Productivity Commission Submission
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Productivity Commission Submission

Credentials & Experience

1. 18 years as Chief Executive of two major Australian race clubs:

Melbourne Racing Club ***(MRC)***	1991 – 2000	Caulfield & Sandown Racecourses
Victoria Racing Club ***(VRC)***	2000 – present	Flemington Racecourse

2. 33 years experience in Racing and Wagering;

3. Bachelor of Commerce, Melbourne University;

4. 15 years as Victorian Racing Industry ***(VRI)*** representative on Joint Venture Management Committee with Tabcorp;

5. During my time in racing:
    - Racing has consciously taken its "product" off-course. This was a strategic decision by racing to capture public interest in wagering on racing and has included:
        - Liberalization of wagering services in TAB agencies (consumer-friendly);
        - Expansion of wagering services into pubs and clubs - taking it to the people;
        - Provision of racing's picture into off-course wagering outlets in return for rights fees and significant growth in off-course wagering and returns to racing;
    - Racing has largely transformed from an on-course to an off-course product, except on feature days;
    - In Victoria, racing chose to diversify into gaming, in the early 1990's, with the VRI's endorsement of the then Victorian TAB's investment of $30 Million in retained wagering earnings in the establishment of a gaming business.

      This investment in gaming would not have occurred without racing approval, as the funds utilized were entitlements of the VRI.

      When the Victorian TAB was privatized in 1994, the Government acknowledged that VRI had beneficial "ownership" rights in the TAB's gaming assets and was therefore entitled, under the wagering and gaming licence issued to Tabcorp, to receive a 25% share of gaming profits.

      This diversification was a strategic decision taken by VRI. It is not, as the Productivity Commission and others have asserted, a subsidy provided to racing in Victoria.

- In recent times, commercialization of our racing product has increased overseas with wagering arrangements now in place in New Zealand, South Africa, Hong Kong, USA, South America, Canada, United Kingdom, Ireland and much of Europe.

  Race clubs now receive “simulcast / product fees” for overseas wagering on their racing. Overseas racing bodies acknowledge and support international protocols that require the payment of such fees to the originator of the product.

  This expansion is on the cusp of creating significant new revenue streams from wagering customers around the world on Australia’s racing, which is recognized as a quality product.

- Australian racing’s premier event, the Melbourne Cup Carnival, has doubled in size since 1993. It now costs VRC alone $20 Million annually to stage the event before a race is conducted.

  The Melbourne Cup Carnival in 2008 generated a gross economic benefit for the Australian economy of $700 Million, $300 Million of which was outside of Victoria on Melbourne Cup Day. Since 1993, the Melbourne Cup Carnival, as an event, has generated a gross economic benefit for the Victorian economy of $5.5 Billion.

- On-course attendances and revenue have been significantly impacted by:
  - Liberalized shop trading hours, and more particularly, Saturday afternoon shopping (non existent until 1980s)
  - Widespread availability of the vision of racings product for wagering off-course in TAB Agencies, Pubs and Clubs and on home Pay TV.

Observations / Comments on the Productivity Commission's Draft Report

1. The Report, whilst focusing on competition, does not pay nearly enough credence to the "public good" that is the Australian Racing Industry ***(ARI)***, namely the hundreds of thousands of Australians who derive their livelihood from racing. The people in racing are the industry, not the clubs or the principal racing bodies.

2. It would seem that consumers of racing wagering product are considered more important than those who make their living from racing. Consumers, chose of their own volition, to spend disposable income on race wagering.

3. The Report quotes extensively from the submissions of people / organizations, many of which could best be described as disaffected and/or self-interested.

   For example, how many of the hundreds of thousands of Australian wagering customers are members of the Australian Punters Association ***(APA)***? At best the APA might number twenty (20) to fifty (50) members!

   Quoting individuals, and/or giving undue weighting to those who have a self-interest and profit from wagering, does not do justice to those who make their living from racing.

4. The Productivity Commission's Draft Report does not acknowledge that race clubs in Australia are not-for-profit entities and that, as such, they do not return funds to shareholders, unlike corporate bookmakers which are now becoming increasingly owned overseas. The current ARI structure provides a huge "public benefit" which has been recognized by Federal taxation laws.

Overseas Comparisons

5. Statements are made on the Australian racing and wagering industries in isolation and little or no comparisons are made with other successful overseas racing industries. In fact, the only extensive comparison seems to be with UK racing and wagering, which is atypical compared with the rest of the world.

   Questions such as why is the ARI the third most successful racing industry in the world need to be considered by the Productivity Commission.

   This fact, and the benefits that flow through to the people of the ARI, must be acknowledged.

6. In 1961, the UK Government legislated to legalize off-course wagering by bookmakers. In Victoria, the Government legislated to license off-course wagering to a quasi-government authority, the TAB, to operate a parimutuel totalisator system for the public good, both in terms of the VRI but also to generate taxation revenue for spending on hospitals and schools.

   The Productivity Commission should compare the racing industries in the UK and Victoria and come to a conclusion as to which system is better.

7. Why is it that the most successful racing industries in the world are based upon totalisator wagering? This includes USA, Japan, Hong Kong and France as well as Australia. The concept that the ARI is overfunded is a nonsense.

8. The Productivity Commission quotes BLB in relation to the benefit of the betting levy in UK now being based upon gross profit. This totally ignores the fact that the previous turnover base levied was grossly inadequate and this is the reason why racing in the UK continues to be under-funded, even under the gross profit model.

   For example, in the UK in 2008 the equivalent of $A32 Billion was wagered on racing from a population base of 60 Million people and UK Racing received $A270 Million in wagering revenue. In Victoria in 2008, with less than 6 Million people, the TAB turned over $2.6 Billion on racing and the Industry received $220 Million.

   The horse population and number of races conducted in UK and Victoria are roughly the same.

   Who benefits from the funding model in Victoria and Australia? Not the race clubs but the people of the racing industry certainly do!

9. References in the Productivity Commission's Draft Report to the significant difference in the average number of meetings conducted at racetracks in Australia compared with USA and South America displays a lack of knowledge. Quite simply these countries primarily race on dirt and artificial tracks compared to grass in Australia. It is possible to race everyday on dirt but only up to thirty (30) times per annum on average in Australia, particularly in the Southern States. Grass racing, by its very nature, impacts utilization of race tracks.

10. The following quote from Mr David Thorpe, the Chairman of the UK Racecourse Association ***(RCA)***, bears consideration:

    "Since the liberalization of gaming in Britain, racing has been at a serious disadvantage compared to other jurisdictions.

    It's not difficult to calculate that if there were no off-course bookies, racing would get another half-billion pounds every year. We are at a staggering disadvantage, compared to say Australia or Hong Kong or even South Africa…"
    (Source: Winning Post Magazine – Singapore Turf Club, November / December 2008 edition)

    The UK is without doubt the most deregulated gambling market in the world. No other major country has chosen to go down this route, although by stealth the Australian wagering market has moved significantly in the UK direction, against worldwide trends. Why is this the case, and why should it be allowed to continue?

11. For most Australian race clubs, revenue from wagering is applied principally to prizemoney, which is the lifeblood of the Industry as it sustains involvement in racing.

    Clubs must therefore subsidise their activities from other revenues. Many clubs rely heavily on volunteer services from boards/committees down to gatekeepers.

Gentleman's Agreement

12. The demise of the "Gentlemen's Agreement", referred to in the Productivity Commission's Draft Report, was a massive change for the ARI.

    Australia has been unique in that until recently interstate product has been provided "free" for use by the State-based TAB's.

    The closest comparison with the post "Gentleman's Agreement" ear is in the USA where wagering on other states' racing is levied a product fee (simulcast fee) which is set at 3% of turnover. This has been the case for many years.

    These product fees, paid to the originator of the racing product for the purposes of wagering and the provision of the picture, are the critical link in the continuing ability to provide racing product for wagering purposes across jurisdictions in the USA.

Product Fees

13. The VRC supports the Productivity Commission's hypothesis that consideration of payment of product fees directly to race clubs that provide wagering product has merit. *(Refer to analysis of Victoria Racing Clubs operations below)*

Wagering Products

14. The Productivity Commission's Draft Report does not explore the difference in wagering products, most notably the difference between sport and racing.

    In sport, in most instances, two (2) individuals or two (2) teams compete, yet wagering on the outcome of most races involves an average of twelve (12) competitors.

    Also with Sports wagering, until recently, there has been no acknowledgement or requirement for wagering operators to pay a product fee to Sports there has not been a mechanism to achieve this.

    Consequently Corporate Bookmakers in particular have used the Sports betting model, which is based upon low tax (Northern Territory) and no product fees, to justify their model for wagering on racing. Interestingly, up to 80% of Corporate Bookmakers business is on Racing *(Source – Sportsbet CEO)*.

Whilst wagering customers can ultimately choose the product they wish to wage on, this is no different from a consumer choosing to buy a new car. Whilst they might like to own a Mercedes Benz the majority can only afford a Holden.

To impose a system where wagering customers are only required to pay a fee, based upon a cheaper product model, on all forms of wagering, is questionable at best.

15. The Productivity Commission's Draft Report refers to the TAB system as outdated compared to new offerings by corporate bookmakers.

    The Productivity Commission needs to consider how and why totalisator wagering differs from fixed odds wagering. Perhaps a simple definition / translation from French will do:

    "a betting system in which winners share"

    If totalisator wagering is outdated, why is it the predominant wagering system for racing throughout the rest of the world? Totalisator wagering can be properly regulated by governments and it continues to produce a considerable public good for the greater community.

    Historically the tote and fixed-odds systems have worked well for both governments and racing. This is largely because, until recent times, each State could control wagering within its boundaries.

    This control seems no longer possible. The Northern Territory government, in particular now, syphons taxation revenue from the other States and wagering revenue from race clubs in its favour and in favour of corporate bookmakers.

16. In reviewing the wagering services provided by corporate bookmakers, it is interesting to read the response by the Chief Executive of Sportsbet to questions put by David Duffield of www.ChampionPicks.com.au , as to how the Sportsbet business was established. In this regard, I provide the following quotes:

    "… the tax rate was minimal so Dad figured the timing was right to take a risk such as Vanuatu…

    Most of the pro-punters Australia wide were trying to get on with us due to the great pricing we could offer because of the tax rate…"

    As we know, Sportsbet, and most other Corporate Bookmakers, operate out of the Northern Territory, which offers a low taxing regime, with no requirement to pay a fee to the originator of the product.

Breeding Industry

17. The Productivity Commission needs to consider the **overall** benefit from racing by understanding the massive impact of thoroughbred breeding. The thoroughbred breeding industry is a significant employer and export earner for Australia.

    The breeding industry's success is inextricably linked to the success of the ARI at large and the ability of race clubs to conduct quality racemeetings upon which wagering customers choose to wager.

    To suggest that there is an overabundance of quality racing product beggars belief.

    For Racing to compete with other forms of gambling it needs more, not less, quality product.

Racefields Legislation

18. It is disputed that the racefields legislation is anti-competitive. Why should ARI provide its product for wagering at no fee, or a reduced fee from what it is worth? Worldwide precedents for fees, applicable for the use of racing from wagering, are available, but these have been largely ignored by the Commission.

    Does the Productivity Commission support farmers being required to provide their product at below cost or at no cost to supermarkets to sell to the Australian customers – I think not! Why should racing be expected to do this?

    Racing is no different except that it is being forced, and/or told, to accept that it should receive a lower price for its product so that others who's business models are based on lower taxing regimes can prosper all in the name of the consumer.

Social Benefit Policies

19. Both Federal and State Governments must be able to implement social policies associated with responsible gambling. It seems incongruous that the Productivity Commission, in the name of competition, would be supporting Corporate Bookmakers to induce people to open betting accounts on the promise of hundreds of dollars of free bets.

Free Riding

20. The Productivity Commission does not seem to understand that Corporate Bookmakers "free ride" in many other ways on racing. Specifically they make no tangible contribution to the following:

    - Race clubs produce their pictures which all wagering customers can view (at a cost in Victoria of $6 Million per annum).

- Cost of TAB network which produces tote odds which are used for free or at virtually no charge by corporate bookmakers.
- Daily newspaper form guides – Cost to VRI - $3 Million per annum.
- Provision of pictures into TAB agencies - Cost to VRI - $5.5 Million per annum.
- Racing radio coverage - Cost to VRI - $4 Million per annum.

It is clear that corporate bookmakers' customers make wagering decisions based in large part upon the availability of the above information and services, provided by racing to the broader community. Surely product fees paid by corporate bookmakers, or their business models, should acknowledge such industry costs on which they currently "free ride".

General

21. There is a degree of naivety in the statement that odds are determined by take out. Punter preference / selection in making his / her wagering decision also impacts the price as does the business model of the wagering operator. Not paying a product fee or fair product fee to the originator of the product affects the odds!

22. Corporate bookmakers in Australia set up in the Northern Territory because of the NT Government's blatant disregard for the other States and their racing industry. The Northern Territory does not have a racing industry of substance. GST proceeds to Northern Territory from wagering are the most significant incentive for the Northern Territory Government to continue with its predatory wagering policies.

    Until the Northern Territory's action many corporate bookmakers had previously been forced to operate under other titles/names illegally in Australia or in tax free havens off-shore

23. How can the Productivity Commission's Draft Report acknowledge the statement, by a disaffected, self-interested individual, that TABs have been detrimental to racing when the ARI is the third most successful racing industry in the world?

24. The report does not acknowledge that ARI wagering funding determines prizemoney levels, which impacts the quality of and interest in its wagering product. Loss of funding will lead to reduced prizemoney, which will in turn lead to reduced quality product, wagering interest and ultimately lost employment opportunities in racing.

    In other words, reduced funding will lead to an ARI downward spiral which would not be in the "public interest" and of great detriment to hundreds of thousands of people who work in racing.

25. Maintaining the quality of racing's product is inextricably linked to funding and is a key driver for race wagering to compete with other forms of gambling.

Surely the right level of wagering funding for racing must be that which sustains the quality of output and in the process and does not destroy the livelihoods of hundreds of thousands of racing industry employees.

The assertion that the ARI may be overfunded is a nonsense.

26. Corporate Bookmakers with business models based upon lower-margins, driven by low or no State taxes, and low or no product fees to racing, presently have an unfair competitive advantage which translates to their bottom line.

    Fundamentally it is their business model that should be questioned.

Victoria Racing Club Limited

Established – 1864	
Not-for-profit entity	
Company limited by guarantee (incorporated April 2006)	
Annual Gross Revenue	$140 Million
Wagering Revenue	$31.7 Million (22%)
Distributions from TAB	$27.0 Million (19.3%)
Prizemoney	$35.9 Million
Prizemoney as % of TAB Distributions	133%
Full-time equivalent employment opportunities per annum	3,500

The VRC is atypical of race clubs in Australia in that less than 20% of the Club's gross revenue relates to distributions from wagering (largely TAB) on its racing. For most race clubs, the figure is 50% or more.

VRC is therefore less reliant upon revenue for wagering. Having said that, the VRC is able to guarantee that all of its wagering revenue is paid as prizemoney plus the Club also provides a "top up" from other revenue streams of $8 Million per annum to prizemoney, which contributes to the quality of the racing product at Flemington.

The VRC's Membership base of 28,000, which is the largest of any race club in the world, (nearest Australian has 8,500) sets the VRC apart in terms of its ability to generate non-wagering revenue. In addition, revenue from the Club's premier event, the four-day Melbourne Cup Carnival, contributes to the VRC's strong financial position and its reduced reliance upon wagering revenues.

Importantly, it needs to be understood that the VRC alone bears all of the costs associated with staging the Melbourne Cup Carnival each year, in excess of $20 Million per annum, before the gates open on AAMI Victoria Derby Day.

To be able to continue to stage the Melbourne Cup Carnival, the VRC must be able to generate revenue from those that leverage off its brand and its racing product to drive its business and grow the "public benefit" from the Melbourne Cup Carnival event.

Wagering operators should be no different from the Club's Corporate Sponsors, which all pay for rights of association with the Club and Flemington brands, and which contribute to the quality of the Clubs racing product.

At present, VRC does not receive any revenue from wagering other than from the Victorian TAB and local on-course bookmakers.

The Club must be able to access / charge those who wish to wager on its quality racing product, particularly during the Melbourne Cup Carnival, if it is to continue to grow this hallmark event. In 2008, it is estimated the Melbourne Cup Carnival generated a gross economic benefit for the Australian economy of $700 Million. Since 1993, the benefit for Victoria's economy is estimated to be $5.5 Billion.

Whilst the Melbourne Cup Carnival generates significant non-wagering revenue, the Club, being a not-for-profit entity, uses the net revenue from the Carnival to support its race meetings throughout the year and provide higher prizemoney levels which increases participation from owners, trainers and jockeys and the public benefit from racing at Flemington. In addition, these funds are also applied to the upgrade of the Club's asset base at Flemington.

On Melbourne Cup Day this year (2009), the following wagering, by TABs around Australia, occurred:

	Australia	**Victoria**
The Melbourne Cup Race	$156.0 Million	$40.0 Million
Melbourne Cup Day	$223.0 Million	$72.0 Million

It seems incongruous that the VRC only received wagering funding from the Victorian TAB and did not receive anything from wagering by interstate TABs which amounted to $151 Million on a ten (10) race card on Melbourne Cup Day, including $116 Million on the Melbourne Cup race alone.

This of course does not include wagering by corporate bookmakers or Betfair on the day and the race. Local bookmakers, operating at Flemington during the Carnival, made a contribution to the VRC.

Conversely, and rather ironically, with simulcasting agreements in place with New Zealand, Hong Kong, Singapore, USA, Canada, UK, Ireland, France, much of South America and many other countries, VRC receives product fees which averaged 3% of turnover and as high as 5% in some instances to reflect the quality of the product. This revenue assists the VRC to fund the Melbourne Cup Carnival.

It is strange indeed that, whilst VRC can harness overseas wagering interest on its racing, it cannot in Australia achieve this outside of Victoria. Yet every other State Government, TAB and wagering operator in Australia, every race club that races on Melbourne Cup Day, and the racing industries in all States benefit significantly at no cost to them.

The VRC encourages the Productivity Commission to consider mechanisms to address this issue so as to encourage clubs like VRC to perform and continue to produce a "public benefit" from its racing product for the Nation.