SUBMISSION TO THE PRODUCTIVITY COMMISSION ON THE DRAFT REPORT ON GAMBLING

Submission made by Racing NSW Country

The Commission has released its draft report on the current Australian gambling environment and associated recommendations. The recommendations if enacted, contain far reaching affects on the consumer, wagering operators and the racing industry.

Racing NSW Country (RNSWC) is an incorporated body representative of NSW country racing participants and administrators, with the delegated responsibility for regulating and managing the welfare of thoroughbred racing in country NSW. Consequently, the findings contained in the Commission's draft report are relevant to the future of NSW country racing and could have a significant impact on the viability of this essential component of the thoroughbred industry.

Racing NSW Country as an organization reports to Racing NSW and is a member of the NSW Racing Industry Consultation Group. Both organizations have made submissions to the Commission on the Report, however RNSWC has elected to make a separate submission, focusing on the application of the Report, (specifically Chapters 12 and 13), to NSW country racing.

NSW country racing underpins the state's thoroughbred racing activities, with its participant base being a significant contributor to metropolitan and provincial racing, at the same time sustaining an attractive racing product for country enthusiasts and punters wagering on country racing.

This submission concentrates on the ongoing delivery of country racing which provides enjoyment for many thousands of racehorse owners, employment throughout country NSW and is in demand by its customers who wager on and attend country race meetings.

It is the view of RNSWC that many of the recommendations contained in the Commission's Report presents a significant threat to the continuation of this economic balance.

SCOPE AND HISTORY

NSW country racing has in place the following structure (2008/09) to provide opportunities to participants over a wide geographical area and present a wagering product that is attractive to oncourse and offcourse customers.

Race Clubs	138
Racecourses	113
Race Meetings	500
Races	3460
Starters	34,938

Average TAB Field Sizes	11
Total Returns to Owners	$37,114,100
NSWTAB Turnover	$339,255,000

The recent history of TAB wagering turnover highlights country's influence on wagering overall, on NSW thoroughbred events.

It also demonstrates the negative cumulative growth in turnover, from which revenue is derived, as a result of new "free riding" operators in the market.

	Metropolitan		**Provincial**		**Country**	
	Turnover ('m)	**Market**	**Turnover ('m)**	**Market**	**Turnover ('m)**	**Market**
		Share		**Share**		**Share**
2004/05	$557.00	50.14%	$224.66	20.22%	$329.30	29.64%
2005/06	$552.85	49.40%	$220.00	19.66%	$346.20	30.94%
2006/07	$545.81	50.66%	$202.54	18.80%	$328.97	30.54%
2007/08*	$376.53	46.79%	$156.72	19.47%	$271.56	33.74%
2008/09	$555.40	50.70%	$201.50	18.40%	$339.30	30.90%

* Influenced by EI disruption to racing

The country structure and wagering trends have not occurred by chance, or been allowed to occur without specific planning and monitoring of the needs of wagering customers as the Report infers.

Returns from traditional wagering sources have been utilised to maintain an efficient country structure, as evidenced by the more recent allocation of resources.

- Increased the number of TAB meetings conducted from 241 in 1996/97 to 316 in 2008/09;
- Downsized the number of non-TAB meetings from 459 in 1996/97 to 154 in 2008/09;
- Increased country's wagering market share from 22% ($256m) in 1997/98 to 31% ($339m) in 2008/09;
- Sustained field sizes above an average of ten per race for TAB meetings since 2000/01, and;
- Increased total returns to owners $19.31m in 1997/98 to $37.1m in 2008/09;

The administration of country racing was restructured in 2000 and again in 2004, with the latter achieving efficiency savings of $1m pa.

Based on the above statistics there is an undeniable necessity to address equally, the (financial) needs of the industry and consumer access to the most desirable wagering market. The draft report fails in this respect.

COUNTRY STATUS AND CONCERNS

Chapter 13.1 refers to wagering operators “free-riding” the market, particularly with the advent of the internet, expansion of telephone services and the licensing of betting exchanges and corporate bookmakers.

The influence of such operators, has resulted in recent TAB revenues to RNSWC trending as follows;

2006/07	$38.4m
2007/08*	$36.7m
2008/09	$39.7m
2009/10 (budget)	$40.0m

* Influenced by EI disruption to racing

Country racing will go into steep decline if the 2009/10 budget is realized and revenue from Race Fields Legislation is not forthcoming.

Whilst the assertion in the Report that the industry relies chiefly on the sale of intellectual property is correct, that statement in isolation overlooks the point that in the case of country clubs for instance, a minimum of 80% (with a high percentage of clubs nearer 100%) of the revenue derived from IP, is returned to owners to continue to provide the resource on which the consumer bets.

This current position – funding of the wagering product predominantly by TAB, will be retained until such time as all wagering operators pay the appropriate fee under Race Fields Legislation. At that time more market opportunities will emerge for the customer.

The Report also devotes significant space to questioning whether the Australian racing industry is too big overall.

The Commission will have interest in the results of a Case Study conducted by RNSWC in 2007, that analysed the size of the NSW country thoroughbred sector.

The purpose in country drawing this study to the Commission’s attention is to highlight the fact that when ever rationalisation is suggested the initial thrust is towards the lower levels of the racing industry’s structure, being country racing.

Case Study – Industry Size

The modelling was performed on the closure of 18 racing and training venues throughout country NSW, which could be described as second tier clubs in that they conduct more than one race meeting per annum and have training facilities available.

The assessment of potential savings was based on examining the fixed expenses that can be saved from closing venues, less revenues that would be foregone and costs that are transferred elsewhere.

The total cost saved at a venue from closure cannot reasonably be fully realised across country NSW as a number of horses would be relocated to remaining venues, increasing their costs, effectively redistributing racecourse and facility costs from closed venues.

The closure of a venue would see the earnings from the club's race meetings lost, although possibly equalled by conducting transferred meetings elsewhere. There is however consistent evidence that the most profitable meeting at clubs are difficult to replicate elsewhere. As such the earnings from the most lucrative meeting (in some cases two or three meetings) are also subtracted from fixed expenses saved by closing a venue.

Based on potential rationalisation identified, the total financial contribution attainable from venue closures outlined above is $1.216m at the 18 race clubs. A total of 6,698 trained starters would be impacted, which is approximately 21% of the country NSW total.

A financial saving of this degree would have no appreciable impact on the industry structure or the wagering customer and require a significant number of industry participants to incur the capital cost of relocating. In fact shrinking the industry would also remove the presence of thoroughbred racing from a particular region resulting in the possible loss of owners and a reduction in wagering interest.

Conversely, the restructure of the style of country race meetings now provided, has basically been derived from customer demand.

Up until around 1990 country clubs could derive significant revenue from attendees and oncourse wagering to supplement TAB funding. However a drop off in the attractiveness of oncourse bookmakers to the customer associated with an improving TAB service; the advent of television broadcasts and telephone betting and improving facilities in hotels and clubs, shifted the dependence of country race clubs more towards the TAB.

Consequently today's NSW country racing format reflects that evolution with country race meetings now being conducted primarily for; (1) attendance at non-TAB meetings, or (2) attendance and broadcast of TAB feature meetings or (3) offcourse broadcast alone of TAB meetings.

The new generation of racing customers and administrators accept this format.

In suggesting the national regulation of the wagering industry in the Report, again prioritises the wagering market in favour of the consumer at the expense of the supplier

FUNDING MODEL

RNSWC fails to see how national regulation can steer the supply of the country product as successfully as outlined in this submission by equitably distributing funds, when wagering levels and trends are significantly affected by:

- the allocation of race dates;
- competition from other regional leisure activities;
- the quality of horses and levels of prizemoney;
- the availability of broadcasting; and,
- media focus generally.

All the above items are subject to external influences that a national regulator could not competently harness as efficiently as the present structure and which have as much influence on wagering as new products or product flexibility.

RNSWC supports the Commission's proposition that "*the level of remuneration that racing codes, as well as the individual clubs, receive should be determined by the amount of betting that takes place on the races they provide*".

The NSW Intra Code Deed that disperses TAB funding between the three thoroughbred sectors is formulated on turnover and market share ie the amount of betting that takes place on each sectors races.

Chapter 3.3 of the Report moves to a gross profit method of funding. However RNSWC respectfully suggest to the Commission that funding the industry under a gross profit model reflects firstly, the profitability of the operator and then secondly, "*the amount of betting that takes place on the races*". The preference should be reversed through a product fee based on turnover.

RNSWC also refutes the suggestion that low profit margin operators will be driven out of the business by a product fee. Historically betting markets have found their own operating level over time, based on customer demand. Nothing has changed except the technology under which today's wagering operators conduct their business.

RNSWC thanks the Commission for the opportunity to make this submission and we would be pleased to discuss the contents of the response if required.

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