, community and political costs.

The greyhound racetrack is a significant part of the social fabric of a country town. For many rural and regional towns across NSW, the country racing clubs are the lifeblood of the town that provides a meeting place for all members of the community, where members of the community can socialise and provide support to one another.

The importance of country greyhound racing facilities to local communities was summarised by the Honourable Minister West in 2004: *"Racing clubs are part of the social fabric in many regional communities. The racecourse is an important community asset, and it needs to be*

¹⁵ Greyhound Racing New South Wales

¹⁶ GHD, Greyhound Racing NSW Racing Centre Asset Review Final Summary Report, 2007

maintained and preserved".¹⁷ Minister West continued, stating that "racetracks are an important part of the regional economy, providing employment to the local community".¹⁸

This point was also recently emphasised by the Moree Plains Shire Council in response to a proposal to reduce the number of non-TAB greyhound race meetings in Moree: "If the Moree people are cut back it will impact not just on their club but right across the region - this is a regional issue. It threatens the local racing industry and all the community work the club does. The racing industry is a vital part of the town's tourism dollars,"

Given this, GRNSW submits that local and state government should subsidise the funding necessary to maintain and improve racetrack facilities in country and regional areas that exist solely to provide community, non-TAB racing in a similar vein to funding of other country and regional sports clubs. With current funding levels, GRNSW could continue to provide funding for the administration of country and regional race clubs and the payment of prizemoney at race meetings, but requires assistance for the maintenance of country racetracks.

This approach would be consistent with current NSW Government Policy with respect to Public Trading Enterprises. The Commercial Policy Framework for Public Trading Enterprises set out by Treasury includes a Social Program Policy under which Public Trading Enterprises are compensated explicitly for the costs associated with providing non-commercial activities on behalf of the State Government.¹⁹

Further, GRNSW notes that the NSW Department of Sport and Recreation administer a number of assistance programs to assist with the continuation and development of sport in regional and country NSW. For instance, the Capital Assistance Program (CAP) assists Local Government Authorities and not for profit organisations to develop community orientated local sporting and recreational activities.²⁰ In 2006/07, approximately \$4 million was distributed to Local Government Authorities and not for profit organisations.²¹ No CAP grants were made to race clubs. GRNSW recommends that the NSW Government extend eligibility for CAP funding to regional and country race clubs given the important role racetracks play in country and regional NSW.

Alternatively, GRNSW recommends the continuation of the Race Club Facility Grant Program (RCFGP). The RCFGP was a NSW Government initiative to assist rural and regional race clubs develop their facilities and recover from the Equine Influenza crisis.²²

It is GRNSW's proposal that such funding for country racetracks could come from the likely increased taxes generated from increased performance by the NSW greyhound racing code if the Inter-Code and legislative amendments proposed in this submission are made (as to which see Section 4.10.1).

¹⁷ The Honourable Minister Graham West, New South Wales House of Assembly, *Parliamentary Debates (Hansard)*, 4 June 2004

¹⁸ *ibid*

¹⁹ The Treasury, Office of Financial Management, "Commercial Policy Framework", http://www.treasury.nsw.gov.au/comframe/fmf_intro#brief

²⁰ <http://www.dsr.nsw.gov.au/grants/cap.asp>

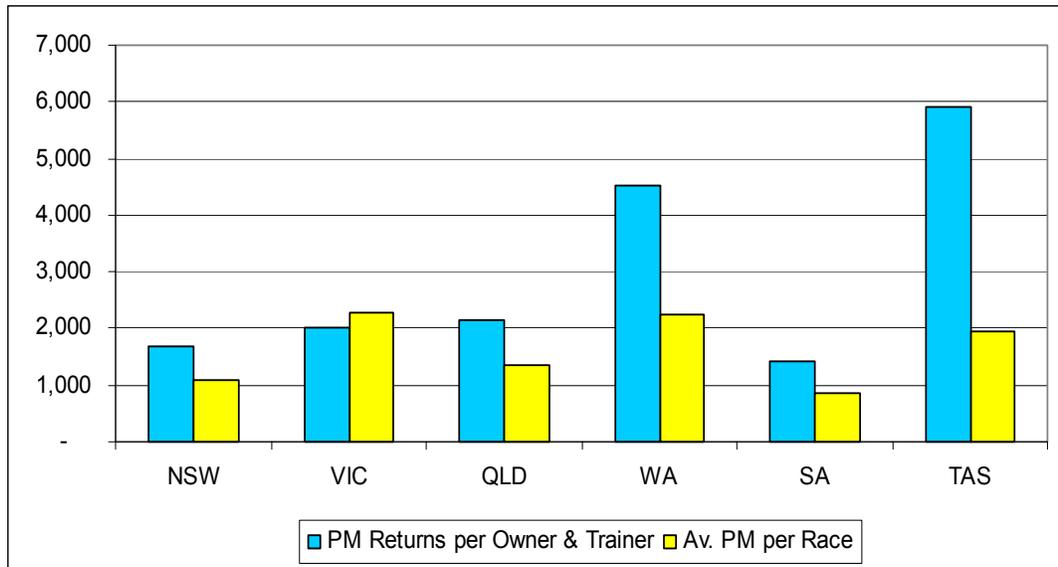
²¹ http://www.dsr.nsw.gov.au/grants/cap_projects.asp

²² <http://www.dsr.nsw.gov.au/grants/rcfg.asp>

3.4 Level of Prizemoney vs. Other States

There is a pressing need for NSW greyhound racing to become more competitive with other States, both in terms of prizemoney per owner and prizemoney per race. Average prizemoney per owner in NSW is the second lowest in Australia and the average prizemoney per race is substantially less than other States, with the exception of South Australia. In Victoria, the other major greyhound jurisdiction, the average prizemoney paid is \$2,294 per race some \$1,207 per race above the NSW return of \$1,086, (as shown by figure 8 below).

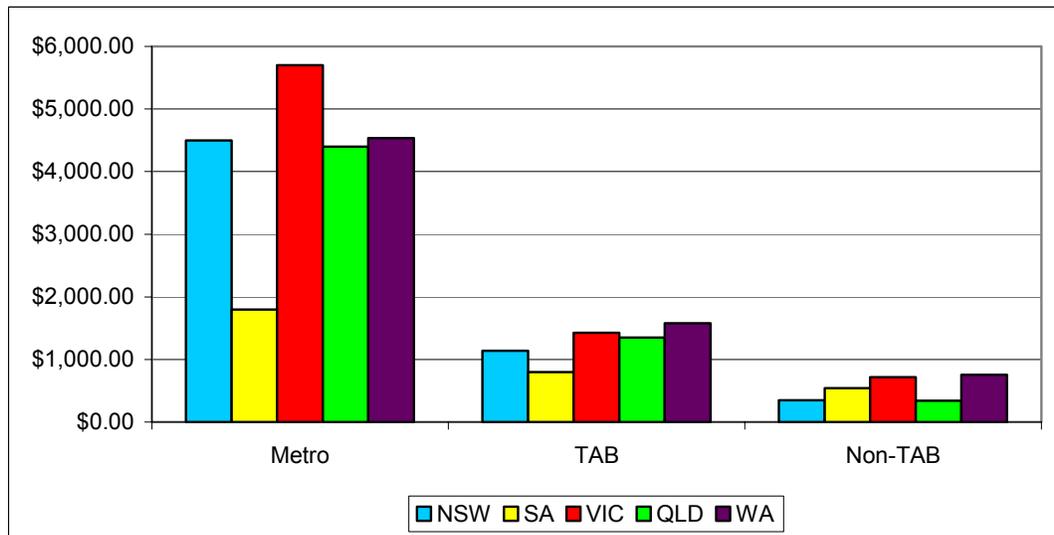
Figure 8: Average Prizemoney by States, 2006/07²³



For States where prizemoney data is readily available on the split between Metropolitan, TAB and Non-TAB, NSW is losing touch with Victoria in the Metropolitan sector and sits behind Western Australia, Victoria and Queensland with respect to standard TAB meeting prizemoney (as shown in figure 9 below).

²³ Greyhounds Australasia Industry Snapshot, Greyhounds Australasia, 2007

Figure 9: Average Prizemoney by Sector and State from 1 August 2008²⁴



A continuation of NSW's inability to provide a competitive return to owners compared to other States is likely to discourage such owners and trainers from racing or training and others from commencing to race or train greyhounds in this State over the longer term. In turn this will impact both on the quality of greyhounds entered in NSW races and the attractiveness of wagering on NSW greyhound race meetings.

3.5 Level of Prize Money v's Cost of Participation

Another significant issue for NSW greyhound racing participants is that prizemoney and bonuses are not increasing at a rate comparative to the escalating cost of owning and training a greyhound. As this differential grows, the number of owners and trainers able to continue to participate in the NSW industry is declining and the ability for new entrants to participate is impaired.

GRNSW maintains a Greyhound Ownership Cost Index to enable prospective new entrants to greyhound racing to be aware of the costs associated with owning a greyhound up to the stage where it is ready to race. The index is constructed assuming the owners buy, rear and train their greyhound using professional service providers (figure 10 below).

The average cost of a pup was formulated in consultation with leading breeders and participants in NSW. Rearing remains the most expensive cost in the preparation of a greyhound, as it is the longest period of training a greyhound faces prior to it commencing its racing career.

The increase of 31.30% in total costs from April 2005 to April 2008 (shown in figure 10 below) reflects the rising financial contribution required to get a pup from infancy to it being ready for the racetrack.

²⁴ Interstate prizemoney levels sourced from Greyhound Racing Victoria, Greyhounds Queensland, Greyhound Racing South Australia and Racing and Wagering Western Australia.

Figure 10: GRNSW Greyhound Ownership Cost Index²⁵

Stage Of Life	Age of Greyhound (weeks)	Total Cost			Increase 2005 to 2008	Total Change over 7 Years
		April 2001	April 2005	April 2008		
Owner Reg		36	45	0		
Pup	12	1,424	2,164	3,000	38.63%	110.67%
Rearing	12 to 60	1,440	1,680	2,160	28.57%	50.00%
Basic Education	61 to 64	225	300	400	33.33%	77.78%
Race Track Education	65 to 68	220	300	400	33.33%	81.82%
Training/Conditioning	69 to 80	660	750	900	20.00%	36.36%
Naming Fee		27	30	40	33.33%	48.15%
Contingency* (16.67% of costs exc.pup)		522	621	834	34.22%	59.67%
Total Cost		4,554	5,890	7,734	31.30%	69.82%
Total Cost less cost of Pup		3,130	3,726	4,734	27.04%	51.23%

The figures below estimate the total costs to owners and the average return received via prizemoney.

Figure 11: Cost of Owning and Racing a Greyhound²⁶

a	0 – 1.5 years old	\$7,734
b	1.5 – 3.5 years old	\$7,800
a + b	Total greyhound costs	\$15,534

Figure 11 sets out the cost of racing a greyhound. The period from the purchase of a pup to it being ready to race at 18 months of age was estimated through the Greyhound Ownership Cost Index (GOCI) to be \$7,734. It is then assumed that a greyhound's racing career where it can earn prizemoney for its owner/s is on average two years spanning from 18 months of age to three and a half years old. Training costs at \$75 per week equate to a further \$7,800 worth of costs to owners, meaning by the time a greyhound reaches three and half years of age, cost of ownership would have totalled \$15,534.

²⁵ Greyhound Ownership Cost Index 2008, Greyhound Racing New South Wales, 2008

²⁶ Information sourced from GRNSW COGI and standard weekly fees charged by professional kennels

Figure 12: Prizemoney Returns per Greyhound; 2006/07²⁷

c	Number of greyhounds to race	11,546
d	Total Prizemoney	\$14,827,485
e	Average racing Career Length	2 years
c / d	Average return to each greyhound per year	\$1,284
(c / d) * e	Average career prizemoney earnings	\$2,568

Figure 12 sets out the average prizemoney earned by a greyhound using 2006/07 data. To estimate the average prizemoney returns, calculations were made on the official number of individual greyhounds to race in NSW for 2006/07. The total prizemoney paid for 2006/07 was then used to calculate that the average return to each greyhound in prizemoney is \$1,284. This amount is doubled to reflect the racing career of a greyhound giving it an average career prizemoney return of \$2,568.

Figure 13: Returns to Greyhound Owners; 2006/07

F	Average career prizemoney earnings	\$2,568
g	Total greyhound Costs	\$15,534
f / g	Returns to greyhound owners as a percentage of costs	16.53%

This analysis suggests that on average only 16.53% of ownership costs are met by prizemoney.

²⁷ GRNSW statistical data

3.6 Participation in the Industry

Figure 14 shows the participant numbers in greyhound racing across the last seven years.

Figure 14: Participation in the Greyhound Racing Industry between 1999 and 2007²⁸

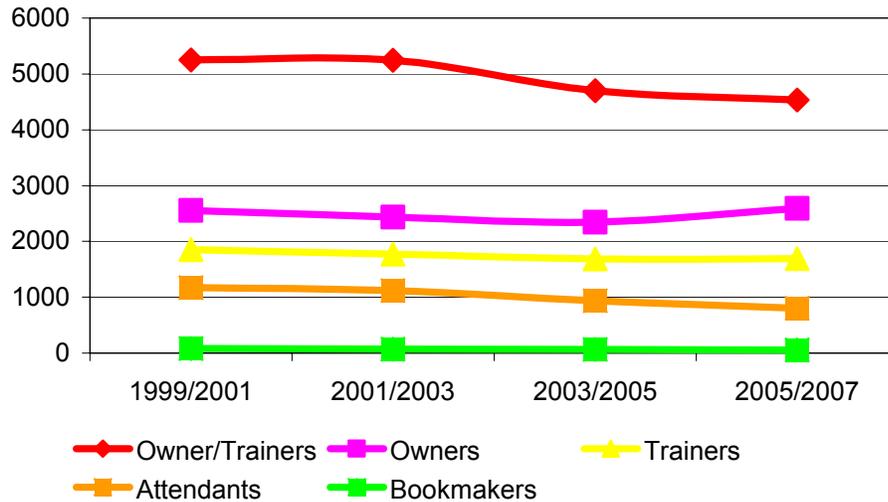
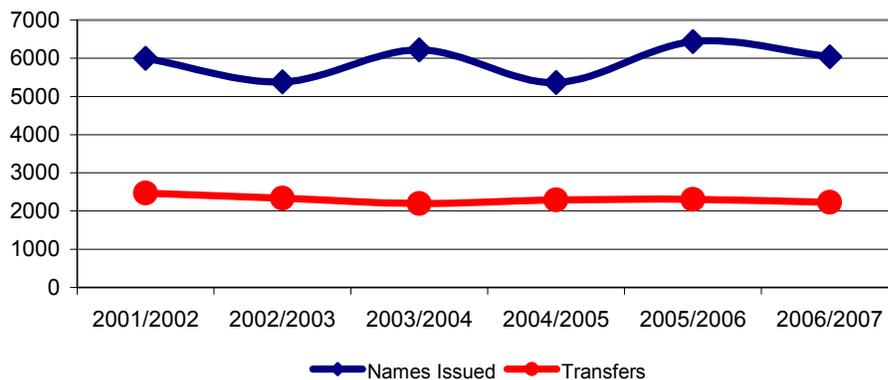


Figure 14 shows that over the period the numbers of all participants slowly dropped except for owners whose numbers have been somewhat stagnant in the period. GRNSW submits that the inability of prizemoney to grow at a comparable rate to that of the costs to owners is a fundamental reason for the decline in participation in the industry.

Figure 15 shows the greyhound registration levels for the past six years.

Figure 15: Greyhound Activity between 2001 and 2007²⁹



²⁸ Annual Reports of the Greyhound Racing Authority and the Greyhound and Harness Racing Regulatory Authority: 2002 to 2007

²⁹ *ibid*

Figure 15 shows that each year new names issued for greyhounds have gone up and down with no real consistency while transfers have remained stable.

3.7 Attendances at Races

Figure 16 shows attendances at NSW greyhound race meetings between 2001 and 2007. The data underlines that greyhound racing is historically an off-course wagering product with low levels of attendance at race meetings. This is consistent with the revenue profile of NSW greyhound race clubs (as to which see figure 4) that showed greyhound race clubs generated limited race day trading revenue.

Figure 16: Paying Attendees at NSW Greyhound Race Meetings³⁰

	Total Paying Attendance	Average Paying Attendance per Race Meeting
2000/2001	201,004	136
2001/2002	184,433	132
2002/2003	177,313	124
2003/2004	174,332	123
2004/2005	176,615	124
2005/2006	194,504	136
2006/2007	174,201	134

3.8 Contribution to Economy / Economic Significance of Industry

Each year it is estimated that NSW greyhound racing invests more than \$468 million of direct spending into the NSW economy.³¹ This investment includes asset procurement and improvements, investment into the breeding and preparation of racing greyhounds, and participant investment. Nearly 55% of this investment occurs in the metropolitan area.³²

The activities and operations of GRNSW generate an economic benefit in excess of \$570 million to NSW. This impact flows primarily into the retail, food & beverages, gambling, recreation and technological service industries. The metropolitan area receives \$256 million while the non-metropolitan areas of the State receive \$323 million.

3.9 Employment

In 2003 it was estimated that the NSW greyhound racing industry was responsible for the creation and maintenance of 6,990 full-time equivalent jobs.³³ These jobs exist to meet the demand within the greyhound racing industry and many other suppliers of goods and services within the economy. The study found that the number of jobs created and maintained in the metropolitan area was congruent with those created and maintained in country and regional NSW.

³⁰ Greyhound Racing New South Wales internal data, 2008

³¹ Size and Scope of TAB Limited and NSW Racing, IER Strategic, September 2003

³² *ibid*

³³ *ibid*

3.10 Contribution to Community

Greyhound racing clubs throughout the state are heavily involved in supporting charities and disadvantaged community organisations. Most clubs conduct special charity days which involve activities that are used to raise money for the specific charitable organisation as well as offering those involved a chance to sample the greyhound racing environment.

Sporting clubs, schools, ethnic and disadvantaged groups have all been a part of specific charitable donations and organised benefit days provided by GRNSW and the State's greyhound race clubs.

For example, Richmond Race Club holds an annual event where a different charity is chosen each year to be the beneficiary of auctions and fundraising on the day, whilst The Gardens Race Club holds an annual race day for Surf Life Saving Clubs from the Central Coast. The Surf Life Saving Clubs are invited to sell the names of the races on the day with all the proceeds returning to them.

3.11 Comparison of Greyhound Racing Industry in NSW with Interstate Greyhound Racing Industries

As discussed above in section 3.3, NSW conducts more greyhound races and maintains more racetracks than any other Australian jurisdiction.

Further, NSW has the second highest number of registered persons (9,857) behind Victoria (11,257). This reflects low syndication prevalence in NSW and a stagnating level of Registered Persons with an 8.4% drop since 2003. NSW is renowned for its major contribution to the Australian greyhound racing breeding stocks with 6,039 greyhounds named in 2006/07, in comparison to 3,912 in Victoria and 1,475 in Queensland. This flows down from respective figures in the number of pups whelped (born) with NSW again the market leader.

This wider industry snapshot at figure 17 clearly shows NSW to be the largest state in terms of racing and breeding. Despite this its position in maintaining a high number of racetracks with non-competitive TAB distributions severely impacts on its ability to maximise its returns to participants who are defecting to Victoria and Western Australia, which have less to maintain and can offer higher returns. Victoria received \$37.6 million in TAB distributions in 2007 and Western Australia received \$11.2 million. They both have a much smaller network of racetracks to maintain with 14 and 3 respectively. NSW received \$29 million for the same period but is burdened by having 35 racetracks, 21 more than Victoria and 32 more than Western Australia.

Greyhound racing, due to improve global telecommunications especially satellite television and the internet, is becoming more exposed to interstate and international comparison and competition. To prosper, greyhound racing in NSW must improve the attractiveness and safety of its venues, increase interest in and attendance at its meetings and maintain the quality of dogs which race at meetings.

Figure 17 - Greyhound Industry Snapshot³⁴

	ACT	NSW	NZ	NT	SA	TAS	VIC	QLD	WA	
Number of Meetings	2007	45	1,302	327	51	339	156	826	632	276
	2006	42	1,427	307	48	354	155	824	632	259
	2005	44	1,436	287	51	362	156	867	636	259
	2004	42	1,422	270	50	325	155	839	644	260
	2003	45	1,429	256	52	322	156	850	634	256
	2002	48	1,397	253	51	299	155	853	688	244
Number of Races Held	2007	451	13,651	3,687	270	3,176	1,546	9,254	5,787	3,367
	2006	441	14,983	3,652	241	3,234	1,545	9,056	5,787	3,119
	2005	470	14,888	3,272	281	3,417	1,532	9,537	5,819	3,032
	2004	437	14,713	3,105	240	3,131	1,553	9,229	5,829	2,856
	2003	476	15,207	2,970	245	3,134	1,554	9,350	5,819	2,761
	2002	520	15,060	2,904	299	2,704	1,547	9,383	6,357	2,667
Number of Starters	2007	3478	103,028	28,651	1,794	23,860	12,072	73,106	41,665	
	2006	3255	112,678	28,697	1,618	24,572	11,899	72,448	42,631	24,477
	2005	3472	112,083	25,939	1,920	25,958	11,940	76,296	43,237	23,831
	2004	3357	110,889	24,694	1,550	24,116	12,148	73,832	42,532	22,398
	2003	3551	117,926	23,811	1,600	23,201	12,126	74,800	42,568	21,766
	2002	3800	113,821	23,073	2,031	20,616	12,116	75,064	46,411	20,878
Stakemoney Paid (\$000's)	2007	359,000	14,827,485	6,964,666	145,000	2,772,000	3,013,870	21,225,000	7,747,225	7,513,380
	2006	352,000	15,501,719	6,579,665	130,000	3,094,000	2,297,916	20,485,000	7,340,672	6,585,990
	2005	330,000	15,500,000	4,585,507	148,839	2,984,000	1,944,725	18,456,000	7,659,360	5,230,250
	2004	351,000	14,228,000	4,289,785	85,765	2,893,000	1,926,076	16,731,000	6,969,000	4,938,946
	2003	325,000	14,372,803	4,191,155	86,700	2,679,000	1,821,613	16,667,000	6,006,188	4,528,592
	2002	339,000	13,233,129	3,694,000	83,000	2,433,000	1,746,912	15,918,000	5,543,000	4,061,969
Number of Clubs	2007	1	38	12	1	10	3	14	9	3
	2006	1	38	12	1	10	3	14	9	3
	2005	1	41	12	1	10	3	14	9	3
	2004	1	42	12	1	10	3	14	10	3
	2003	1	42	12	1	10	3	14	10	3
	2002	1	42	12	1	10	3	14	10	3

³⁴ Greyhounds Australasia Industry Snapshot 2007, Greyhounds Australasia, 2007

	ACT	NSW	NZ	NT	SA	TAS	VIC	QLD	WA	
Owners (incl syndicates)	2007	45	2,593	735	36	1,528	303	7,659	2,350	1,281
	2006	43	2,084	794	35	1,264	216	6,284	1,586	1,297
	2005	37	2,343	841	43	779	211	4,180	551	1,228
	2004	48	1,877	795	35	671	186	9,444	318	1,042
	2003	41	2,438	767	33	554	181	8,398	105	1,309
	2002	0	2,268	703	37	475	175	10,274	471	1,139
Trainers	2007	25	1,690	77	13	240	152	2,799	1,263	85
	2006	26	1,497	90	12	243	227	2,918	1,313	81
	2005	28	1,687	78	16	272	228	2,939	534	89
	2004	31	1,498	67	20	247	235	2,943	483	85
	2003	27	1,770	66	15	250	244	2,958	467	101
	2002	0	1,542	56	18	266	254	3,077	461	92
Owner/Trainers	2007	75	4,534	246	N/A	205	56	N/A	N/A	293
	2006	76	4,215	255	N/A	203	N/A	N/A	N/A	249
	2005	68	4,698	291	N/A	232	N/A	N/A	921	236
	2004	81	4,282	301	N/A	251	N/A	N/A	1006	231
	2003	74	5,243	285	N/A	274	N/A	N/A	1311	288
	2002	0	4,645	291	N/A	259	N/A	N/A	1371	287
Greyhounds Named	2007	0	6,039	490	8	404	291	3,921	1,475	
	2006	0	6,434	508	7	485	320	4,173	1,542	392
	2005	0	5,364	755	20	479	278	4,141	1,549	294
	2004	0	6,218	931	18	510	255	4,009	1,725	358
	2003	0	5,383	917	15	413	390	3,932	1,515	360
	2002	0	5,997	674	16	419	239	4,175	1,814	399

3.12 Section 2 Questions and Issues

Q2.1 looking at the information presented in this chapter (chapter 2), do you consider the NSW racing industry to be in good health?

Please see the information presented in this Section 3 above in relation to the health of the NSW greyhound racing industry. This information suggests that the industry is one which is in decline. The limited increase in TAB distribution of 4% in real terms over the last 10 years, and the significant burden on GRNSW to apply these funds to capital maintenance of the large number of greyhound racetracks in NSW has meant that prizemoney levels in NSW have failed to increase at rates comparative with other Australian states. The escalating costs of participating in the NSW greyhound industry and this failure to increase prizemoney have led to a decline in participation in the industry.

Despite this, in a more liberalised market which rewards performance of the codes based on their contribution to NSW TAB wagering turnover, GRNSW has opportunities to expand its presence in the wagering market. This in turn should lead to an increase in prizemoney, making it comparative with other states, and encouraging growth in the number of participants in the NSW greyhound industry.

Q2.2 what other information would be of value in describing the industry's current health?

GRNSW has included the information in Section 3 to assist the review committee in its assessment of the health of the NSW greyhound industry and the NSW racing industry as a whole. Further, GRNSW provides financial forecasts and information as to the required level of funding of the NSW greyhound industry in Sections 4.1, 4.2 and 4.3 below.

Q2.3 what additional evidence exists regarding the economic significance of the racing industry?

In relation to the economic significance of the NSW greyhound racing industry refer to Section 3.8.

4. Section 3 of the Racing Paper - Funding of NSW Greyhound Racing Industry and Financial Outlook

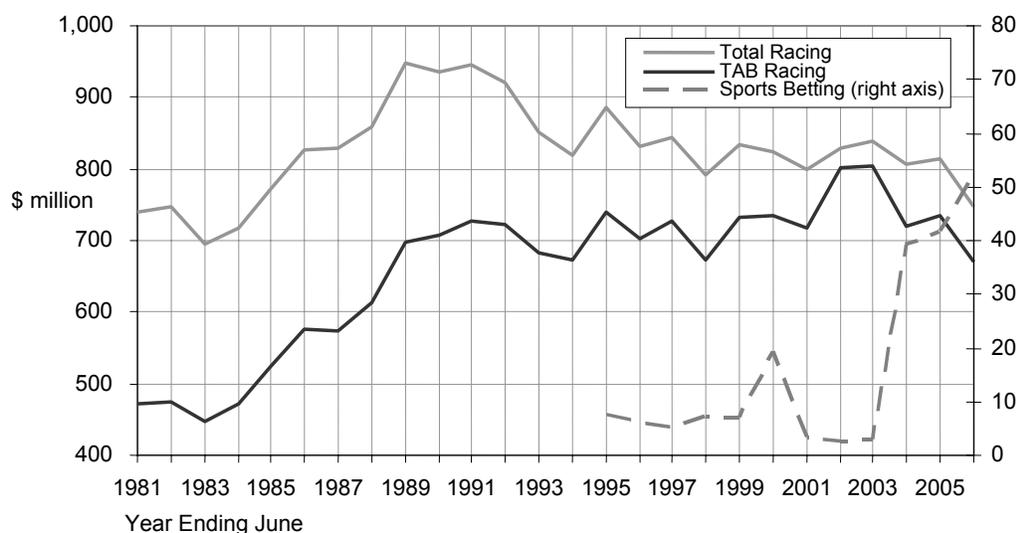
4.1 NSW Wagering Market: Historical trends and State of Play

Gambling activity in Australia as a result of regulatory reforms grew rapidly through the 1990s before stabilising at the higher level for most of the present decade. ABS data reveals that expenditure on legalised gambling grew by an average of 9.1% over the 1990s before slowing to average growth rate of 2.4% so far this decade. Associated with the expansion in the availability of gambling opportunities, brought about by market liberalisation, has been an increase in the proportion of household disposable income devoted to gambling. Gambling expenditure as a proportion of household disposable income increased from 1.6% in 1986 to 3.3% in 2000. For the 2000-07 period, it averaged 3.1%.

Within the gambling revenue market, gaming has the overwhelming market share followed by racing and sports betting. As at the end of the 2005/06 financial year, gaming's share of national gambling expenditure was 87%. Racing had a 12% share with the sports betting market picking up the remaining 1% of gambling expenditure by households. The wagering market comprising all legal forms of gambling on racing and sporting events therefore collects 13% of total gambling expenditure.

Revenue from wagering on racing in NSW has had three distinct phases (figure 18). It recorded strong growth through the 1980s, reaching a peak of nearly \$950 million in 1989 and 1991 (in constant 2005/06 prices). It then fell sharply through the early 1990s before stabilising (although with a downside bias) through the rest of the 1990s and early this decade.

Figure 18: NSW Wagering Market in terms of Revenue (constant prices)



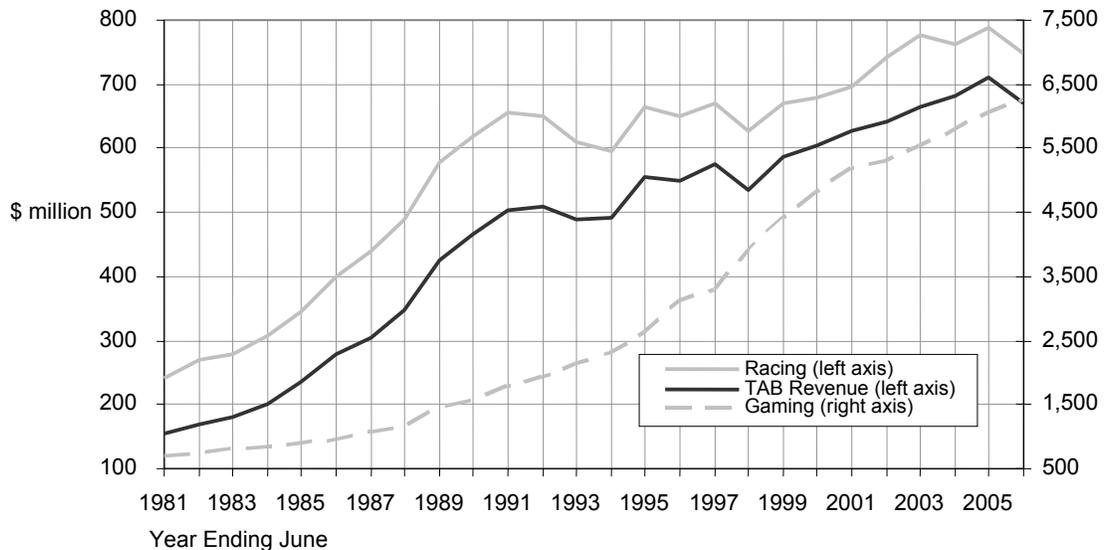
The growth of the racing betting market through the 1980s is due to the expanded coverage of the number of race meetings by Sky Channel. In particular, in 1989 there was a large jump in thoroughbred coverage from 863 to 1002 meetings. This resulted in the industry recording its

highest revenue. With gradual increases in the number of race meetings in the following two years, the high level of revenue was sustained through to the 1991 financial year.

However, during the 1992-94 period, the racing wagering market in NSW contracted sharply and has been on a downward drift since. Although it recovered modestly in 1995, revenue has been consistently fluctuating around \$825 million, almost 15% lower than the historical peak of 1989 and 1991.

The initial reduction in the racing wagering market is due to some correction from the exceptional growth of the late 1980s. However, the subsequent deceleration in growth through the mid-to-late 1990s and the present decade can primarily be explained by increased competition from other forms of gambling, particularly gaming. The downward trend in racing wagering revenue for NSW since 1995 has coincided with the increased (almost exponential) growth in gaming revenue (see figure 19). The opening of the new Sydney casino in 1995 and the introduction of poker machines into hotels in 1997 increased competition for the gambling dollar and weighed on the growth of the wagering market.

Figure 19: NSW Gambling Revenue (current prices)



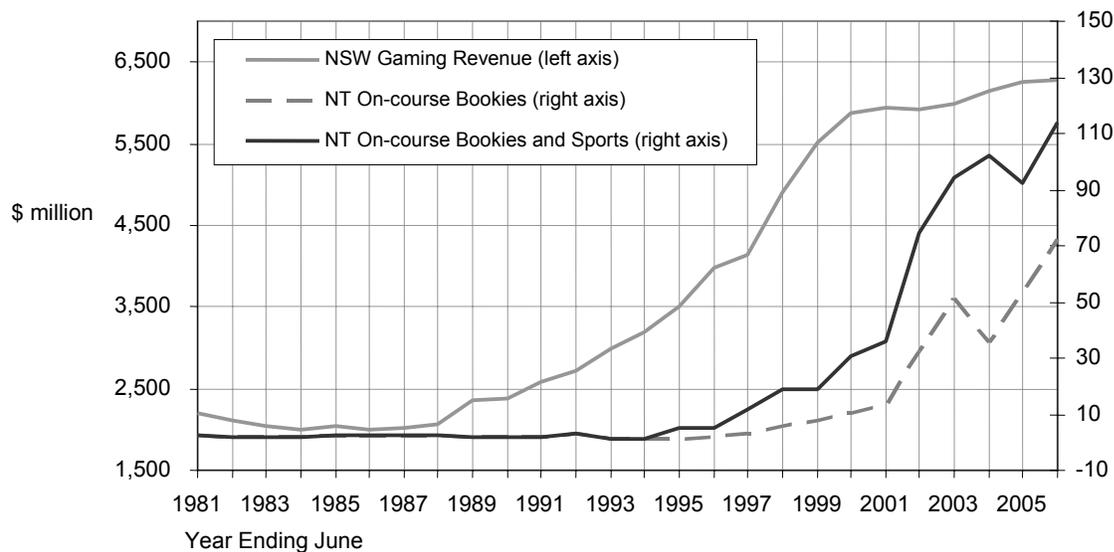
New innovations such as telephone and internet betting have had a mixed impact on the NSW wagering market. While the introduction of interactive gambling supported the growth of the industry early this decade, it also introduced new competition in the market, particularly from the Northern Territory based corporate bookmakers. The start of internet gambling has corresponded with phenomenal growth in revenue of Northern Territory corporate bookmakers (see figure 20). The broad range of gambling products offered by these bookmakers (made possible by the liberal Northern Territory laws) has been the major appeal for interstate gamblers. Put simply, the convenience of a ‘one-stop-shop’ attracted many online gamblers across Australia to Northern Territory based bookmakers. This, in turn, has constrained the development of the NSW wagering industry.

More recently the market has been adversely affected by the split broadcasting of race meetings between Sky Channel and ThoroughVision Network (TVN). The impact was most

pronounced in the 2005/06 financial year when the combined revenue from racing bets totalled \$750 million, the lowest level in over 20 years.

In summary, the wagering market in NSW is in a long period of trough. The introduction of online gambling has helped the industry but it has not been sufficient to put the industry on an upturn phase towards its highs of the 1989-91 period. The sports betting market is still in its infancy stage of development and has not been a sufficient offset to leakage in racing revenue to the Northern Territory. Sports wagering, while growing, is also being weighed down by the competition from the Northern Territory based corporate bookmakers.

Figure 20: NSW Gaming Revenue and Racing Revenue of Northern Territory On-Course Bookmakers including Sports Betting (constant prices)



4.2 NSW TAB's Revenue Projection to 2013, 2018 and 2028

NSW TAB's future revenue from off-course racing and sports betting is unlikely to resemble the pattern of recent years. Analysis conducted by BIS Shrapnel suggests that the negligible real growth of the previous decade is likely to be reversed in the future as it expects TAB revenue to gradually be on an upturn phase and break the \$1 billion threshold (in current prices) within the next five years.³⁵ It suggests that the prospects for the NSW economy are strong. This will improve household disposable income which in turn will support gambling expenditure in the State.

BIS Shrapnel projects that NSW TAB's revenue will grow at an annual average of 1.8% per annum in real terms (i.e. after inflation) over the next five years. This is an improvement on the past five years, when real growth fell by 0.6% per annum, and the decade to 2005/06 when real growth only averaged 0.1% per annum. The improvement in the short-to-medium term outlook is largely driven by the faster growth in real household disposable incomes in NSW, averaging 3.8% per annum, due to better performance by the NSW economy over the next five years compared to the past five years. In addition the BIS Shrapnel forecasts assume no

³⁵ BIS Shrapnel Pty Ltd "Revenue Outlook for TAB Limited" 2008 p21

regulatory changes or ‘one-off’ shocks’ (such as Equine Influenza or the Thoroughbred Broadcasting Dispute) over the forecast period. Beyond 2013, the real growth in NSW TAB revenue is forecast to slow, with 1.7% per annum expected over the five years to 2018 and an even weaker 0.7% per annum in the decade to 2028. Overall, real growth in NSW TAB revenues over the next 20 years will average 1.2% per annum.

In the absence of any regulatory changes to online betting regulations in NSW it is anticipated that there will be further significant increases in the leakage of wagering revenue to Northern Territory corporate bookmakers. While the average annual growth rate will slow, compared to the 36% growth in the decade to 2005/06, the increased leakage will nevertheless be a major drag on the potential growth of the NSW wagering industry, and by extension on TAB revenue. BIS Shrapnel modelling predicts the revenue of Northern Territory bookmakers will increase from an estimated \$118 million (constant 2005/06 prices) in 2006/07 to \$719 million (constant 2005/06 Prices) by 2028 (see figure 21), an increase of around \$600 million over the next 20 years. Based on population proportions, whereby NSW now has a third of Australia’s population, NSW punters could be contributing up to \$200 million of this long term increase in Northern Territory bookmakers’ revenue. A large proportion of this \$200 million would represent a potential loss to the NSW TAB, or a continued leakage of revenues.

The main risks to the BIS Shrapnel projections are a severe contraction in Australian economic growth (recession), a continuation of the exponential growth of Northern Territory bookmakers revenue or some change in regulation that brings about a structural change to national gambling activity (for example, the Victorian totalisator licensing process currently being undertaken). However in the view of BIS Shrapnel, the economic risk to the outlook has a low probability and they are not forecasting a recession at any time during the forecast horizon. This, in turn, should support solid household income growth and support the growth of the gambling industry.

Figure 21: TAB and NT On-course Bookmakers Revenue (\$M)³⁶

Year Ended June	NSW TAB		NT On-course Bookmakers(a)		Household Disposable Income NSW	
	current prices	constant prices	current prices	constant prices	current prices	constant prices
2005	742	771	89	92	195,693	199,998
2006	717	717	114	114	205,799	205,801
2007(e)	791	775	120	118	215,926	210,786
2008(e)	831	781	201	189	231,775	219,885
Forecasts						
2013	1,056	852	378	304	324,393	264,445
2018	1,340	928	709	491	443,936	303,709
2028	1,893	994	1,369	719	788,029	420,408
Compound annual growth rates						
1981-1991	12.3	4.4	3.5	-3.8	n.a.	n.a.
1991-1996	2.0	-0.5	31.4	28.2	4.3	2.2
1996-2001	2.5	0.3	50.3	47.0	5.3	3.2
2001-2008	4.2	1.2	30.6	26.9	4.8	2.6
Forecasts						
2008-2013	4.9	1.8	13.4	10.0	7.0	3.8
2013-2018	4.9	1.7	13.4	10.0	6.5	2.8
2018-2028	3.8	0.7	6.8	3.9	5.9	3.3

a) Includes corporate bookmakers

e) Revenue forecasts are estimates

n.a: not available

³⁶ BIS Shrapnel Pty Ltd, *Revenue Outlook for TAB Limited*, 2008 p24

The revenue forecasts above are presented in current prices. This means that general increases in the price level in the economy have been factored into the projection through a revaluation of constant price revenue by the use of the consumer price index deflators. The CPI price deflators used in the analysis are reproduced in the table below, and are sourced from BIS Shrapnel’s forthcoming *Long Term Forecasts* report.

Figure 22: Consumer Price Index (CPI) - Base: 2006=100

Year Ended June	CPI	Annual Per cent Change
2006	100.0	4.0
2007	102.1	2.1
Forecast		
2008	106.4	4.2
2009	109.8	3.2
2010	113.3	3.1
2011	116.6	2.9
2012	120.6	3.4
2013	124.0	2.8
2018	144.5	3.1
2028	190.4	2.8

4.3 Greyhound Racing Industry Revenue Projection to 2013, 2018 and 2028

GRNSW has completed long range forecasts of its revenue and expenditure to 2013, 2018 and 2028 (Figure 23 below). GRNSW has assumed that the TAB distribution revenue received by it will grow in line with the BIS Shrapnel growth projections for NSW TAB revenue (as per Section 4.2). Other assumptions made by GRNSW include:

- (a) 2009 estimates reflect the 2009 GRNSW Industry Budget
- (b) No estimates are made with respect to the receipt of Publishing Fees receivable under the Race Fields Legislation. At this stage it is premature to make assumptions as to how the NSW Race Fields Legislation will operate in practice, and on this basis no estimates have been made.;
- (c) Central body costs, Club Incentivisation Scheme funding and Club Administration funding grow at a rate consistent with the BIS Shrapnel CPI forecasts from 2010;
- (d) Industry Advancement Fund expenditure grows at a rate of 10% per annum for the next three years to support the development of the ‘Greyhounds As Pets’ adoption program followed by growth at a rate consistent with the BIS Shrapnel CPI forecasts from 2013;
- (e) The Contribution to the Capital Fund reflects the requirements identified by GHD in the Assets Report (as discussed in Section 3.3) noting however that this allows no provision for the enhancement or upgrading of facilities; and
- (f) After projecting a surplus equal to three per cent of projected TAB distributions, consistent with GRNSW’s Retained Earnings Policy, all remaining funds are dedicated to the payment of prizemoney.

Figure 23: GRNSW Revenue & Expenditure Projections to 2013, 2018 and 2028³⁷

	2008	2009	2010	2011	2012	2013	2018	2028
Revenue								
Tab Distributions	27,645,463	29,442,418	30,885,096	32,398,466	33,985,991	35,651,305	45,284,843	65,754,640
Publishing Fees								
Carried Forward Revenue	1,698,836	1,098,747	883,273	926,553	971,954	1,019,580	1,295,086	1,900,423
Other	700,000	200,000	209,800	220,080	230,864	242,176	307,616	446,666
Total Revenue	30,044,299	30,741,165	31,978,169	33,545,099	35,188,809	36,913,061	46,887,546	68,101,729
Expenses								
Central Body Costs	4,659,000	4,543,000	4,683,833	4,819,664	4,983,533	5,123,072	5,967,930	7,866,017
Contribution to Capital Fund	2,290,665	2,750,000	2,750,000	2,750,000	2,750,000	2,500,000	2,912,281	3,838,526
Industry Advancement Fund	510,000	550,000	605,000	665,500	732,050	752,547	876,652	1,155,469
Club Incentivisation Scheme	2,250,000	2,000,000	2,062,000	2,121,798	2,193,939	2,255,369	2,627,308	3,462,918
Club Administration Funding	4,715,222	5,019,854	5,265,826	5,523,852	5,794,521	6,078,452	7,720,945	11,210,990
Prizemoney Funding	14,145,665	14,995,039	15,684,957	16,692,331	17,715,187	19,134,081	25,423,884	38,595,169
Other	375,000							
Total Expenses	28,945,552	29,857,892	31,051,616	32,573,145	34,169,229	35,843,522	45,529,000	66,129,090
Surplus / (Deficit)	1,098,747	883,273	926,553	971,954	1,019,580	1,069,539	1,358,545	1,972,639

After taking account of CPI projections for the period prepared by BIS Shrapnel³⁸, GRNSW's projections suggest that prizemoney will grow in real terms on average by 3.15% per annum between 2009 to 2013, 2.75% per annum in the period between 2014 and 2018, whilst dropping to average real growth of 1.47% per annum in the period between 2019 and 2028.

However if TAB distributions grow at just 2% below the projected level, prizemoney will grow in real terms on average by just 0.6% per annum between 2009 to 2013, it will decline in real terms by 0.33% on average per annum between 2014 and 2018, whilst declining by 1.68% per annum in the period between 2019 and 2028.

4.4 Required Level of Funding

Given the projections contained in section 4.3, it is likely that the competitive gap with respect to prizemoney paid in NSW as opposed to other States will continue grow. The projections suggest that average nominal prizemoney growth per year in NSW will be 6.23% between 2009 and 2013, 5.85% for the period 2014 to 2018 and 4.26% for the period 2019 to 2028. A review of the average per annum prizemoney growth achieved in the other greyhound racing jurisdictions suggests that it remains likely that other States will continue to grow at a rate that exceeds NSW (see section 3.4).

³⁷ BIS Shrapnel Pty Ltd *Revenue Outlook for TAB limited*, 2008 and GRNSW internal forecasts

³⁸ Ibid

Figure 24: Average per Annum Prizemoney Growth 2002 to 2007

State	Average Growth Rate
NSW	2.44%
Victoria	6.00%
Queensland	7.13%
Western Australia	13.29%
South Australia	2.90%
Tasmania	12.06%

Although GRNSW recognises that a level of funding may be derived from the NSW Race Fields Legislation, it is currently premature to make any meaningful predictions about this regime as a significant source of funding, as it is not yet clear how the regime will operate in practice. Further, GRNSW notes it can be reasonably expected that other jurisdictions will also introduce similar legislation to the NSW Race Fields Legislation, and that the racing industries in those jurisdictions will benefit from the same. This in turn is likely to increase their prize money, and as such the NSW greyhound industry is unlikely to improve its comparative position in relation to prize money through the NSW Race Fields Legislation.

Additionally, the GOCI shows that the costs associated with purchasing and preparing a greyhound up to the stage of racing has increased on average by 9.5% per annum between 2005 and 2008 (see section 3.5). Hence if such cost growth is to continue, the gap between the costs of participation and the potential returns to owner will widen.

4.5 Bookmaker's Contribution to Funding

In 2006/07, 53 on-course bookmakers plied their trade at NSW greyhound race tracks with turnover in excess of \$60.3 million.³⁹ \$15.2 million was wagering on NSW greyhound meetings with \$45.1 million wagered on 'away' meetings. However 66% of this turnover was achieved by one bookmaker with the remaining 52 bookmakers holding an average of \$398,000 in 2006/07.⁴⁰

Financial arrangements between on-course bookmakers and greyhound race clubs differ from track to track. In general however, bookmakers pay only a 'stand fee' ranging between \$0 and \$132 per meeting. Hence the direct financial contribution of on-course bookmakers to the NSW greyhound racing industry is limited. However GRNSW recognises the important role on-course bookmakers play as contributors to the colour and excitement of the racecourse experience. Further, 66% of non-TAB greyhound meetings operated without any totalisator service with on-course bookmakers providing the only medium for patrons to wager on both the local greyhound meeting and any 'away' meetings being conducted at that time.

³⁹ NSW Office of Liquor, Gaming and Racing

⁴⁰ *ibid*

4.6 TAB's Contribution to Funding

4.6.1 Greyhound Industry Reliance on TAB Distribution

As discussed in Section 3.2 the NSW greyhound industry is heavily reliant on TAB distributions for its funding. For this reason the distribution model of this funding as between the codes through the Inter-Code is vitally important to the sustainability of greyhound racing in NSW.

4.6.2 TAB Distribution Model

Since the privatisation of TAB Limited in NSW, the contractual relationship between the NSW racing industry and TAB Limited has been governed by a 99 year contract known as the RDA. The Agreement has the following key features, it:

- (a) Defines the minimum program of race meetings to be conducted by the NSW racing industry and to be covered by TAB Limited; and
- (b) Defines fees due to the NSW racing industry for the provision of the race product. The fees include the following:
 - A. Product Fee: a percentage of 'net wagering revenue' (i.e. Receipts less payments in respect of on and off-course totalisator bets);
 - B. Wagering Incentive Fee: 25 per cent of wagering earnings (essentially the profit from wagering activities); and
 - C. a fixed product fee⁴¹

4.6.3 Inter-Code Distribution Model

As outlined in the Racing Paper, the distribution of TAB funds between the codes is governed by the Inter-Code. Under this agreement TAB funding is distributed to the codes on fixed percentages of 72% to thoroughbreds, 15% to harness and 13% to greyhounds. This arrangement was put in place in 1998 as part of the privatisation of TAB and is also in force for 99 years.

4.7 Inequalities of the Distribution Arrangement under the Inter-Code Agreement

4.7.1 Greyhound Racing's Increased Share of the Market

Since the commencement of the Inter-Code NSW greyhound racing has increased its share of the racing market, to the extent that it now has a much greater share of the market than the 13% allocation that it receives under the Inter-Code. Despite this growth, the Inter-Code distribution arrangements have not been amended to reflect the same. If TAB distributions received by the NSW racing industry had been allocated in accordance with the NSW market share of each code, the greyhound industry would have received approximately an additional \$92 million in TAB distributions over the past 11 years (figure 25 below), or if considered another way, the greyhound industry has subsidised the other two codes by that amount since the commencement of the Inter-Code.

⁴¹ RDA

Figure 25: Greyhound Subsidisation of Thoroughbred & Harness Racing⁴²

	Thoroughbreds (\$000)	Harness (\$000)	Greyhounds (\$000)
1998	(830)	(2,430)	3,261
1999	(5,010)	(2,839)	7,849
2000	(4,116)	(2,425)	6,541
2001	(5,039)	(1,357)	6,396
2002	(6,260)	(1,743)	8,003
2003	(6,431)	(1,435)	7,866
2004	(7,934)	(1,282)	9,215
2005	(9,346)	(222)	9,568
2006	(6,505)	(2,050)	8,555
2007	(5,220)	(1,468)	6,688
2008	(12,516)	(5,897)	18,503
Total	(69,207)	(23,239)	92,446

These figures suggest that the Inter-Code distribution arrangements fail to recognise the performance of each of the codes, and provide an inequitable distribution of funds between the codes. This fundamental failing of the Inter-Code has been recognised within the industry including by Gary Pemberton in 2000, as the then Chairman of TAB Limited, commenting that the *"distribution formula does not adequately reward clubs for delivering or growing the wagering revenue which funds the industry"*⁴³. This remains the case in 2008 and was recognised by Elmer Funke Kupper in 2007, Managing Director and Chief Executive Officer of Tabcorp Holdings Limited commenting that the NSW racing industry *"is held back by an outdated economic model, and outdated regulations that limit the financial contribution that Tabcorp can make to the racing industry"*.⁴⁴

The need for fundamental reform was perhaps best expressed by current NSW totalisator licence holder Tabcorp in its recent submission to the Brown Review: *"the NSW Industry must embrace structural and commercial reforms to provide a platform for future growth."*

⁴² This has been calculated by GRNSW with reference to NSW TAB totalisator sales figures on NSW race meetings provided by Tabcorp and the Annual Reports of Racing NSW, Harness Racing NSW and Greyhound Racing NSW or their predecessors for the 1998 onwards.

⁴³ TAB Limited, *Chairman's Address*, Sydney 9 November, 2000 p 1

⁴⁴ Tabcorp Holdings Limited Managing Director and Chief Executive Officer's Address, 26 November 2007 p 5

*Inefficient and inflexible practices must be replaced by flexible incentive-based policies and procedures that reward innovation and commercial excellence.*⁴⁵

This point was also recognised by Racing NSW in its discussion of the RDA, the Inter-code and the Thoroughbred Intra-code in its submission to the Brown Review: *“some of the external agreements and supporting conventions also enshrine historic inefficiencies, hinder innovation and shelter ongoing underperformance.”*⁴⁶

It is submitted that these arrangements also do not satisfy the objective set by the Treasury in the sale of the TAB, namely to place the NSW racing industry on a financial basis that would give it a sustainable long term future and to achieve this with the best available financial outcome for the NSW Government.⁴⁷ Whilst the lack of incentives and rewards has been identified as a key reason for poor wagering growth relative to other States, the three codes and the Government have continually failed to take necessary action to amend the distribution arrangements so that they are based on performance.⁴⁸

The effect of this failure to amend the Inter-Code and recognise greyhounds contribution to the NSW TAB turnover, is clearly to hinder future development of greyhound racing in NSW and the resulting benefits gained by all key stakeholders including the NSW Government.

4.7.2 **Inequality of Distribution Arrangements Demonstrated by Impact of Equine Influenza**

As an example of the way the current distribution arrangements give rise to perverse incentives, the industry's response during the recent Equine Influenza outbreak provides a case in point. During the outbreak the greyhound racing clubs increased their number of races to in part make up for the shortfall from the lack of thoroughbred and harness races being conducted in NSW. This was done to increase the TAB turnover and thus revenue for the NSW racing industry as a whole. As the Minister, Hon Graham West MP indicated in the New South Wales Legislative Assembly, *“It was not until Victorian racing resumed and the support of the NSW greyhound industry that revenue started to increase again, thereby providing returns to Racing New South Wales and the clubs”*⁴⁹.

In conducting more races, however, the greyhound racing clubs incurred increased costs without being rewarded with increased distribution under the Inter-Code. At the same time, the harness and thoroughbred clubs (although incurring the cost of Equine Influenza) did not incur the costs associated with conducting race meetings, but at the same time received the same percentage of the TAB distribution that they would have received had they conducted race meetings. It was for this reason that the Minister requested that the Federal Government extend its assistance package to the NSW greyhound racing industry to acknowledge its efforts in continuing contributions to the NSW industry during the Equine Influenza period⁵⁰. This is

⁴⁵ "Review of the NSW Thoroughbred Racing Act 1996", Tabcorp Submission, 2006, p8

⁴⁶ "Review of the NSW Thoroughbred Racing Act 1996", Racing NSW Submission, 2006, p14

⁴⁷ NSW Audit Office, *Performance Reports - 1998 - Sale of the TAB*, 1998, as viewed at www.audit.nsw.gov.au/publications/reports/performance/1998/tabsale/govern.htm, viewed on 5/6/2008

⁴⁸ "Review of the NSW Thoroughbred Racing Act 1996", Tabcorp Submission, 2006, p8

⁴⁹ NSW, House of Assembly, Hansard, 25 September 2007

⁵⁰ *ibid*

a clear example of how running additional races, and incurring the costs of the same does not benefit the code that conducts those races.

4.8 Amending the Inter-Code funding Arrangements

It is for the above reasons that GRNSW submits that the Inter-Code should be amended.

4.8.1 Payment Based on Performance

It is GRNSW's submission that the most appropriate method of distribution, which provides incentives for each code to reduce costs and increase performance is for each code to be paid in accordance with their proportionate market share. GRNSW submits that the market share of each code should be determined by reference to the contribution which that code's product makes to NSW TAB wagering revenue relative to the contribution made by other NSW codes. This model will reward the performance of a NSW code as judged against the performance of the other NSW codes which is in their capacity to control.

This type of model will also prevent the situation arising whereby one NSW code offers to pay its interstate equivalent to conduct races in that interstate jurisdiction so that it can receive a higher benefit under Inter-Code distribution arrangements. For example, if the market share were based on contribution of the code to the national market, it may be more beneficial for GRNSW to pay, for example, Greyhound Racing Victoria to run a certain number of races, and then under the Inter-Code receive the benefit of the market share of Greyhound Racing Victoria.

To enable the codes to maximise their funding under a performance based system, the Inter-code should also be amended to create a more flexible system to allow the codes greater ability to increase the number of races conducted by them. This is a position that was supported by Tabcorp in its submission in response to the Brown Review⁵¹. If the control bodies of each code and the racing clubs are granted flexibility they will be able to strive to grow their respective codes so as to receive a greater portion of the TAB distribution⁵².

Despite this change, GRNSW submits that the existing time limits in relation to running of events which are currently in the Inter-Code should continue to apply.

4.8.2 Government Intervention

Under the provisions of the Inter-Code, amendments can only be made in writing and executed by each of the parties. As with the Thoroughbred Intra-Code arrangements, it is unlikely that the parties that benefit the most from the current funding arrangements will voluntarily agree to move to a market share basis of remuneration which in the immediate future and based on the current market will result in a decline in their percentage of the TAB distribution. Recognising this reality, GRNSW contends that the current review process provides a mechanism (i.e. in the context of broader reforms to the State's wagering and racing regulatory framework) for intervention by the NSW Government to ensure a performance-based recasting of the funding arrangements in the interests of the long-term viability of the State's racing sector.

⁵¹ "Review of the NSW Thoroughbred Racing Act 1996", Tabcorp Submission, 2006, p10

⁵² *ibid*

As Minister West recently stated in his introduction of the *Thoroughbred Racing Amendment Bill (2008)*, "Government's role is to provide a statutory framework that facilitates sustainable economic development and the future viability of the racing industry and ensures the integrity of the conduct of racing and associated wagering on racing".⁵³ There is currently a need for the NSW Government to act to facilitate a sustainable racing industry.

It is also to be noted that at the time of privatisation in 1998 the NSW Government required the codes to enter arrangements as to how the TAB distribution would be allocated. Further, at this time, the relevant controlling body was the Greyhound Racing Authority, a government body, and that GRNSW, now an independent body, inherited the arrangements set out in the Inter-Code.

There is clear precedent that in the context of compelling circumstances the NSW Government has shown a willingness to intervene in the racing industry and its funding arrangements. The most recent example of this is the amendments that have been made to the *Thoroughbred Racing Act*, in relation to the Thoroughbred Intra-Code.

The Thoroughbred Intra-Code sets out the distribution of monies between the metropolitan, provincial and country thoroughbred sectors. The first \$115m of distributions are set at fixed percentages between the sectors whilst the remainder of funds above \$115m is split 50% on the fixed portions and 50% on market share of Tabcorp sales.⁵⁴ In a similar vein to the Inter-Code, the Thoroughbred Intra-code is a 99 year agreement to which no amendment to the distribution arrangements is possible unless there is unanimous agreement of the signatories.

In order to intervene in the inequitable funding arrangements under the Intra-Code the NSW Government recently enacted *Thoroughbred Racing Amendment Act 2008* which provides a mechanism for the review of the allocation of TAB distributions in the thoroughbred industry. The statutory intervention that breaks the deadlock is that, under the amended legislation Racing NSW is to undertake a review of the Thoroughbred Intra-Code and can put forward proposals for such changes to the agreement as it considers necessary or desirable for ensuring that the agreement is in the best interests of horse racing. Unless the parties agree to the proposal or, after consultation, a variation of the proposal, Racing NSW may give a written direction that the changes specified in the proposal are to be given effect.

In explaining the NSW Government's objectives with respect to this reform the Minister the Hon. Graham West MP commented that: "*without such statutory intervention the arrangements for distribution of TAB payments that were agreed to in 1998 may well be in place for the life of the 99 year agreement. This inflexible state of affairs would continue irrespective of the wishes of the majority of signatories of the agreement, or the appropriateness of rewarding good performance.*"⁵⁵ This intervention was also supported by Racing NSW which expressed the view that "*there is an overwhelming case for a central body to have the capacity to intervene commercially to optimize the financial position of the parties and to construct a system of financial responses which rewards progress and efficiency.*"⁵⁶

⁵³ The Hon Graham West, New South Wales Legislative Assembly, *Parliamentary Debates (Hansard)*, 20 June 2008

⁵⁴ Racing NSW, 2007 Annual Report, p25

⁵⁵ Mr. Graham West, "Thoroughbred Racing Amendment Bill 2008 Agreement in Principle Speech", 19 June 2008 p8929

⁵⁶ *Ibid* p14

GRNSW submits the policy considerations that ultimately gave rise to statutory intervention in the Thoroughbred Intra-Code are congruent with the considerations surrounding the Inter-Code.

Further, the NSW Government recently intervened directly in the funding of the industry with the introduction of the Race Fields Legislation. These two recent amendments to legislation suggest that this Government is willing to intervene in the funding arrangements of the racing industry by amending legislation, in order to facilitate the sustainability of the industry. GRNSW submits that intervening in the Inter-Code to encourage the codes to move to a model that rewards innovation and performance is just another step towards the Government's overall objective of ensuring the industry has a compelling and successful future.

GRNSW also notes that the NSW Government has in the past intervened in private negotiations within the racing industry where this has been justified by the circumstances. For example, in 2004 when both Tabcorp and UNiTAB made bids for the NSW TAB, the NSW Government intervened, albeit via a separate independent arbitrator and expert, in UNiTAB's negotiations with the NSW racing industry in relation to whether or not the UNiTAB proposal to the racing industry satisfied the legislated requirement. The NSW Government had legislated to the effect that the successful bidder must establish arrangements with the NSW racing industry which the industry considered necessary to ensure that they were in no less favourable position than existing. The industry considered that under the UNiTAB offer they would be in a less favourable position but this was effectively nullified by Government.

This model of intervention, whereby the government refers a major industry issue with significant commercial implications to an independent body, such as for example IPART, represents one possibility for amending the Inter-Code. Clearly any mechanism for intervention will be a matter that GRNSW anticipates will be a topic for further discussion with Government.

4.8.3 GHRRA Approval

Currently any amendment to the Inter-Code that affects distribution of funding to the greyhound racing industry needs to be approved in writing by GHRRA⁵⁷. GRNSW submits that it is no longer appropriate for GRNSW to be required to seek GHRRA approval for amendments to commercial arrangements, particularly in light of the recent regulatory review which recommends that the GHRRA should dissolve and its functions be incorporated into HRNSW and GRNSW. As such GRNSW submits that section 49(7) of the *Greyhound Racing Act* should be amended to reflect this position.

4.9 Race Fields Legislation and the Gentleman's Agreement

The NSW Race Fields Legislation is in its infancy, and it is premature to make assumptions as to its effectiveness or how it will operate in practice. Accordingly no meaningful comment is made as to the impact of the Race Fields Legislation.

The racing industry has for many years been in somewhat of a unique position when considered in a normal commercial context in that due to the so called "Gentleman's Agreement" the industry is remunerated based on where wagering revenue is received and not based on where races are conducted. Given the introduction of Race Fields Legislation, the

⁵⁷ section 49(7) Greyhound Racing Act

recent Betfair Decision, the potential removal of advertising restrictions in NSW and elsewhere, the Victorian legislature liberalisation and increased competition generally it is likely that there will be a shift to a more traditional business model of remuneration which will be based on where races are conducted rather than where wagering revenue is received.

4.10 Potential Sources of Funding

4.10.1 Application of Tax Gains from Increased NSW TAB Wagering Turnover and Funding of Country and Regional Clubs and Racetracks

As outlined above at section 3.3 the continued funding by GRNSW of country and regional racetracks is not sustainable into the medium or long-term. Provided that the Inter-Code is amended in accordance with a market based system, it is likely that the greyhound industry will increase its contribution to NSW TAB wagering revenue. GRNSW proposes that one option for Government to assist in funding the greyhound country and regional racetracks would be for the Government to utilise any net increase in tax received over and above current amounts generated by the industry. Under this system, the Government would be in no less favourable position than it is currently as they would receive the full percentage of tax on the current wagering turnover. The only difference would be that on any increased turnover generated by the NSW greyhound industry, the Government would contribute a percentage of what they would receive under the usual tax rate to the country and regional greyhound racing clubs, for track maintenance. Similarly this system could apply to both the thoroughbred and harness codes.

Further, if the NSW wagering industry is liberalised in line with the proposals in this submission, the NSW wagering industry is likely to experience growth, resulting in increased employment within the industry. This will increase the Payroll Tax that the Government derives from the industry, which could also be allocated to funding of maintenance at country and regional racetracks for all three codes.

4.10.2 Packaging of Media Rights

The packaging of broadcasting rights, or more accurately media rights (as it includes more than just broadcasting), is a practice that is already established in the racing industry and is another source of funding for the greyhound racing industry. Currently greyhound clubs have arrangements with Sky Channel Pty Ltd and receive payments from Sky for the exploitation of certain media rights.

Although arrangements are already in place, care needs to be taken by racing clubs and industry bodies to ensure that they can exploit new media and technology opportunities as they arise. While further funding from operators of new media and technology may be derived by greyhound clubs as the technology is developed, it is unlikely that such funding will materially impact upon the sustainability of the greyhound industry.

4.10.3 Breeding Industry

The Racing Paper suggests that one possible source of further funding for the industry is from the breeders of horses and dogs. In relation to greyhounds, the economics and very low margins make it impossible for breeders of greyhounds to contribute a proportion of sales revenue to the industry (as to which see section 3.5). The reality of the greyhound industry is that the breeders of greyhounds are often also the owners or trainers of the same. This is in contrast to the thoroughbred breeding industry which is more of a stand alone self sustaining industry.

4.10.4 Gaming Machine Licences

GRNSW does not consider that the granting of gaming machine licences to racing clubs would necessarily assist in funding the industry. Even if the government were to grant such licences, it is GRNSW's submission that they would have limited ability to make use of such licences due to the existing racetrack facilities, which do not generally lend themselves to the housing of gaming machines.

4.10.5 White Branding/ Website Portals

The practice of white branding and access portals is already widely practiced on the internet. The general idea in relation to racing and wagering is for a website to have on it an inter-face which connects a person to where they can place a bet. For example, GRNSW could have an interface from which visitors to their website could connect to wagering operators. This type of interface usually appears on sites as "pop-ups". This may be another option for funding as race clubs and the racing control bodies could generate fees from allowing wagering operators to place connecting portals on their sites. GRNSW would support the government allowing this type of white branding / use of portals, provided that its use was restricted to appropriate sites.

4.11 Section 3 Questions and Issues

Q3.1 Has this chapter (chapter 3) accurately addressed the key funding inter-relationships in the NSW racing industry

GRNSW considers that this chapter 3 does accurately address the key funding inter-relationships in the NSW racing industry. See comments in Section 4.6.3 and 4.7 in relation to the same.

Q3.2 What are the implications of the incentives due to the allocation of TAB Ltd distributions in fixed percentages across the codes? Does this hamper the efficient delivery of racing product given the break in the nexus between demand and supply?

GRNSW considers that the fixed percentage distribution to the codes does hamper the efficient delivery of racing product and the ability of the racing codes to innovate and achieve growth. As to this see Section 4.7

Q3.3 Are there other potential funding sources for the industry that have not been identified in this chapter?

For other potential sources of funding see Section 4.10

Q3.4 Are there any other reviews of which the review team should be aware? Are there any particular lessons that should be drawn from similar experiences in other jurisdictions?

The review team should be aware of the following reviews:

- (a) The Scott Review;
- (b) The Statutory Review of the Greyhound Racing Act and the Harness Racing Act;
- (c) The Victorian Review of the Electronic Gaming Machine, Club Keno and Wagering Licences and Funding Arrangements for the Racing Industry Post-2012; and
- (d) The IPART Review of the Registered Clubs Industry in NSW.

5. Section 4 of Racing Paper - Forces Shaping the NSW Wagering Industry: Section 4

5.1 Five Forces Analysis in Issues Paper

GRNSW agrees with the analysis in the Issues Paper.

5.2 Implication of a More Competitive Market on Funding of the Greyhound Racing Industry

GRNSW submits that the implication of the five forces analysis presented in the Racing Paper is that, absent of some unforeseen intervening change, the market for wagering services in NSW will become even more competitive, TAB Ltd will see more of its market share eroded, and the growth in revenue provided to the NSW racing industry by TAB Ltd under the RDA will slow over time. This will occur with, or without, regulatory reform.

As outlined in section 4.2, analysis undertaken by BIS Shrapnel on behalf of GRNSW projects that NSW TAB's revenue will grow at an annual average of 1.8% per annum in real terms over the next five years. Beyond 2013, the real growth in NSW TAB revenue is forecast to slow, with 1.7% per annum expected over the five years to 2018 and an even weaker 0.7% per annum in the decade to 2028.⁵⁸

Further GRNSW anticipates that in the absence of regulatory reform, there will be a further significant increase in the leakage of wagering revenue to the Northern Territory corporate bookmakers (see figure 21).

The implications of this funding squeeze on the NSW greyhound racing industry are outlined in section 4.4.

Whilst premature to make any meaningful predictions about the NSW Race Fields Legislation, GRNSW submits the development of an effective regulatory scheme to correct the market failure whereby certain persons are able to commercially exploit or otherwise benefit from the use of our industry's product for nil or nominal consideration is critical for the growth and sustainability of the NSW racing industry.

5.3 Section 4 Questions and Issues

Addressed in section 5.1 and 5.2.

⁵⁸ BIS Shrapnel Pty Ltd "Revenue Outlook for TAB Limited" 2008 p21

6. Section 5 of Racing Paper - Specific Questions

6.1 The Base Case

Stakeholders are invited to consider what the NSW racing industry will look like in 5, 10 and 20 years in a 'do nothing' scenario. That is, what would be the size and structure of the NSW racing industry if the current regulatory and market environment and trends continue unchanged?

In relation to financial forecasts of the NSW greyhound racing industry see Sections 4.2 and 4.3.

6.2 Sustainability

Q 5.2 Financial sustainability has at least two dimensions:

- *the required level of funding for the industry - Is the current level of income sufficient to sustain the racing industry as it is currently configured? Should sustainability be assessed against some other industry scale and configuration than presently exists?*

In relation to the sustainability of the industry and the level of required funding see Section 4.4.

- *the distribution of funding across the three racing codes - should sustainability be viewed in aggregate terms across the industry as a whole or with respect to each separate racing code?*

In relation to the distribution of funding between the three racing codes GRNSW submits that each code of racing should be viewed as separate industries and as such the sustainability of each code of racing should be considered separately.

6.3 Social and Cultural Issues of Importance

Q 5.3 Are there any social and cultural issues of importance in considering the sustainability of the racing industry?

In relation to issues of social and cultural importance to the NSW greyhound industry see Section 3.3.

6.4 Inter-Code Funding Arrangements

Q 5.4 The current Inter-Code funding arrangements might be thought not to promote sustainability in the NSW racing industry as the fixed payout ratios for each code break the link between funding received and share of turnover generated (income and productivity). How might the arrangements be reassessed to better maximise revenue opportunities and to reward innovation and productivity?

In relation to the Inter-Code funding arrangements see Sections 4.7 and 4.8.

6.5 Structural Changes to Administration of Industry

Q 5.5 Are there any changes to the structure and/or operations of the NSW racing industry that would improve the efficiency of the industry and so reduce pressures on the financial sustainability of the industry?

As recommended in Section 2.2.9, GRNSW supports the implementation of the recommendations in the Scott Report that GHRRA be disbanded with some of its functions being put under the control of the boards of GRNSW and HRNSW. GRNSW also supports the recommendation that a separate company be established to perform regulatory functions in relation to stewards for all three codes of racing.

6.6 Race Field Data Legislation

Q 5.6 New legislation has been passed in NSW, for which regulations are currently being drafted, that allows NSW racing bodies to restrict and impose fees for the publishing of NSW race field data. How effective will these restrictions likely be? What resulting level of funding could be expected to flow to the three racing codes in NSW?

In relation to the NSW Race Fields Legislation see Section 4.9

6.7 Financial Contribution of Bookmakers

Q 5.7 Is there a combination of concessions that could be offered to bookmakers and/or betting exchanges to create incentives to financially contribute to the NSW racing industry. What level of support should be expected? Such concessions could include, for example: allowing them to advertise in NSW; access to race field data for operators located and licensed in NSW; and so on.

In relation to this see Section 8.

6.8 Packaging of Broadcasting Rights

Q 5.8 What additional options exist for generating industry revenue from packaging broadcasting rights, particularly in terms of new media?

In relation to generating revenue from packaging broadcasting rights and new media see Section 4.10.3

6.9 Contribution of Breeders

Q 5.9 A recent inquiry into Victoria's thoroughbred breeding industries concluded that, despite Victoria offering record levels of stakemoney for thoroughbred racing, NSW is the country's leader in thoroughbred breeding. Is there a case to be made that the breeding industry, at least with respect to thoroughbreds, should contribute a (small) percentage of all sales revenue to the racing industry as it free-rides off the existence of the racing industry? Would such an initiative have to be undertaken nationally to be effective?

In relation to contribution by breeders see Section 4.10.3

6.10 Protection and/or Enhancement of Existing Sources of Revenue

Q 5.10 and 5.11 Should the NSW Government seek to protect or expand TAB Ltd's revenue on the grounds that a percentage of such revenue is used to support the NSW racing industry? If the answer to this question is positive, what options are attractive in enhancing Tabcorp's revenue?

Yes. The NSW Government should implement measures designed to give TAB the opportunity to expand in the manner set out in Section 8. In so doing, the NSW racing industry should share in the benefits of revenue increases as a result of these reforms.

6.11 Gaming Machines

Q 5.12 Should the NSW Government provide race clubs with access to additional sources of revenue (eg additional gaming machine licences) as a means of generating more revenue for the NSW racing industry?

In relation to gaming machines and the like see Section 4.10.4

7. Section 2 of Wagering Paper - An Overview of the NSW Wagering Industry

Whilst GRNSW notes some factual inaccuracies in the Wagering Paper, these are not material to our submission and we expect that these will be corrected by others such as wagering operators who are more qualified to do so.

8. Section 3 Wagering Paper - Issues Facing the NSW Wagering Industry

8.1 Bookmakers Structures and Operating Conditions

8.1.1 Legislative Restrictions

The last 10 years have seen significant change in the landscape of the racing and wagering industries. The growth of corporate bookmakers operating predominantly out of the Northern Territory and the licensing of Betfair in Tasmania has opened up a national wagering market. In order for NSW bookmakers to compete in this national market there needs to be modernisation and liberalisation of the NSW wagering industry. Specifically GRNSW considers that this should include removal of the following current legislative restrictions:

- (a) the ban on interstate advertising, subject to maintenance of responsible gambling and harm minimisation requirements (see section 8.9);
- (b) the ban on bookmakers offering internet betting on races other than feature events and the ban on doing so less than 30 minutes prior to the commencement of the race meeting at which the bookmaker is offering a market;
- (c) the ban on the NSW TAB accepting fixed odds bets less than 30 minutes prior to the commencement of the race meeting at which the NSW TAB is offering a fixed odds market (see Section 8.3);
- (d) the requirement that a bookmaker can only take bets electronically whilst at a racecourse and only at a time when it is lawful for betting to take place at the racecourse so as to allow such activity to occur at a registered office that is secure and available for regular inspections by Regulatory Inspectors;
- (e) the prohibition against NSW TAB or bookmakers accepting bets on a 24/7 basis subject to recognised exemptions, e.g. Christmas Day;
- (f) the restrictions/requirements relating to directors and shareholders of corporate bookmakers so as to allow proper corporate structures and drive investment (see Section 8.1.2);
- (g) the ban on the publication off-course of on-course betting odds (see Section 8.2);
- (h) the restrictions on the range of markets that sports wagering operators are able to field (see Section 8.7);

With the increased presence of Northern Territory corporate bookmakers and the increased access to gambling products largely due to new technology, the above legislative restrictions, do little more than disadvantage NSW bookmakers in the competitive national wagering market and indeed encourage NSW punters to bet with other liberalised jurisdictions. In turn, this is likely to increase the current leakage to other jurisdictions. In this regard consideration should be given to the proposed Victorian changes with respect to the Victorian wagering industry.

In addition Government is likely to benefit from such reforms. For example, a vibrant bookmaking environment will lead to increased employment in the NSW wagering industry, which will generate additional payroll tax. Funds generated through such taxes could potentially be invested back into the NSW racing industry and support country and regional racing (as discussed in Sections 3.3 and 4.10.1).

8.1.2 Corporatisation of Bookmakers

Although it has been legal for bookmakers to corporatise in NSW since 2002, NSW bookmakers have been slow to do so. The Wagering Paper suggests that one of the major reasons for this is that more attractive tax structures exist in the Northern Territory and elsewhere. However, GRNSW considers that it is more likely that such bookmakers operate outside of NSW due to the more attractive trading conditions in other jurisdictions. Further, a major driver of such bookmakers operating outside of NSW is the restrictive NSW corporatisation rules. GRNSW submits that the requirement that directors of a corporate bookmaker must be licensed bookmakers prior to the company being granted its licence and the shareholder restrictions should be removed to allow NSW bookmakers to have proper corporate structures that drive investment, enable funding and the like.

8.2 Publication of Betting Odds

As outlined in the Wagering Paper, the dissemination of on-course fixed odds for "current" racing events is prohibited. The reasons for this restriction are often stated to be:

- (a) the prevention of off-course illegal SP betting activities;
- (b) encouragement of on-course attendance; and
- (c) the risk that racing and government revenues would be depleted by illegal gambling.

GRNSW submits that the prohibition has limited practical effect in the electronic age. The publication of on-course fixed odds for "current" racing events by corporate bookmakers in the Northern Territory is permitted and as such punters who have access to the internet are able to access "live" betting fluctuations that generally mirror the fixed odds being offered at the actual race track. Similarly, the Victorian initiative 'Bookies Online' provides a virtual replica of the Victorian thoroughbred betting ring providing punters with internet access to the fixed odds being offered on-course. Added to this, a new service "LiveOddsTV" provides the official Australian on-course bookmakers' prices from the Australian Prices Network

In any event, the current prohibition is consistently flaunted in the media, with pricing information broadcast on pay television.

In addition to the limited practical effect of the rule, it is submitted that greater access to information is likely to lead to an increase in wagering turnover, whether this be with totalisators or other bookmakers. Either way, if the Race Fields Legislation operates as expected, the racing industry will benefit from this increased turnover.

Given the above GRNSW submits that this rule is not an effective means of preventing illegal gambling and in reality it is not enforced. The lack of enforcement of the rule and the emergence of internet wagering in other jurisdictions that allow the publication of on-course fixed odds for "current" racing events has reduced the effect of the rule to the point that it should be removed altogether.

8.3 Fixed Odds Betting

GRNSW submits that as part of the liberalisation of the industry and to make the NSW TAB more competitive, the NSW government should remove the current restriction on the NSW TAB only being able to accept fixed odds bets until 30 minutes prior to the commencement of the race meeting at which the NSW TAB is offering a fixed odds market.

8.4 Totalisator Odds Betting

As recognised in the Wagering Paper it is already common practice for Northern Territory and others corporate bookmakers to provide "tote odds" betting. This is understood to represent a significant proportion of the wagering activity occurring with Northern Territory corporate bookmakers. The current ban under Section 88 of the *Totalizator Act* does not appear to be preventing the leakage from the NSW wagering industry (see figure 21). To the extent this leakage financially impacts upon the NSW greyhound industry, and notwithstanding the potential bet back effect, then GRNSW is not currently being served by the ban in NSW. This critical issue should be closely examined by the Review Committee.

8.5 Pooling

As stated in the Wagering Paper, NSW is not currently part of a national pool. To clarify, GRNSW notes that although the paper states *"to access the NSW pool a punter must place their bet in NSW"* it is possible for a punter located outside NSW to bet with the NSW TAB.

The issue of NSW joining another Australian pool has often been considered, particularly in relation to joining of the Victorian and NSW pools which are both operated by Tabcorp. In the past there has been reluctance on the part of the NSW Government and others to pool with Victoria, with fears that it may lead to further leakage from the NSW industry.

GRNSW agrees with Mr Waterhouse when he states in his submission that pooling needs to be considered in light of the practice of rebating⁵⁹. GRNSW would only support pooling where the operators of each of the pools are wholly related organisations. Even in these circumstances GRNSW submits that pooling would need to be approached with great caution and that strict conditions would first need to be agreed by the NSW racing industry and the prospective pool operators. If NSW was to pool with pools not operated by a common entity there is a risk that the rebating practice would result in customers being poached and potential new customers being attracted to bet into the non-NSW pool.

In relation to International pooling, any proposal would need to be examined closely at the time to determine the likely impact of the same.

In summary, although there are potential advantages of pooling, GRNSW is not convinced that such advantages outweigh the risks of reduction of the NSW pool.

⁵⁹ Rob Waterhouse, *Submission on "Independent Review of Wagering - a frame work for future growth sustainability of the NSW Racing Industry"*, July 2008, p7

8.6 New Technology and Wagering

As the Wagering Paper outlines, the advancement of new technology, and in particular the internet has allowed the extensive growth of Northern Territory bookmakers. Further, new technology has the potential to increasingly modernise the wagering industry. With further development of new wagering technologies, the racing industry needs to ensure that it protects its rights to its own product.

In relation to the Two Way TV's "Sky Racing Active" product, which allows subscribers in Victoria to access their TAB wagering accounts and place bets using the TV remote control GRNSW would not be opposed to this product being granted approval in NSW to go live (the betting module is not currently available in NSW). "Sky Racing Active" is a prime example of how technology impacts on the racing industry, and both the industry and Government needs to keep pace with technology, embracing new methods of distribution of the NSW racing product. GRNSW notes that this system does not add to the opportunity to gamble but is simply a convenient method to place a bet and therefore should fall within the rationale for the exemptions in the *Interactive Gambling Act 2001* (Cth).

8.7 Sports Betting

In line with GRNSW's general position of encouraging an open and competitive market GRNSW considers that restrictions on NSW sports bookmakers should be no more onerous than those placed on interstate bookmakers in respect to the range of markets on which NSW bookmakers can accept bets.

8.8 Betting Exchanges

The reality is that betting exchanges are operating in Australia as part of the national wagering market and with the likely demise of the current state based advertising restrictions (as to which see 8.9 following) they will become more accessible to the NSW punter. Indeed they offer a valuable alternative betting mechanism to the consumer. The NSW government should move to allow for the licensing of betting exchanges to operate in NSW in a similar way to other forms of wagering but subject to appropriate regulatory safeguards such as those in place in Tasmania. Further such licence should however be issued on the condition that the operator enter into an agreement with the racing industry along lines similar to that under sections 21A and 43 of the *Totalisator Act 1997* (NSW) in relation to the NSW TAB to provide an appropriate level of funding. Any new forms of wagering, such as hybrids between fixed odds and betting exchanges would need to be assessed separately.

8.9 NSW Advertising Laws

Although it is lawful for a NSW punter to bet with a wagering operator licensed in any Australian jurisdiction, there is a general prohibition against publishing, by print and traditional broadcast media, certain betting information and against advertising the availability of such wagering services from another jurisdiction in such mediums.

GRNSW agrees with the summary in the Wagering Paper that the current advertising bans should be removed subject to the following comments below.

This issue has become particularly topical since the recent Betfair Decision and the current challenges to the NSW and Victorian advertising laws by Betfair and Sportingbet Australia in the Federal Court of Australia.

Leaving aside whether the provisions are or are not invalid, GRNSW submits that in relation to interstate wagering operators the restrictions on advertising should be removed to create a more open and national market. In contrast, in relation to international wagering operators GRNSW submits that at this stage the advertising ban should not be removed.

Amongst a number of other often cited reasons for the prohibition is harm minimization, aimed at limiting the exposure of NSW residents to unscrupulous wagering operators not licensed in a jurisdiction, who, for example may be fielding on events on which wagering is not permitted in the jurisdiction or where the wagering operator may not be subject to financial guarantee requirements or rules of betting which are of a lower standard than licensed operators in the jurisdiction.⁶⁰

Although the restriction on interstate operators' advertising should be lifted, appropriate responsible gambling and harm minimisation requirements on promotional activities should be retained. Further the legislation should maintain restriction on advertising in relation to unlicensed wagering operators.

8.10 Responsible Wagering

8.10.1 *Should the review conclude that wagering is one form of gambling that is less likely to involve addiction?;*

GRNSW agrees that the review should conclude that wagering is one form of gambling that is less likely to involve addiction. Over the years many papers have been produced in relation to the issue of problem gambling. It is fair to say that without exception the evidence from such papers has shown that the predominance of problem gambling occurs not with wagering products but with gaming products which are games of pure chance, are repetitive in nature, and do not involve social interaction, particularly EGMs (otherwise known as poker machines) and virtual casino type games.

There will, no doubt, be others who provide more detailed submissions in relation to this point, but GRNSW points to the following cross section of reports to support the view that wagering is less addictive than games that are repetitive in nature and not based on any skill.

In 1999 the Productivity Commission concluded that internet wagering posed a lower risk for problem gambling than other gaming technologies stating that *"The grounds for bans are strongest for gaming technologies (casino type games such as roulette and virtual gaming machines). The case for banning internet wagering (sports betting and racing) or traditional lotteries are weaker, reflecting likely lower risks and the fact that the other mediums for making these gambles, such as phone betting are close substitutes for the Internet."*⁶¹

In line with this, the evidence suggests that fewer problem gamblers have developed problems with wagering as compared to gaming machines. In 2003 Talina Drabsch stated that *"Problem*

⁶⁰ Cross-Border Betting Task Force Report page 87, *Conference of Australasian Racing Ministers*, November 2002

⁶¹ Productivity Commission, *Australia's Gambling Industries*, Report No 10, 1999

gamblers appear to have a preference for certain forms of gambling over others, notably casino table games and gaming machines".⁶² This is also reflected by the fact that it is estimated that "among problem gamblers, 84 per cent experience problems with EGMs (poker machines), less than 9 per cent report problems with wagering".⁶³

It is evidence such as that above which has led to conclusions, such as that made by Associate Professor of Deakin University, Linda Hancock, in her role as chair for the Independent Gambling Research Panel to conclude that *"In Australia and internationally, EGMs are the problem"*⁶⁴.

Finally, it is important to note that after extensive consideration and consultation with many groups the Federal Government introduced the *Interactive Gambling Act* and in doing so essentially only exempted two forms of gambling - namely lotteries (often referred to as "soft" gambling) and wagering. It is clear from the second reading speech that these two types of gambling were found not to be a source of significant concern to the government. GRNSW submits that this review should come to a similar conclusion.

(a) ***Would any liberalisation of advertising in the wake of the High Court's Betfair decision need to conform to the responsible wagering advertising principles?***

As discussed in section 8.9 GRNSW considers that liberalisation of the advertising laws should conform to responsible wagering advertising principles.

⁶² Talina Drabsch, *The Economic and Social Implications of Gambling*,

⁶³ South Australian Centre for Economic Studies, Swinburne Institute for Social Research and University of Western Sydney, *Changes in Wagering Within the Racing Industry Final Report*, May 2005.

⁶⁴ Linda Hancock, presentation *Let's Look at the Product: EGMs, Gambling Policy and Regulation*, Stonnington, July 2006

9. GRNSW Response to Other Submissions

GRNSW would welcome the opportunity to review other submissions received in relation to this review and provide any comments to the review committee.