

AGMMA

THE AUSTRALIAN GAMING MACHINE MANUFACTURERS ASSOCIATION

A.C.N. 060 130 770

SUBMISSION TO PRODUCTIVITY COMMISSION

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1. Introduction

(i) AGMMA

The Australian Gaming Machine Manufacturers Association ("AGMMA") represents the manufacturers of gaming machines in Australia. AGMMA's members and associate members are:

<i>FULL Membership</i>	<i>ASSOCIATE Membership</i>
Vidco Distributors	Bally Gaming Australia
Konami Australia	Magnetic Design Systems
IGT Australia	Ainsworth Game Technology
Video Lottery Consultants (VLC)	Mikohn Gaming Australasia
Aristocrat Leisure Industries	JCM (Japan Cash Machines)
Milwell	TAB Limited (Data Monitoring Services)
Pacific Gaming	

(ii) A Lost Opportunity

AGMMA is disappointed with the draft report issued by the Commission because it has polarised much of the traditional debate about the gambling industry's role and impact at a time when there were useful signs of a trend away from the simplistic "entirely good / entirely bad" orientation of previous encounters.

One of the principal hopes we held was that the Productivity Commission analysis would facilitate a move from the simple two-valued polarised view about gambling.

Any analysis that engages in highlighting the other fellow's errors, lack of understanding, dearth of morality or fortitude, dangerous tendencies and so forth is confrontational and unproductive.

In an industry that is as pervasive as gambling with its characteristic strongly held beliefs, pre-conceptions, genuinely held concerns and honestly engaged advocacy, the simple 'good' vs 'bad' dialectic is a tempting outcome.

AGMMA believes that it is also the least productive one.

AGMMA's disappointment is that the Commission has not transcended it.

The industry is neither wholly bad nor wholly good. In this, it is no different from hosts of others. An objective analysis should seek to enhance the one and diminish the other. The simple dialectic of the traditional debating societies is an impossible method of doing so.

Members of AGMMA are naturally enthusiastic supporters of the gambling

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subscribe to any advocacy of unrestrained expansion. AGMMA members have always supported, and continue to support, the need for strong regulatory control and enforcement within a well publicised policy purpose. AGMMA does not have a monopoly on this, but does make the position claim.

AGMMA make these points in respect of the Commission's treatment of electronic gaming machines ("EGMs").

(a) Unsupported Claims

The draft report carries a number of 'claims' about the machines that are not supported, and in doing so gives credence to the negative attitudes from which they spring. For example, it has been claimed that *"reports from overseas indicate that Australian-designed poker machines are more addictive than their US counterparts..."*. These 'reports' were not cited or identified in the draft report. They were not cited or identified in the written or verbal evidence of the author. AGMMA has been unable to find anything that would support such a grand claim and suspects that it is as false as it is bold. That the Commission published it without making some check on its veracity simply confirms a two-valued orientation. If that is the method of attracting credibility, we could as easily claim that gaming machine accessibility keeps the divorce rate down, diminishes the incidence of battered wives, rape and general pillage. Of course, this would be ridiculous to claim sans evidence, and we would not expect the Commission to give credibility by unquestioned air-play. We would have expected the obverse to apply.

(b) Incorrect Analytical Approach

The draft report assumes the utility of a number of concepts in its treatment of gaming machines. For example, it assumes that "price", as defined in the report, is important. Our members live or die on the sword of player reactions and "price", as defined, is not one of the determinants for success of the traditional spinning reel game. This has been known for years within the ranks of the machine suppliers. Additionally, the Commission relies on what might generally be termed the cognitive analysts' approach to understanding machine play. To the extent that our members had placed any commercial reliance on these "insights", they would be out of business.

(c) Sensationalism vs Assessment of Current State of Knowledge

Problem gambling is a serious negative consequence of legalised gambling. The Commission properly raises it as one of moment. The emphases made and the "quantifications" of its scope are vaguely based and, in many cases, guesstimates. We understand the Commission's difficulty here in the face of the research industry's inability to agree on many of the core elements necessary for a disciplined understanding of problem gambling. However, we believe the draft report is so imbalanced that it has set back a united industry approach to helping the wounded. For this reason, above all others, we see the draft report as a lost opportunity. It has already become a

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catalyst for polarising the "debate"; for halting the coming together of gambling suppliers and front-line counselling that was starting to emerge.

If the final report is of the same colour and content as the draft, its primary achievement will be to fill space on library shelves.

(iii) World Population of EGMs

The interests of Australian gaming machine manufacturers have been adversely effected by the Productivity Commission's draft findings as regulators of the industry have reacted negatively to the findings and because the perceptions of the public and the media towards the industry have been influenced by the draft report.

An example is the incorrect statement, in the draft report, that Australia has 21% of the world's gaming machines.

This statement was made without proper research and is clearly wrong as is evident from the attached TNS study (Annexure 1) commissioned by AGMMA to respond to the Productivity Commission's assertion.

The study revealed that Australia has less than 2.4% of the world's electronic gaming machines).

It is not an answer to state that the Commission relied on Aristocrat's annual report and checked with Aristocrat (it is quite evident that the source in question was a marketing study relating to Aristocrat's style of machines; no evidence of specific "checking" of 'global' EGM numbers has been found at Aristocrat).

It is also not an answer to state that the industry is 'changing its definition' of EGMs (see Annexure 2). This is nonsense.

The Productivity Commission made the bold and deliberately sensationalist statement about Australia having 21% of the world's "electronic gaming machines".

The "industry" did not choose this definition.

The point is that the Productivity Commission made a serious error through poor research. It should be responsible enough to admit the error and retract it instead of "ducking and weaving" to avoid embarrassment.

The error requires correction.

Moreover, the issue is simply not relevant to the subject matter of the Report : what does it matter how many EGMs there are in the rest of world?

The Commission has had ample warning that it erred (see correspondence attached as Annexure 3 and the AFR article annexed as Annexure 4).

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It is a severe indictment of a supposedly independent, objective body that, despite this overwhelming evidence, the Commission has not sought fit to issue a retraction or correction of a serious mistake that has caused significant and totally unfounded concern.

(iv) Support of Manufacturing Sector and Australian Exports

AGMMA believes that it is in the interests of Australia to encourage and promote a strong manufacturing sector, particularly in areas involving electronics and information technology and particularly in relation to exports.

To this extent, AGMMA anticipates that the Federal Government - and all of its instrumentalities - will review (and support) industry with a view to this fundamental economic goal (among other criteria).

In this respect, and in reference to the Commission's terms of reference, AGMMA notes that the Commission is directed to have regard to the "economic, social and regional development objectives of governments".

There is no statement in the report that it is in the Country's interest to encourage a healthy manufacturing sector or exports of EGMs and associated technology - a significant oversight.

(v) Productivity Commission's Draft Findings

AGMMA endorses a number of the Productivity Commission's "draft" findings but has difficulties with others.

The Findings Endorsed by AGMMA are:

- A number of simple steps can and should be taken to address problem gambling including providing consumers with more information about the odds of winning particular combinations and statutory return to player requirements;
- AGMMA also supports the control of advertising to ensure it is not false, misleading or deceptive;
- AGMMA supports the restriction of credit availability;
- AGMMA supports the provision of counselling services for problem gamblers and is in the process of putting together a proposal for a "Responsible Gaming Education Week" for 2000. Details will be announced shortly.

The Findings AGMMA has Difficulty with are:

- Australia having 21% of the world's EGMs and the relevance of the issue;
-
-

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- The specific suggestions of the Commission regarding provision of information on odds and the analysis of those odds as conducted by the Commission;
- The Commission's analysis of "problem gamblers";
- The Commission's analysis of the accessibility issue;
- The Commission's analysis of internet gambling;
- The Commission's view of the current regulatory environment of gaming machine industry.

2. Consumer Protection

(i) Introduction

In Chapter 15 of the draft report, the Commission wrote:

"Consumers may be poorly informed about the nature of the product they are buying, such as the role of skill compared with chance, and the actual odds of winning."

AGMMA agrees with this observation. The notions of 'return to player' and its obverse the 'venue return' or 'price' are generally not available in the public forum.

This is a deficiency from the consumers' viewpoint and it ought to be rectified. There is no reason why such information should be withheld from players of gaming machines. It is disclosed in fine detail to regulatory authorities as part of the approval procedures.

(ii) Gaming Machines & Disclosure

AGMMA has previously submitted that the disclosure of the "player return" by itself has the potential to confuse or create false expectations because of the volatility that occurs in play sessions. Despite this concern, we believe that it is in the interests of all parties to attempt to properly inform players (and venues) of the chance-properties of the product that they use.

As a first principle, AGMMA agrees that the information should be "easily assimilable".

This is essentially a matter of judgement as to what is sufficient and useful. It would be pointless, we think, to produce a player information booklet detailing the full set of calculations for each gaming machine in an effort to describe it – in some cases this would involve twenty to thirty pages of mathematical calculations. Excessive accuracy would contribute little to resolving the deficiency.

As a first step in trying to address sufficiency and utility, AGMMA proposes the publication, for each game and each variety of each game, of an 'odds card' in a format similar to that shown for the hypothetical game 'Bucephalus' set out on the following page.

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This is a generic template that could describe any traditional chance game. For reasons explained below, it would not work well for 'skill' games such as draw poker or blackjack where player choice intermingles with random events during play.

Game Name: **Bucephalus**

ODDS TABLES

Prize Value	Chance of the Prize happening on a single play-line. 1 chance in:
>= 500	10,198
200 to 499	2,669
100 to 199	1,458
50 to 99	450
20 to 49	246
10 to 19	106
5 to 9	53
< 5	10

Prize Type by Symbol Combination	Chance of the Combination happening on a single play-line 1 chance in:
5 Kind	4,784
4 Kind	490
3 Kind	45
2 Kind	9

Overall Chances on a single play-line	
Chance of ANY Prize	13%
Chance of NO prize	87%

**The Long-Term Average Player
Return for this game, as approved
by the Regulatory Authority is: 90.31%**

Caution

All the values shown are averages. It is likely that significant variations to these will happen during any session of play.

If You Bet With Real Dollars, Use Real Sense

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(iii) Price Information to Players

Poker Machines

The Commission makes the point that players, through lack of information or understanding, are unable to make choices as to which machine they might prefer to play: *"The problem is accentuated when otherwise identical machines have different prices"*. This raises the issue of 'informed consent'.

The 'price' to the player is defined as *"...one minus the player return"* (15.12).

An important confusion with this sort of approach can be illustrated by comparing 'prices' on actual games that have been licensed for use in New South Wales.

While these machines have different mathematical architectures, the same can be applied to different 'prices' offered using the same game name.

The variations in mathematical architecture between variations of the same named games are often of the same order as between games carrying different names.

The implication of the major premise is very simply that a machine with a 'price' of 7.86 per cent is somehow a *better* one, from a players standpoint, than a machine with a 'price' of 9.69 per cent.

The subsidiary implication is that a player would be better off choosing the lower priced machine.

Using the Commission's approach, it would be said that there is a 23 per cent difference in the price of the most expensive game compared to the cheaper one.

The Commission went on to say

"It seems reasonable to disclose this...price variation to the consumer, rather than to force them to experiment to discover it themselves" (15.12).

The fundamental difficulty with this approach is that there is a strong chance that the player may make the wrong choice if that choice is simply based on the 'price' comparison.

This can be illustrated by reference to two actual games.

Game I	Game II
Pegasus	Bucephalus
92.14 Player Return	90.31 Player Return
7.86 'Price'	9.69 'Price'

If the mathematical properties of both games are examined, there is a very significant volatility factor that will impact.

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For example, a very simple statistical application enables us to predict what proportion of players will experience a return greater than 100 per cent over sample sessions of play of 2,000 games.

For game 1, the cheaper 'priced' machine, 34 per cent of players will do better than 100 per cent – that is, they will have staked 2,000 credits but would win more than 2,000 credits in the session.

On the higher 'priced' machine 37 per cent of players would come out better than 100 per cent.

Plainly, in this case, the 'price' of the machines could be a deceptive criterion for player choice using the Commission's approach.

It is true to observe that the proportion of players who will 'beat' the game diminishes as session play increases. For the two games, however, the higher 'priced' game will **always** have a better proportion of players 'beating' the game than the less 'costly' one.

Using 'price' as defined by the Commission is far too brittle to be useful and/or fair to players. It falters on the volatility property present in all gaming machines per force of the relationship of prize values and the respective frequencies (or infrequencies) of their occurrence. It rests in the nature of the mathematics on which the games are based.

Proportion Test - Gaming Machines					Table 1
Game >>>	Centaur	Bucephalus	Comanche	Pegasus	Incitus
No. Plays	2,000	2,000	2,000	2,000	2,000
Standard Deviation	10.57	13.51	7.43	8.59	5.82
Player Return	92.10%	90.31%	90.17%	92.14%	90.50%
> 100 Per cent	36.91%	37.42%	27.70%	34.12%	23.27%

So fundamental is this property to the nature of gaming machines, its impact or influence is difficult to neutralise when devising a practical disclosure to players.

AGMMA has already submitted its view that using the average payout ratios is likely to confuse. The 'price' ratio is just such a number and we make the same observation. The 'price' ratio is simply the obverse of the average return ratio. It, therefore, shares exactly the same dubious utility.

In the most primitive form, the odds can be disclosed in tabular form as set out in table 2 overleaf.

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Table 2		
Incitatus	Prize	Hits One chance in
	5000	4 4,569,760
	1000	102 179,206
	200	1,202 15,207
	100	15,815 1,156
	50	20,809 878
	20	343,682 53
	10	253,786 72
	5	168,496 108
	2	1,651,878 11
		2,455,774 7.4

This sort of disclosure can be made available by game suppliers.

Regulatory authorities in all Australian jurisdictions already receive such information for each game submitted for approval.

The game described in table 2 is a very simple one with no secondary features.

To issue the same description for the more complex games requires some interpretation (dependent on conditional probabilities, for example) and a far more voluminous set of numbers.

The usefulness of this sort of publication is moot.

There is, of course, a more basic problem with the 'price'-disclosure approach.

The approach assumes that 'price', as defined, is important to players' choice-making.

AGMMA views this assumption with some bemusement. To those who think this is a high order impact issue, AGMMA simply observes that this is not reflected by player behaviour. If it were important, it might be expected that expenditures on higher priced machines might tend to a lower level.

This simply does not occur with anything like to pattern that might be expected if the assumption had value.

For years AGMMA has watched with equal bemusement the attempts by theorists in their quest to identify the etiologies of player behaviour. Their 'logical' starting points are much removed from reality in which our members do commerce.

Our members market gaming machines to two main categories of 'consumers': those who buy the machines and those who play them.

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The latter are by far the more important of the two. AGMMA members do not concern themselves with price or demand elasticity because they lack moment and generate little of consequence to successful design and marketing of games.

Regulatory authorities have set boundaries for such indices as player return rates (and, therefore, 'price').

The market (especially the buyers) also has its own expectations. The fact that we satisfy those sorts of parameters, and happily so, should not be confused as an endorsement of their inherent importance.

Games are designed with the overriding goals that they will be 'popular' with players and that they will resist the fashion entropy long enough to gain a competitive advantage over rival games put out by competitors. In that regard, members of our Association are vigorously competitive and keen analysts of player reactions.

Collection of data (comparative profit levels generated by games) and its correlation to objectively quantifiable game properties discloses very clearly what players react to.

No reliance is placed on surveys which are regarded as too subjective and unreliable for such correlation analyses. Similarly, no use is made of the work or findings of cognitive theorists for precisely the same reason.

Manufacturers unashamedly carry out this type of research and use it. Manufacturers would be negligent to not do it and will continue to do so. There is no conspiracy in this to wickedly seduce the unwary and the vulnerable.

Manufacturers rejoice in the successes based on the predictable reactions in the market place and will continue to do so.

Manufacturers are also openly willing to disclose information about such matters as odds or anything else that goes to the fairness issue for the primary customer, the players.

It is submitted, however, that what the Commission has put forward as disclosure models and what some opponents of gambling have put forward as disclosure models are either ridiculous or irrelevant.

The Commission put forward some of the suggestions it had received supposedly aimed at addressing problem gambling or consumers informed consent. For example:

"Reports from overseas indicate that Australian-designed poker machines are more addictive than their US counterparts...a change in design to make them less addictive in the meantime would be desirable".

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There was no reference to these "reports" referred to. We checked the submission of the authors of the statement and the transcripts of their evidence to no avail. No actual "reports" are cited.

The only report we could find indicated that Australian designed machines (manufactured by Aristocrat Leisure Industries) were far more popular with players in Illinois, Indiana and Connecticut than competitor products.

Whether this 'popularity' comparison was the base of the assertion is not known.

In any event, the publication by the Commission of such an unsourced dictum is as disgraceful as the assertion itself. It has no basis.

It assumes that successful marketing is wrong, dangerous, and ought to be interfered with by guesses emanating from a peculiar 'moral minority'.

We dismiss it as puerile and irresponsible.

(iv) "Skill" Gaming Machines

Devices which offer games like poker in which player interaction is required add a further dimension to disclosure.

For these sorts of games, there is no set table of odds. There is no set 'player return'. Outcomes from play depend on strategies used by players. These outcomes can be significantly different. Using different strategies on a standard 52 card draw poker game illustrates these differences.

STRATEGY # 1

STRATEGY # 2

	Hold, if dealt (1 MILLION GAMES)		Hold, if dealt (1 MILLION GAMES)
1	Winning hands, discard unnecessary cards	1	Winning hands, discard unnecessary cards
2	4 to Royal Flush	2	1 to a paying pair
3	4 to Straight Flush	3	4 to Flush
4	4 to Flush	4	4 to Straight
5	4 to double-ended straight	5	Non-paying pair
6	3 to Royal Flush	6	Discard all 5 and draw 5
7	3 to Straight Flush		
8	Non-paying pair		
9	1 to paying pair		
10	3 to Flush		
11	Discard all 5 and draw 5		
	RESULT: 90.74%		RESULT: 81.45%

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Simulating these two strategies for 1 million games and using a game with exactly the same prize schedule results in a return of 90.74 per cent for strategy # 1 and 81.45 per cent for the other method of player choice.

This sort of variability prompted some suppliers of these games to build an automatic hold strategy into the games.

When five cards were dealt, the game would prompt the player with suggested 'holds'. AGMMA makes two observations in this regard: firstly, some of the strategies programmed were subjective guesses by programming engineers and were less advantageous to players than they might have been; secondly, players as often as not ignored the automatic prompt and made their own choice.

It should also be observed that the optimum strategy for a player to follow may often vary with the type (level) of prizes for winning hands.

In any event, it is not possible to disclose a set of odds to players without having perfect knowledge about an unlimited number of strategies that could be followed.

Of course, a strategy could be enforced but only if the player choice element is disabled or removed. That would be a totally different game and would mean that video draw poker or video blackjack as we now know them were prohibited.

Video Draw Poker has an interesting sidelight to its history in Australia. Per force of government regulations and taxation, when the game was first legalised in New South Wales, Queensland and South Australia, the theoretical optimum return that venues could operate them at was 85%¹. By comparison to other gaming machines, video poker failed.²

(v) Bill Acceptors

"The Commission has been given advice that, unsurprisingly, machines with acceptors tend to have higher levels of turnover than those which do not". (15.62).

There are two matters of note about this statement. Machines with bill acceptors are invariably newer than those without the acceptors. The fashion imperative that players follow in choosing machines to play would emphasise the propensity for such new machines to generate more attention from players. This has always been the case in Australia. The newer machines generate more profit (attract more expenditure) than devices whose novelty value is spent. This factor more than all others is the basis for replacement purchases by venues. The demand by players for innovation and novelty drives this and almost wholly explains why newer machines out-perform older ones.

¹ Imposing a turnover tax as against a profit tax effectively forces operators to set player returns at their absolute minimum level. For an operator to face a 10% turnover tax on a 90% game would mean that the machine is 'profitless'.

² This raises the possibility that 'skill' games are 'price' sensitive in a way that chance games are not – possibly due to the multiplier effect of the 'skill' input. The Association has no research data on this and can do no more than observe the possibility.

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To assume that the presence of bill acceptors is the logical cause of this involves fuzzy logic. Bill acceptors are designed into hardware primarily for the convenience of both players and operators. They are not some subtle tactic to increase expenditures by the unwary or the uncontrolled. They are not inimical to such market reactions but it involves a leaping syllogism to assert or infer a direct correlation on the brittle base of the Commission's observation about turnover.

The second issue is that newer machines issued in the past three years have a higher player return rate than older ones – all else being equal they will automatically experience higher turnover. Turnover is a poor index for such comparisons. Expenditure is a 'standardised' datum and would provide a better focus.

"The Commission finds good reasons for bill acceptors not being included in the design of poker machines..." because, it says *"the potential advantage of a measure such as this is that it is relatively well targeted on problem gamblers..."*(15.63). This conclusion is based on the Commission's National Gambling Survey which *"...suggests that problem gamblers are much more likely to use bill acceptors than other gamblers..."*

This is worth examination. The question asked in the survey was:

*Do the machines you usually play allow you to insert notes rather than coins?*³

This is a non-discerning question.

Respondents who answer 'yes' are as likely indicating that they prefer the newer games (which happen to have bill acceptors), rather than older ones (which do not). The Commission's conclusion on this is simply wrong.

The most it could assert is that problem gamblers are more likely to use newer games (machines) than non-problem gamblers. This is hardly a contribution of any moment.

We reject its conclusion as vaguely targeted, based on ignorance, and simply unsustainable in logic.

(vi) Denomination Controls

In the clubs of New South Wales, the denomination mix of machines has seen significant shifts in the recent past.

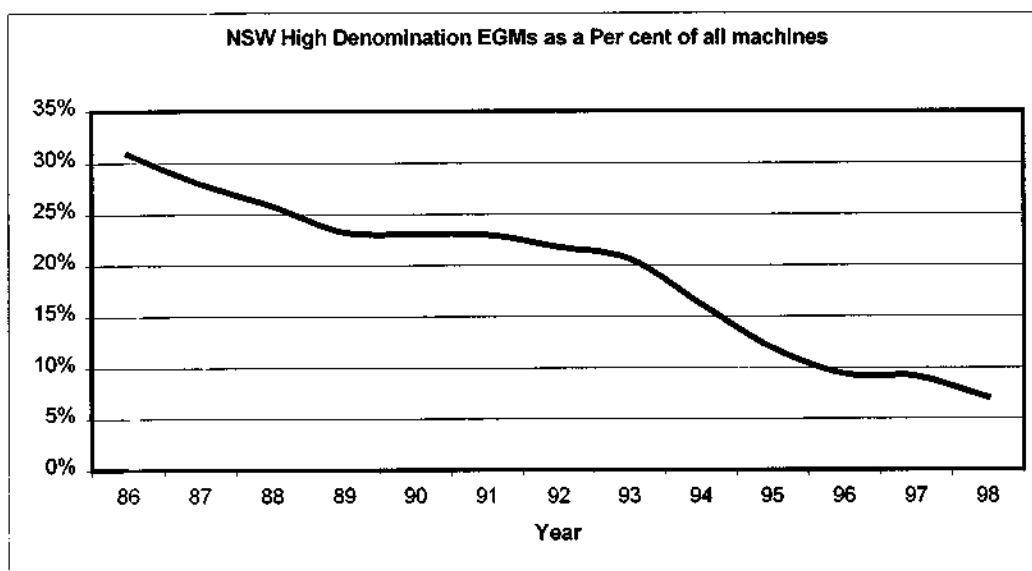
These shifts have been market-driven. Corresponding with these shifts has been the domination of video game delivery, increases in maximum prizes, the growing complexity of games and the use of technology based functions attached to the machines. As illustrated overleaf, there has been a massive decline in the use of high denomination machines.

³ Appendix F, Draft Report, p. F.29

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The Chart describes "high" denomination as anything above 10 cent

1986 Maximum Jackpot for stand-alone poker machines increased from \$5,000 to \$10,000

1988 \$1 and \$2 machines introduced

Bet per play increased to \$10 (irrespective of denomination)

Linked Jackpot machines introduced with maximum prize limit of \$100,000

1992 Tokenisation introduced

1996 Use of bill acceptors approved

The extent of this shift in player preferences is starkly illustrated

	1c	2c	5c	10c
1986	0%	0.1%	4.5%	64.6%
1998	20.2%	16.9%	47.7%	8.2%

The percentages shown are related to the whole population of machines

This trend to lower denomination machines is not yet spent.

Interestingly, the same trend towards lower denomination machines is now happening in the North American gaming machine venues.

Denomination control as a tool for obviating the danger of problem gambling would seem to be unnecessary given what the market is doing naturally.

(vii) Expected Duration of Play

It is noted that the Commission has suggested that the information that should be displayed about the "price of playing poker machines" should include "the expected duration of playing associated with any given player style".

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AGMMA takes the view that this information is likely to be extremely impractical to calculate because of changing players, the volatility of machines and the difficulties associated with identifying "styles".

(viii) Likelihood of Given Payout

It is noted that the Commission has favoured *"an indication of the likelihood of any given payout on payout tables displayed on the machines"*.

AGMMA is not in favour of the provision of such information because, given the complexity of games and machines, the range of outcomes is very broad and the information, to be complete, would be voluminous and complex. It would also be very difficult to understand.

If anything, a machine could indicate the most likely and the least likely outcome by reference to odds. However, again, any such indication is highly likely to mislead given that such estimates would need to be based on the statistical population which in many cases comprises many millions of possible outcomes.

(ix) Explaining Odds

It is noted that the Commission has suggested that information about how such games work and the most frequent misunderstandings about them could feature in school curriculums and in easy to read information available to patrons of gaming venues.

AGMMA endorses the concept that "easy to read" information should be made available to the patrons of gambling venues and is in the process of preparing a booklet relating to gaming machine odds for this purpose.

(x) Gambling Slogans

AGMMA endorses the concept of appropriate slogans and would suggest addition of the slogan recently conceived in the US:

"If You Bet With Real Dollars, Use Real Sense"

(xi) Advertising

It is noted that the Commission *"considers that there are grounds for tighter controls on gambling advertising where it is felt that the information provided by a gambling supplier would have the effect of reinforcing inherently false beliefs about the odds of winning or about the way gambling technologies work."*

AGMMA supports controls on advertising where advertising is false, misleading or deceptive and endorses the approach taken by the NSW government in relation to the Gambling Legislation Amendment (Responsible Gaming) Bill 1999 in relation to false, misleading or deceptive advertising.

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AGMMA takes the view that such remedies together with those already available under the Trade Practices Act are more than adequate to address any concerns.

All advertising depicts products positively – it is both unfair and an inappropriate intrusion of government into freedom of speech as it applies to advertising to ban advertisements which are not false, misleading or deceptive.

AGMMA wishes to draw the Commission's attention to a recent (June 1999) Supreme Court decision in the United States ⁴ where the US Supreme Court unanimously held that in states where gambling is legal, the relevant Federal Law, banning advertising of private casino gambling broadcast by radio or television stations located in such states, was unconstitutional.

The Supreme Court held that such an advertising ban violated the First Amendment (freedom of speech) rights of broadcasters. Although we do not have a 'First Amendment' in NSW, the people of NSW would, it is suggested, like to think they enjoyed as much freedom of speech as Americans.

The US Supreme Court has applied a test from an earlier (1980) Supreme Court case to resolve cases involving restrictions on speech that are "commercial" in nature.

The test is a "common sense" test and AGMMA suggests that consideration should be given to applying it in this instance: to be protected by the First Amendment protection of free speech, commercial speech must pass 4 tests:

- firstly it must concern lawful activity and not be misleading;
- secondly, it must be asked whether the asserted government interest is substantial;

If both answers are positive:

- the Court must determine whether the regulation directly advances the Government interest asserted;
- the Court must determine whether the regulation is more extensive than necessary to save that interest.

In this case, the Court decided that the advertisements satisfied the first two parts of the test.

The Court then had to decide the second two parts of the test.

The Court noted that the Government argued that the ban "*reduced the social costs of gambling*" and "*assisted states to restrict gambling*".

The Court accepted that the Government "*may assert a legitimate and substantial interest in alleviating societal ills*" but stated that "*in the judgement of both*

⁴ Greater New Orleans Broadcasting Association Inc. etc et al, Petitioners v United States et al, US 1999 No. 98-387.

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Congress and many state legislatures the social costs that support the suppression of gambling are offset, and sometimes outweighed, by countervailing policy considerations, primarily in the form of economic benefits".

The Court added:

"Despite its awareness of the potential social costs, Congress has not only sanctioned casino gambling for Indian Tribes through tribal-state compacts, but has enacted other statutes that reflect approval of state legislation that authorises a host of public and private gambling activities."

The Court noted that the third part of the test asks whether the restriction in question *"directly and materially advances the asserted governmental interest"*.

The Court noted that the Government contended that its broadcasting restriction directly advanced the interest of alleviating the social costs of casino gambling by limiting demand because "promotional" advertising concerning casino gambling increases demand for such gambling which in turn increases the amount of casino gambling that produces these social costs.

The Court also noted that *"the Government believes that compulsive gamblers are especially susceptible to the pervasiveness and potency of broadcast advertising"*.

However, the Court found that:

"... it does not necessarily follow that the Government's speech ban has directly and materially furthered the asserted interest. While it is no doubt fair to assume that more advertising would have some impact on overall demand for gambling, it is also reasonable to assume that much of that advertising would merely channel gamblers to one casino rather than another. More important, any measure of the effectiveness of the Government's attempt to minimise the social costs of gambling cannot ignore Congress' simultaneous encouragement of tribal casino gambling which may well be growing at a rate exceeding any increase in gambling or compulsive gambling that private casino advertising could produce."

Lastly, the Supreme Court noted that the Government had failed to connect casino gambling and compulsive gambling with broadcast advertising for casinos.

Each of these arguments is relevant to the Commission:

- (a) restricting advertising of gaming machines arguably would not effectively advance any attempt to minimise the social costs of gambling because state and federal governments are simultaneously facilitating gambling generally – it is more likely to simply channel gambling away from gaming machines to other forms of gambling;
- (b) the connection (if any) between advertising and 'problem gambling' has not been researched and is not understood. What is clear is that any such restriction would impact significantly on recreational gamblers who are not 'problem gamblers' and on venues.

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(xii) Linked Jackpots and Accelerators

AGMMA notes that the Commission has sought views on whether linked jackpots machines and accelerators should be banned.

AGMMA believes that there are insufficient grounds for a ban on linked jackpot machines and accelerators and suggests that any such ban would be counterproductive for the following reasons:

- Linked jackpots and accelerators have the potential to provide enhanced entertainment to the vast majority of recreational gamblers and is likely to comprise a substantial part of the future growth of the industry; there is absolutely no justification for constraining such growth which will lead to increased employment opportunities, increased revenue for venues, machine manufacturers and operators (and is likely to provide government with significant additional tax revenues);
- Linked jackpots and accelerators represent the technical "cutting edge" of gaming technology and to ban them in Australia would place the Australian gaming industry technically "behind" overseas jurisdictions;
- Such a ban would represent a gross interference with commercial matters: ie. TAB attracted many shareholders with its monopoly on linked progressive jackpots (yet to be implemented).

(xiii) Enforced Breaks

AGMMA believes that the concept of "enforced breaks" is fundamentally flawed as it is not possible to prevent consumers from switching machines and "an enforced break in play" is likely to be disruptive and annoying to recreational gamblers than to assist problem gamblers.

AGMMA reiterates that the vast majority of recreational gamblers are not problem gamblers and suggests that it is unfair and unreasonable to impose enforced breaks on the vast majority of recreational gamblers when no goals whatsoever are achieved by doing so.

3. Problem Gambling

(i) Introduction

The key points that need to be recognised by the Commission are:

- There is very little knowledge and even less agreement about the cause, nature, and extent of "problem gambling";
- The "experts" in the field disagree over these issues;
- The vast majority of gamblers are not problem gamblers and accordingly the "problem" needs to be put into proportion.

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AGMMA takes exception to the Commission's view that "problem gambling" – in all its dimensions – is a public or community health issue similar to that of alcohol.

AGMMA suggests that insufficient research has been carried out to establish this. It is suggested that the category of 'problem gambler' is an attractive characterisation for individuals seeking to blame their particular circumstances on a specific causal connection.

Some evidence suggests that 'problem gamblers' tend to suffer from other 'problems' and it is suggested that is far too early (and too convenient) to attribute the sole causal influence of all such individuals' problems to gambling.

AGMMA also suggests that the concept that gambling is addictive has not been properly researched. It is suggested that it is very easy for any individual to claim "I am a gambling addict" because the available research work is insufficient and there are no accepted tests to validate such claims.

AGMMA supports the Commission's finding that there is a need for governments to provide clear information to the public about problem gambling.

However, AGMMA disputes the Commission's finding of "*the fact*" that all gamblers are potentially vulnerable to become problem gamblers.

AGMMA takes the view that the Commission does not have sufficient grounds to make such a finding and the fact that vast majority of gamblers in Australia are not "problem gamblers" tends to suggest that such a "fact" must be wrong.

(ii) Definition of "Problem Gambling"

The Commission sets out a list of definitions of "problem gambling" (Box 6.2) but fails to analyse these definitions or to select a preferred definition.

The Commission fails to mention the definition cited and approved as an "authoritative source" by the US National Gambling Impact Study Commission (page 17). That definition, conceived by the American Psychiatric Association (APA), is as follows:

Pathological Gambling may be described as: "persistent and recurrent maladaptive gambling behaviour that disrupts personal, family, or vocational pursuits. The gambling pattern may be regular or episodic, and the cause of the disorder is typically chronic."

AGMMA acknowledges that certain gamblers do not know when to stop.

However, the precise size of this group and its composition is an unknown element.

The Productivity Commission has erred in failing to stress the lack of understanding of the problem and the inadequate research material available.

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AGMMA suggests that the Commission should recognise – explicitly – that people claiming to be “problem gamblers” also suffer from other problems and it is difficult to attribute all of these problems to gambling which may in fact be a symptom rather than a cause.

Again, there is very little research available and it is simply inappropriate to make sweeping statements about these issues.

AGMMA wishes to draw the attention of the Productivity Commission to an article entitled “Problem Gambling: You Can Bet Your Health On It” which appeared in Australian Medicine in June 1999.

This article suggested that a significantly lower percentage of the population are said to have a severe gambling problems (0.5%) than the proportion identified by the Productivity Commission.

It would appear that there are serious flaws in the methodology followed by a number of problem gambling studies.

A study conducted in the United States by the Harvard Medical School Division on Addictions (a study based on comparison of 18 studies published between 1977 and 1993 and 17 studies published between 1994 and 1997) is relevant in this regard.

The researchers found that approximately 1.29% of the adult general population could be classified as having pathological problems incident to gambling. That study also indicated that the methodological quality of gambling studies has not improved during the last 20 years.

The Harvard Medical School Division on Addictions acknowledged that many of the studies had serious methodological flaws. The authors made specific recommendations for improving future gambling prevalent studies.

It is suggested that such flaws should be fully examined and discussed by the Commission.

4. Accessibility

(i) Key Finding

AGMMA endorses the key finding of the Productivity Commission that caps on gaming machines are not the preferred way forward.

AGMMA notes the comments made by the Chairman at Productivity Commission proceedings in Melbourne on 25 August 1999 as follows:

“What the survey data is showing is there’s not a huge difference in the incidence of problem gambling between New South Wales and Victoria. When you look behind that you’ll see the intensity of machine use in Victoria is much greater,

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generating comparable revenue from a third of the machines or something that exists in New South Wales."

AGMMA notes that this view on "caps" is also supported by the Independent Pricing and Regulatory Tribunal Report (IPART):

"The availability of a statewide "cap" (limit) on the total number of gaming machines to control growth in problem gambling is doubtful. Victoria has 29% of the gaming machines operated in New South Wales, yet generates a turnover of 61% of New South Wales turnover."

It should also be noted that the effect of a cap would disadvantage the "have nots" at the expense of the "haves" as well as being counter productive as the Honourable Richard Face stated in NSW Parliament on 22 September 1999:

"There is a real prospect that a global cap on clubs across New South Wales will increase the value of existing machines and severely disadvantage smaller clubs, particularly in country areas, and medium-size venues. At the same time, imposing a cap on the number of machines held by individual clubs will do little to reduce the overall pool of machines available for operation by clubs as a whole. It may result in an increase in the overall number of poker machines as clubs move more quickly to operating the maximum number."

(ii) Greater Access Leads to Greater Consumption – Why is This Perceived Negatively?

Australian style video gaming machines are the most exciting and popular "state-of-the-art" gaming machines in the world as is evident from the recent World Gaming Congress and Expo in Las Vegas where "Australian style" video games were launched for the first time by several major American companies.

The Productivity Commission has failed to recognise that Australia leads the world in video game technology and that Australia's gaming machine manufacturing industry should be encouraged and supported by the government due to the obvious impact on employment and export income.

AGMMA suggests that it is fundamentally wrong for the Productivity Commission to approach its task on the basis that more consumption is necessarily bad.

People play gaming machines because they enjoy gaming machines in much the same way as they enjoy going to the cinema and other recreational activities. As opposed to the cinema, gambling offers a recreational activity which involves most of the profits made being returned to Australian enterprises and Australian employees.

AGMMA regards it as extraordinary for the Productivity Commission not to have explored the "multiplier effect" in relation to gambling in greater detail.

The number of employees of casinos, clubs, hotels and the various service industries that supply casinos, clubs and hotels as well as the employees of

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gambling machine manufacturers and of suppliers to gambling machine manufacturers all receive disposable income directly as a result of the gambling industry.

It does not take too much imagination to work out that if one put the question to those employees "is more consumption of gambling products a good thing?" the response is likely to be an unequivocal affirmative.

5. The Internet

The Commission's "key findings" include one to the following effect:

"Internet gambling offers the potential for significant consumer benefits, as well as new risks for problem gambling. Managed liberalisation with regulation of licensed sites for probity, consumer protection and taxation – could meet most concerns, but its effectiveness would require the assistance of the Commonwealth".

AGMMA notes that this "key finding" is not reflected by the text of Paragraph 17 of the draft report (entitled "Policy for New Technologies").

AGMMA's view in relation to the "key finding" is that it has simply not been substantiated by the draft report.

What precisely is the "potential for significant consumer benefits" and where is this set out in the draft report? Paragraph 17.3 poses the question "what are the potential benefits of internet and interactive gambling?" but does not answer the question and is limited to a very superficial two page discussion which includes the comment:

"Other commentators are more unsure about the commercial potential of internet gambling because of current uncertainties in internet gambling legislation in the United States and elsewhere and with the technology itself."

Paragraph 17.4 of the draft report purports to deal with the costs of internet gambling (15 pages of the report). The perceived costs include:

- Problem gambling issues arising from increased accessibility;
- Access by minors;
- Community impacts;
- Integrity concerns about online gambling providers (security and privacy);
- Taxation concerns.

In AGMMA's view, the "key finding" is simply not supported by the text of Chapter 17. It is suggested that the "key finding" should be reconsidered to accurately reflect the conclusions of the chapter and the following point.

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AGMMA believes that the Productivity Commission has missed the central point about internet gambling.

This point was succinctly put by the AHA in its submission to the Commission:

"Online gambling has the long-run capability of destroying the local gambling industry if the wrong or no legislative approach is taken by the Federal Government. The Federal Government's responsibility is border control. If imported alcohol or tobacco products were allowed to enter free of a very high duty that is equivalent to the excise on those products, it would be obvious what the consumer response would be. Domestic gambling is an activity that is heavily taxed. If it has to compete with an untaxed substitute, then Australia will eventually lose the market."

6. Economic Analysis

(i) AGMMA notes the Commission's "key finding" that:

"Quantification of the costs and benefits of the gambling industry is hazardous. The Commission's rough estimates of the quantifiable benefits and costs yield at a range of net benefits from as low as \$150 million to as high as \$5.5 billion annually."

AGMMA's view is that such a "key finding" is virtually useless and is indicative of the poor economic analysis conducted by the Productivity Commission.

The simplistic approach taken by the Commission is reflected in the comment made in the summary of the report that *"production side gains are limited"* because *"(t)he resources available to Australia's economy – its people, capital and land – are not stamped for use only by the gambling industries"*.

The Commission makes the remarkable statement that:

"If these industries did not exist, most of the resources would be employed in other uses, creating similar levels of income and jobs to gambling itself. For example, the skills required of personnel in gambling venues are very similar to those required in most entertainment and hospitality industries."

No evidence or analysis is cited to support this extraordinary statement.

It is well known that resources do not simply reallocate themselves in the hypothetical academic manner envisaged by the Commission.

Firstly, many resources associated with the gambling industry are tied up in capital projects which cannot be exploited by other business entities as successfully as those resources can be exploited in the gaming industry.

Secondly, many skills are simply not transferable: a trained gaming machine mechanic or croupier is unlikely to find as rewarding a job in a different industry as

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the experience and skills developed by those individuals cannot properly be utilised in other occupations.

Thirdly, the statement assumes full employment of all resources (an incorrect assumption).

Fourthly, this "analysis" overlooks the point that the gambling industry and the service industries it supports create a specific "multiplier" effect which benefits the rest of the economy.

When those resources are displaced, that specific multiplier effect is also displaced. Whether it is replaced with a different multiplier effect, and if so, how that multiplier compares depends on the speed and effectiveness of re-allocation of resources.

AGMMA disagrees with the Commission's simplistic view that *"the 'magic' of multipliers usually turns out to be a myth when account is taken of alternative uses for the consumption and production resources involved"* (5.17).

The impact of the expenditure of the extraordinary amount of money produced by the gambling industry cannot be accurately or responsibly assessed on the basis of such a trite analysis.

(ii) Assessing the Benefits

AGMMA endorses the Productivity Commission's view that the benefits of gambling industries: *"come primarily from the satisfaction that consumers obtain from the ability to access... a desired form of entertainment"* (Box 5.1).

AGMMA questions the insertion of the words "what for many is" in this sentence as it seems axiomatic that a consumer would not seek to consume something if that consumer did not "desire" to consume it.

If the suggestion is that consumers are under some form of "compulsion" which replaces or overcomes a "desire" to consume, AGMMA takes issue with these words.

AGMMA also endorses the Commission's view that gambling is:

"best characterised as a form of entertainment, albeit one where a major element of that entertainment is the chance of winning some money".

Although, once again, AGMMA objects to the use of the word "albeit" which appears to have been inserted to attribute a negative characteristic to an otherwise objective definition.

AGMMA suggests that it would be more appropriate to replace the word "albeit" with the word "namely".

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(iii) How Satisfied are Gambling Consumers?

AGMMA takes exception to the prescriptive comments (5.4) made by the Commission in relation to the types of activities that people should enjoy.

What right does the Productivity Commission have to make social judgements of this nature?

The Commission cites two examples to support its view that gambling should be distinguished from other forms of entertainment because:

"... when the gambling is over the chance disappears and there may be little to look back on as a pleasant or enjoyable way of passing the time in exchange for the inevitable cost involved".

A cost is associated with most forms of entertainment. When the entertainment is "over", it is "over" whether the entertainment involves going to a restaurant or playing a gaming machine.

The distinction made by the Productivity Commission is totally unsupported as well as evidencing lack of objectivity and bias against gambling as a recreational activity.

AGMMA believes that it should be obvious to the Productivity Commission that consumers gamble because they enjoy it. No-one is forced to gamble. It is an entertaining experience. There is no question that the prospect of winning money is an important element and indeed that element distinguishes gambling from all other forms of entertainment.

However, to assert that consumers do not remember gambling experiences as fondly as other entertainment experiences because 'the chance' has disappeared is patent nonsense. What is one left with after going to a football game (particularly if 'your' team loses) or a movie that didn't turn out to be as good as you had hoped?

(iv) Measuring Consumer Benefits of Gambling Industry

AGMMA is of the view that the consumer benefit derived from the gambling industry is best demonstrated by the net takings from gambling as this figure indicates the price that consumers are prepared to pay beyond the actual cost of provision of the services.

According to the Australian Bureau of Statistics, the total income (net takings) of the gambling industry amounted to \$11.091 billion in 1997-98, an increase of 42% on the same figure for 1994-95.

AGMMA has great difficulty in reconciling this figure with the \$5.4-6.3 billion range advocated by the Productivity Commission as the net consumer surplus (including taxation revenue) produced by the gambling industry.

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AGMMA endorses the view expressed by the AHA that the concept of a *"consumer surplus is of no practical use because it is little more than a non-measurable, hypothetical notion: a useless, academic parlour game"*.

AGMMA also endorses the following AHA comments:

"The concept is useless for two main reasons: first, because the variables required for its quantification remain themselves quite unquantified or imprecise and,

second, because, although the Commission neglected to do so, the measure is required, despite Mishan's contrary view to be netted off consumer surplus foregone in other consumer expenditure forms displaced by gambling expenditure."

(v) Confusing Definitions

AGMMA endorses the view expressed by Star City that the Commission *"is likely to mislead the general public and even the educated by fairly indiscriminate use of the words "benefits", "net benefits" and "consumer surplus".*

AGMMA agrees that a *"reader might easily infer from the wording used, that the Commission had concluded that this industry had no value and that its employees were engaged in worthless activities"*.

Star City makes the point that its 4,000 employees would feel justifiable aggrieved at such an implication.

The employees of Australia's gaming machines manufacturers would undoubtedly have similar feelings.

(vi) What Other Benefits are there for the Australian Economy?

The Productivity Commission draft report deals with this issue in less than a page.

The "analysis" is facile to say the least.

It seems to be based on the view, expressed elsewhere in the report (4.14) that *"if the gambling industry were not there, most of the resources would generally be employed elsewhere"*.

AGMMA endorses the comment by the AHA that:

"On this reasoning, no industry would have any value to the economy".

This clearly cannot be right.

AGMMA has prepared a brochure, a copy of which is attached, which seeks to detail the benefits of gaming machines to the economy and to the community.

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AGMMA is of the view that the issues raised in its brochure should be analysed and dealt with by the Productivity Commission in Part 5.5 of the report. It is suggested that the Productivity Commission has overlooked, in particular:

- the extent of community infrastructure and facilities that have been built directly as a result of gaming machine revenue; in this respect, the sporting and other non-gaming facilities provided by clubs, particularly in NSW, merit attention.
- community benefits flowing from gaming machine revenue: the most obvious of these is "free to air" television of world class rugby league, which simply
- would not exist in its current form in the absence of gaming machine revenue. How many members of the Productivity Commission have watched rugby league on television? How could this benefit have been overlooked?
- employment by gaming machine manufacturers, venues and service providers resulting from gaming machine manufacture, service and operation. A significant number of people are employed directly as a result of gaming machine revenue: in AGMMA's view, the extent of this benefit requires careful analysis and consideration.
- a jointly commissioned government and industry report on the club industry found that, in 1997, the club industry spent in excess of \$155 million on charities and community projects and estimated that the corresponding expenditure for 1998 would be in excess of \$200 million. The Productivity Commission has not given any consideration to this issue.
- export revenues and the associated importing of jobs: how could such a fundamental issue be overlooked.

7. Existing Regulatory Regime

The Productivity Commission's assessment of the current regulatory environment is, in AGMMA's view, deficient in terms of the regulation of gaming machines.

The Productivity Commission concluded, as one of its "key findings" that *"the current regulatory environment is deficient in many respects. Regulations are complex, fragmented and often inconsistent. This has arisen because of inadequate policy-making processes and strong incentives from governments to derive revenue from the gambling industries"*.

This view is simply incorrect as far as gaming machines are concerned.

Whilst standards differ between states, the standards are very similar and manufacturers of machines understand that different jurisdictions have different requirements.

These requirements are policed very strictly by both the manufacturers themselves and by regulators. It is suggested that the requirements clearly 'work' because of the minimal numbers of incidents or complaints arising.

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It has been recognised for some time that it would be preferable for there to be National Standards in relation to gaming machines.

In this regard, a National Standards Working Party was established by Australian and New Zealand regulators on 21 March 1994 and has been working on National Standards since that time.

The purpose of the Working Party is to develop technical requirement documents to be used by each jurisdiction as the basis of working towards a common technical requirement for the evaluation of gaming machines.

AGMMA wishes to draw the attention of the Productivity Commission to the high standards applied by gaming regulators throughout Australia.

These standards and the high quality of regulation are recognised by overseas jurisdictions and AGMMA regards it as quite inappropriate and unjustifiable for the Productivity Commission not to have noted the positive aspects of the existing regulatory regime and the existing efforts being made to establish National Standards for EGMs.

8. CONCLUSION

AGMMA has found a myriad of faults and defects in the draft report and requests the Productivity Commission to address these in the next version of the report.

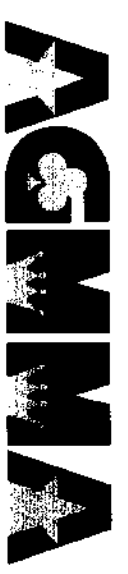
AGMMA also requests the Productivity Commission to acknowledge that its "findings" are likely to have a significant impact on the gambling industry and should therefore be objective, analytical and fully substantiated.

AGMMA is more than happy to assist the Commission in this regard.

EXHIBIT 2

a summary of *World Gaming Machine Numbers*

A Presentation Prepared For:



TAYLOR NELSON SOFRES

- CLIENT CONTACT: J CARR-GREGG ● TNS CONSULTANTS: G LEMBIT, C KITNEY ● J5652 : SEPTEMBER 1999

Study Background

- As a participant in the Australian gambling industry, AGMMA wish to contribute to the current Productivity Commission investigation of Australia's gambling industries
- To give context to the investigation, AGMMA identified the need to provide reliable, independent estimates of the installed base of gaming machines on a worldwide basis
- This presentation includes results from TNS' investigation of the worldwide installed base of gaming machines

Study Objectives

Primarily

- To provide a reliable point-in-time estimate of the worldwide installed base of gaming machines

Associated Objectives

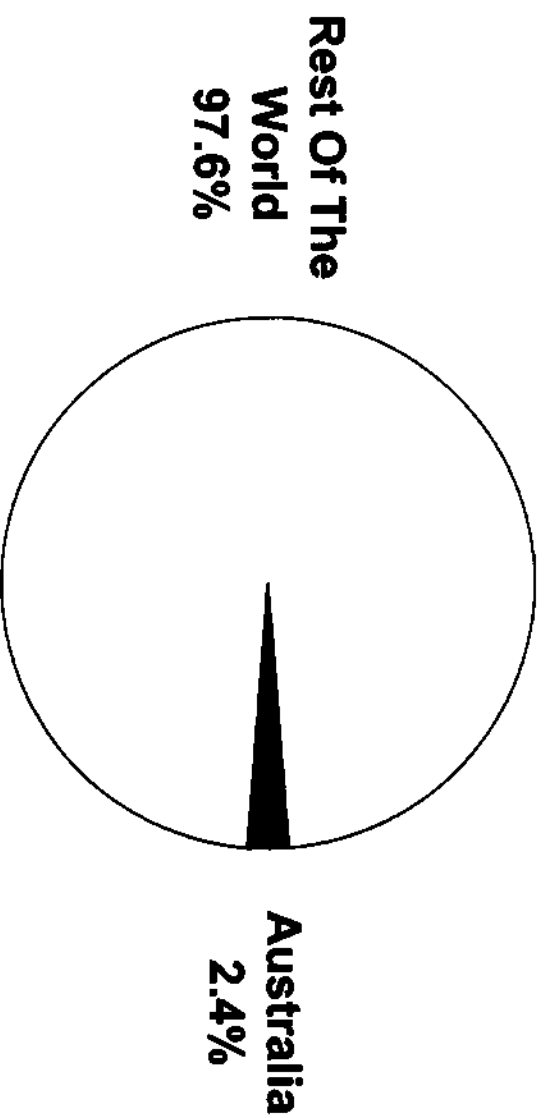
- To attempt to establish counts for all machines whether in regulated or unregulated markets
- To seek the most authoritative information source in each country and region

NB: Full details of definitions used and study methods can be found in "A Count Of The Installed Base Of Gaming Machines Around The World" - research report, TNS August 1999

Study Method

- Where available, government regulatory bodies in each country were used as our source
- If no specific regulatory body existed, other government sources were sought, once again, if available
- Independent sources with written data were used where no government data was available
- Only counts supplied by verifiable sources have been used in the production of charts in this presentation
- In sourcing information, TNS Australia used the following definition of a gaming machine
“any machine that is used for gaming purposes (whether mechanical or electronic and offers the user a potential return on a single ‘game’ that is greater than the amount risked on that game”

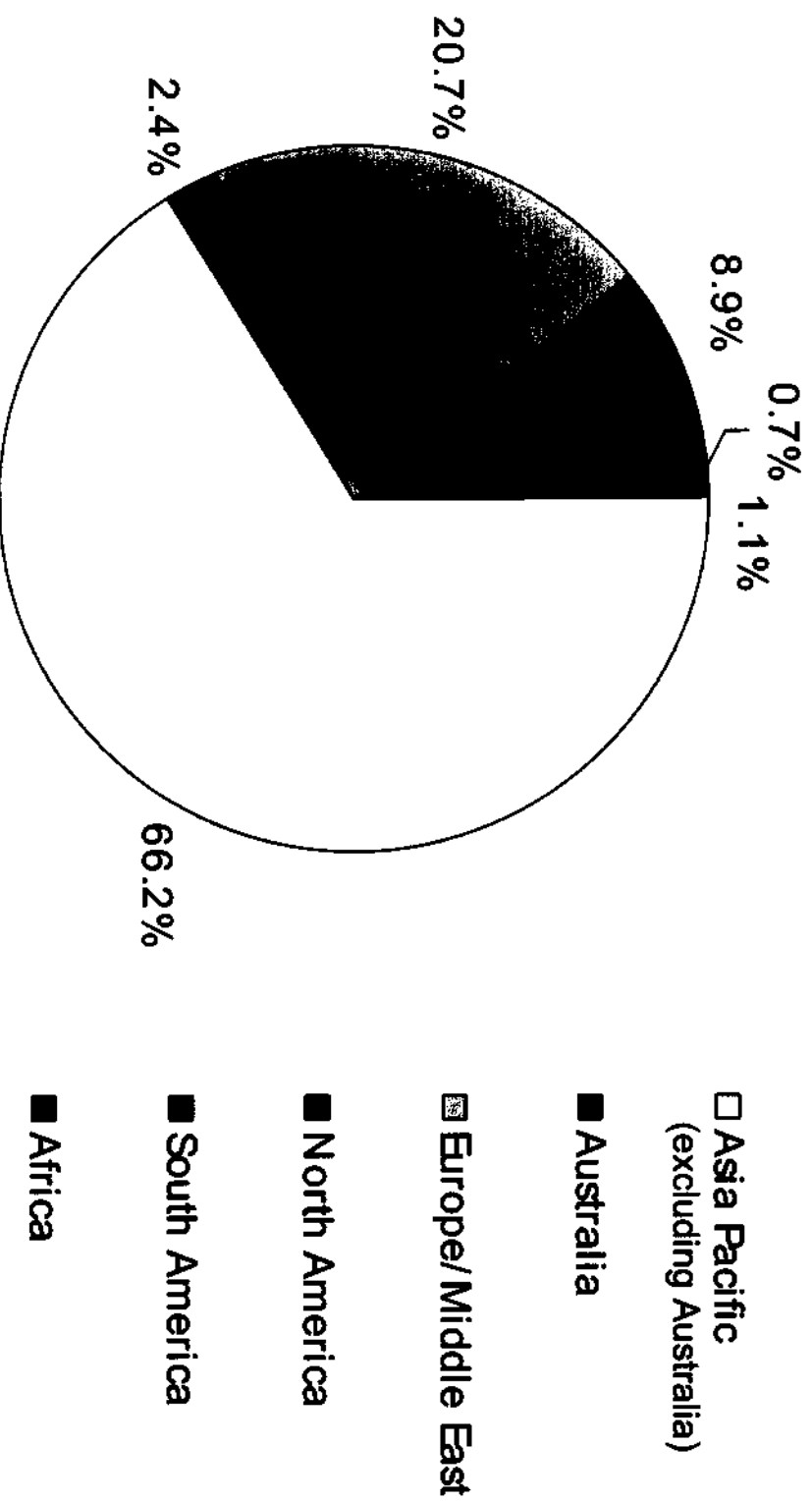
The Proportion Of The World's Gaming Machines Located In Australia



The estimate of world
installed base of
gaming machines is...

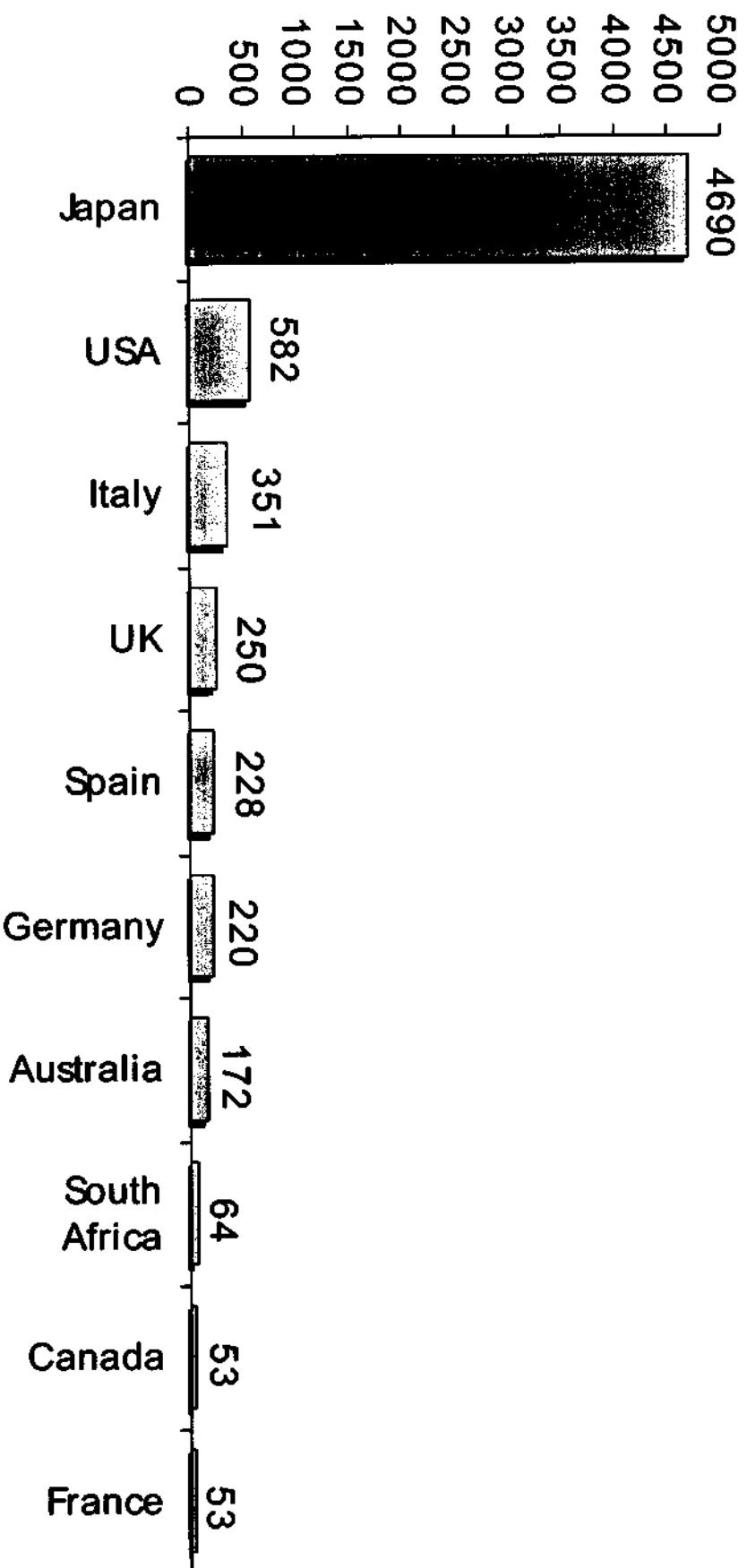
7,132,162

The World Gaming Machine Pie



Number Of Gaming Machines By Country - The Top Ten

In Thousands Of Machines...

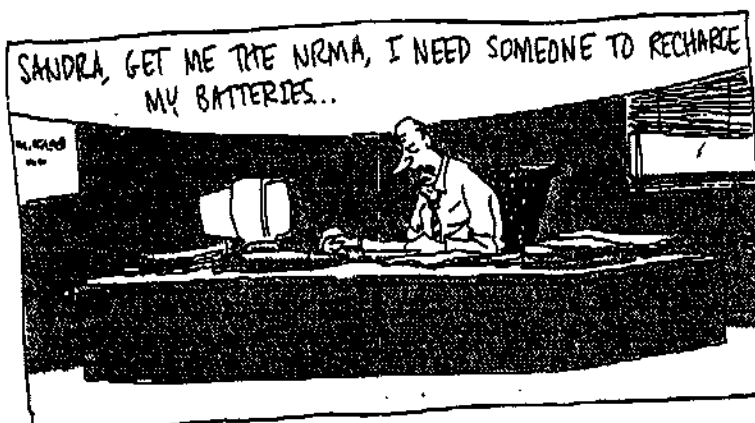


Annexure 2

▲▲
MEDIA MONITORS

THE AUSTRALIAN FINANCIAL REVIEW
Mon 13 Sept 1999

Page 18



Inquiry into pokies goes on

Melanie Beeby's article "Gone, 18.6 per cent of our pokies" (AFR, September 9) reports the claim by the Australian Gaming Machine Manufacturers' Association that the Productivity Commission was in error in estimating that Australia has 21 per cent of the world's electronic gaming machines.

This estimate was not the commission's. It was taken from a reliable industry source, the annual report to shareholders of Australia's major gaming machine manufacturers.

It would appear that, in response to the commission's report, the industry is now redefining its market to include products which are quite different from Australia's sophisti-

cated pokies, including mechanical reel devices and Japan's pinball-style Pachinko machines.

The commission is seeking more information on the nature and extent of these other devices. But such information is largely irrelevant to the commission's findings on the costs and benefits of gambling in Australia and the deficiencies in our regulations.

Of greater significance are the design features and high potential loss rates of our machines, and their impact on problem gambling.

Gary Banks,
Chairman,
Productivity Commission.

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Annexure 3

10 September 1999

Mr G Banks
Chairman
Productivity Commission
Level 28, 35 Collins Street
MELBOURNE VIC 3000

Dear Mr Banks

DRAFT REPORT ON AUSTRALIA'S GAMBLING INDUSTRIES

Thank you for your letter of 27 August 1999.

AGMMA agrees that it is important to ensure that the final Productivity Commission Report is as accurate and informative as can be achieved, particularly in view of the negative media coverage that the draft report has generated in relation to gaming machines.

In relation to your statement that the Productivity Commission used data from Aristocrat's Annual Report on the proportion of the world's gaming machines operated in Australia:

- Aristocrat's annual report clearly dealt with the markets available to it and 'casino style' gaming machines in particular;
- it was irresponsible in the extreme for the Productivity Commission to state – even in a draft report – that Australia had 21% of the world's electronic gaming machines and even more irresponsible to state that Aristocrat's annual report was relied on in this respect as it has clearly been misinterpreted and the data was not verified in the context in which it was presented;
- the number of electronic gaming machines in Japan is well known – it is difficult to believe that the Productivity Commission could have overlooked this;
- it has been suggested that the Productivity Commission deliberately misinterpreted Aristocrat's data to 'sensationalise' its report; indeed it is difficult to accept that a properly funded federal government investigation could overlook the number of electronic gaming machines in Japan;
- AGMMA regards this as serious misconduct and a misapplication of Federal Government resources;
- AGMMA is also concerned that notwithstanding that the Productivity Commission has been formally advised of the error, it has not taken any steps to correct it;
- this has led to extensive negative publicity and, despite AGMMA's attempts to correct the factual position, the media continues to report that Australia has 21% of the world's gaming machines; this 21% statistic has been seized upon by reputable overseas financial media (for example the Economist) because of its Federal Government imprimatur and used to portray Australia, on an international basis, in a very negative and completely incorrect light;

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- 2 -

- AGMMA believes that it is the responsibility of the Productivity Commission to promptly and diligently correct this misunderstanding (through press releases etc).

AGMMA's understanding of the correct position regarding the ten countries with the most electronic gaming machines in the world is set out below:

COUNTRY	Number of Machines
Japan	4690708
USA	582605
Italy	351400
United Kingdom	250000
Spain	228877
Germany	220593
Australia	172764
South Africa	64974
Canada	53877
France	53250

AGMMA does not claim that these figures are 100% accurate. It has however dedicated extensive resources to establishing that this is the best data available. A copy of the summary of the TNS report commissioned by AGMMA is attached.

It is unfortunate that it has been obliged to do so due to the release of incorrect data to the media by a Federal Government body.

In relation your comments/queries made in relation to the differing characteristics of gaming machines (and the significance of these differences), I make the following comments:

- (a) it is very difficult to make meaningful, let alone measurable, comments about the different types of gaming machines in different jurisdictions due to:
- the different regulations applicable in different jurisdictions;
 - the different characteristics of gaming machines in different jurisdictions;
 - the different range of gaming machines available in different jurisdictions and how this affects perceptions of them;
 - the size of unregulated markets;
 - the different cultural contexts applicable in different jurisdictions;
 - the differing standards of living in different jurisdictions;
 - the differing extent of control over the return to player in different jurisdictions and the differing extent to which that control is exercised.
- (b) Your comment that a 'hierarchy of risks' can be identified suggests that you believe that some machines can be identified as 'more risky' than others.

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THE AUSTRALIAN GAMING MACHINE MANUFACTURERS ASSOCIATION

A.C.N. 060 130 770

- 3 -

- (c) In particular, you seem to be suggesting that an Australian multi-line casino style video machine may be a 'riskier' proposition than say, a Pachislo machine in Japan.
- (d) AGMMA disagrees with this view as it appears to suggest that the ability of a player to spend money more quickly (by selecting a multi-line combination) makes the machine inherently 'riskier' than a machine which a player must play for a longer period to spend the same amount of money.

This view, with respect, is logically unsound because:

- the 'return to player' is far more important than the number of combinations that may be chosen in terms of 'risk' assessment: the 'return to player' in both unregulated jurisdictions and certain regulated jurisdictions overseas is considerably lower than it is in Australia; the critical point is that in Australia, the return to player is fixed by regulation and is monitored and enforced by regulatory authorities;
- it is entirely up to a player to choose a multi-line combination or to play a machine for a longer period;
- it is not sensible to compare multi-line casino style machines to, say, Pachislo machines in Japan because the machines are unique to their respective jurisdictions.

I enclose a copy of our new AGMMA Brochure "Gaming Machines – Do You Know The Whole Story?" which raises a number of issues which AGMMA believes to be relevant to the Report.

AGMMA believes that the draft Productivity Commission report does not focus sufficiently on:

- the contribution of gaming machine revenue to the economy and to employment;
- the "multiplier" effect in the context of gaming machine revenue;
- the application of gaming machine revenue by clubs, casinos and hotels to improving community infrastructure, entertainment (ie. rugby league) and community services (ie. contributions to charity, responsible gaming programs etc.);
- the reliability and applicability of ABS statistics cited given the assumptions underlying such statistics (which are not cited independently).

AGMMA is happy for these comments to be placed on the public record.

AGMMA will respond more fully in due course to the draft report.

Yours sincerely

Brian Frost
CHAIRMAN

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Annexure 4


 MEDIA MONITORS

 THE AUSTRALIAN FINANCIAL REVIEW
 Thur 9 Sept 1999

Page 6



Australia has only 2.4pc of world's machines, say manufacturers.

Photo: ERIN JONASSON

Gone, 18.6pc of our pokies

Melanie Beeby

The Australian Gaming Machine Manufacturers' Association yesterday hit out at the Productivity Commission's draft finding that Australia had 21 per cent of the world's electronic gaming machines, claiming it had only 2.4 per cent.

AGMMA commissioned a report by research group Taylor Nelson Sofres which estimated the total worldwide installed base of gaming machines was 7.1 million. It noted the actual total would be larger, given the existence of unregistered and illegal machines.

The report, released yesterday, found Australia had a total of 172,764 machines, or 2.4 per cent of the world's installed base, and ranked seventh in terms of the total number of any type of gaming machine behind Japan, US, Italy, UK, Spain and Germany.

Japan had most in the Asia-Pacific, with 4.7 million.

The Productivity Commission's draft report, released in July, estimated Australia had 21 per cent of the world's electronic gaming machines, sparking widespread concern about the prevalence of pokies in the country.

The Prime Minister, Mr John Howard, said at the time he was astonished that Australia, with less than 1 per cent of the world's population, had 21 per cent of its poker machines.

AGMMA chairman Mr Brian Frost yesterday said the Taylor Nelson Sofres report highlighted the flaws in the commission's research and called for an immediate correction.

"AGMMA is very disappointed that the Productivity Commission did not verify this information with key industry groups before releasing this information, which has caused hysteria in the community and among Federal and State politicians," Mr Frost said.

AGMMA

THE AUSTRALIAN GAMING MACHINE MANUFACTURERS ASSOCIATION

A.C.N. 060 130 770

26 October 1999

Mr Ross Wilson
Gambling Inquiry
PO Box 80
BELCONNEN ACT 2616

Dear Ross

AGMMA SUBMISSION

Further to our telephone conversation on Tuesday 26 October 1999, I confirm that a copy of the attached brochure should have been attached to the AGMMA submission and would be grateful if you could arrange for copies to be supplied to all recipients of our submission.

Yours sincerely



JOHN CARR-GREGG
Commercial Manager

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Company Secretary: c/- 71 Longueville Rd
LANE COVE NSW 2066
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**Gaming Machines -
Do you know the whole story?**



Australian Gaming Machine Manufacturers Association

How can you help AGMMA?

Flexible Regulation

It is critical to the health of the industry that the regulatory system in each state is sophisticated and versatile enough to cope with evaluation of the increasingly sophisticated technology generated by Australia's world class manufacturers and software/system developers. Appropriate resources must be dedicated to ensuring that high standards are maintained and that evaluation processes are efficient. Manufacturers place their licenses at risk if standards are not maintained so few are willing to risk this.

The Gaming Industry's Contribution to the Economy

It is also important to see through the media 'smoke and mirrors' to the real contribution of the gaming machine manufacturers to entertainment, employment, Australia's tax base and the economy and to **tell other people about it.**

If you can help AGMMA achieve these two goals, this brochure will have achieved its purpose.

For further information

(or additional copies of this brochure) please write to:

The Executive Officer/The Company Secretary
AGMMA
71 Longueville Road
Lane Cove NSW 2011

Taxes

The Productivity Commission estimated that gambling taxation revenue has nearly doubled over the last ten years and accounted for just under **12 percent** of state and territory governments' own-tax revenue in 1997-1998.

According to the ABS, of the \$11.091 billion in net takings generated in 1997-1998, **34% or \$3.717 billion**, was paid in gambling taxes and levies. These levies and taxes have permitted state governments to invest in schools, roads and public infrastructure which would simply not have been built if this money was not available.

According to the ABS, gaming machines located in clubs, pubs, taverns and bars were the source of \$1.725 billion in gambling taxes (ie in excess of 46%). However, this figure does not include gaming machines in casinos (which, according to the ABS, produced \$700 million in net takings in 1997-1998). Assuming that one third of casinos' gambling tax contribution was contributed by gaming machine revenue, a further \$142 million should be added to this figure. This analysis reveals that 50% of gambling taxes, some **\$1.867 billion**, is contributed directly from gaming machine revenue.

This figure does not take into account the state and federal taxes generated by associated activities.

For example, the ABS study does not recognise that NSW clubs, although non-profit making organisations, pay in excess of \$750 million in state and federal taxes nor does it take into account that Hotels pay in excess of \$900 million in state and federal taxes nor does it take into account the taxes generated by the 'multiplier effect' referred to above.

The revenue received by government from gambling has permitted government to fund a myriad of "problem gambling services". However, the fact is that those services simply do not know how to effectively spend the funds to deal with the issue.

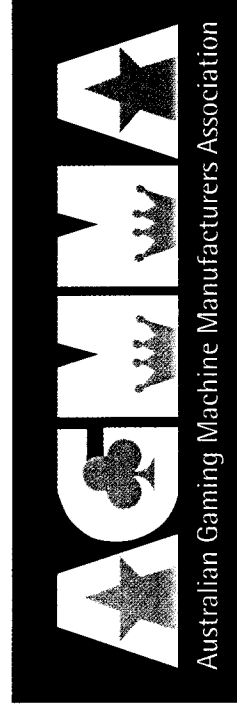
AGMMA

The Australian Gaming Machine Manufacturers Association was formed to promote Australian made gaming machines and to represent Australian manufacturers to regulatory authorities and other industry groups that make up the gambling industry.

AGMMA seeks to work with authorities to ensure the highest of standards in the Australian gaming machine industry for it recognises that these standards are critical for its continued growth and, in particular, continued export growth.

But that growth will not only impact on manufacturers.

As more sophisticated and entertaining games and systems entertain more (increasingly demanding) punters, the gaming machine industry will continue to drive the growth of the gambling industry in Australia and, in turn, provide employment opportunities, contribute towards the Australia's economic growth and the revenue base of state governments.



The Media

Gaming machines have been blamed for just about everything and credited with nothing. It is a sad indictment of our media that the contributions of gaming machine revenue to the community outlined above have been overlooked in one after another media report.

Why have gaming machines consistently attracted bad press? The answer is simple: 'bad news sells'. Conflict, desperation, and devastation all make a good yarn by tabloid media standards. Political careers have been built on this manipulation of public opinion and on the lack of factual reporting.

There has also been virtually no recognition of contributions of gaming machine revenue to the economy or the technical and creative achievements of the industry in designing increasingly more entertaining and sophisticated machines, games and systems.

The better odds of gaming machines, the high standard of regulation, the economic contributions of revenue and tax imposts have all been overlooked in favour of the 'sin' of gambling and grossly exaggerated 'social consequences' of gaming machines.

The next time you hear a politician or a journalist make a negative statement about gaming machines, please give some thought to the contributions outlined above and ask yourself whether the comments are balanced.

It is recognised that a small group of gamblers don't know when to stop.

But this needs to be weighed against:

- ◆ the extraordinary contribution to the economy made by the gambling industry;
- ◆ the fact that the vast majority of gamblers (probably in excess of 95%) enjoy gambling and do not suffer from any 'problems' or 'social consequences';
- ◆ the fact that no one is forced to gamble - it is entirely voluntary; gaming machines are designed to be entertaining and attractive but suggestions that they are 'hypnotic' are simply nonsense;
- ◆ it is a *small group*: the Productivity Commission estimated that only 2.3% of Australia's adult population experience significant problems with gambling

while 80% of Australians gamble; and

- ◆ the extensive work funded by the gambling industry in addressing the problems associated with the small number of gamblers involved.

In relation to that work, it should be noted that:

- ◆ casinos have initiated a myriad of 'responsible gaming programs' and contribute actively to the community: Star City, for example, has contributed \$26.4 million to the Casino Community Benefit Fund since the Fund was established in 1995;
 - ◆ the AHA (NSW) conceived and introduced a "Hotel's Gaming Code of Practice", a "Players Guide", and a 'self-barring or exclusion program' for problem gamblers;
 - ◆ registered clubs contribute to community development and support in accordance with S.87 of the *Registered Clubs Act*, fund a responsible gambling program and recently initiated a change to the *Registered Clubs Act* requiring Clubs to develop and publish a "Problem Gambling Policy" (S.87AA);
 - ◆ manufacturers fund research work into problem gambling and contribute to a broad range of charities which provide assistance to those affected; and
 - ◆ the industry generally supports legislative initiatives such as those in the *Gambling Legislation Amendment (Responsible Gaming) Bill, NSW* which deal with promotion of counselling services, self-exclusion regimes and other similar activities.
- These initiatives and the very significant amount of funds contributed from gaming machine revenue by way of taxes - and available to address problem gambling (see below) - should not be overlooked: **the question must accordingly be asked as to whether a very small minority should be permitted to influence the enjoyment of the great majority and the continuing contribution of the gambling industry to the economy and the community.**

We think not. But dry economic facts do not sell newspapers.

community infrastructure and unparalleled entertainment but also opportunities for employment and a source of funding for charities.

A jointly commissioned government and industry report on the club industry found that, in 1997, the club industry spent in excess of \$155 million on charities and community projects and estimated the corresponding expenditure for 1998 to be in excess of \$200 million.

This would simply not be possible without gaming machine revenue.

Clubs have a documented history of providing facilities and services in areas where neither the government nor private enterprises are prepared to spend funds. Generally, where a town has a population of more than 400, it has a registered club. Clubs are community conscious organisations which are in touch with the needs and concerns of the communities they serve.

Clubs generally rely heavily on gaming revenue to fund the myriad of club activities.

In addition, Section 87 of the *Registered Clubs Act* effectively allows clubs in NSW deriving in excess of \$1 million in gaming revenue to apply a specified percentage of that profit to certain types of community development and support as a taxation offset. This percentage amounts to 1.5% and for the three year period ending 30 November 2000, this figure is expected to be in excess of \$75 million.

Leagues Clubs rely heavily on income from gaming machines to fund the expenses of running high quality teams and paying competitive salaries to players. The world standard quality of Australia's Rugby League competition flows directly from gaming machine revenue.

Hotels have been able to utilise cash flow from gaming machines to substantially improve the quality of their premises and facilities.

The AHA (NSW) estimates that approximately half a billion dollars has been spent on the refurbishment of the NSW hotel industry between 1997 and 1999 and expects a further half a billion to be invested in the next two to three years.

Last, but not least, the world class facilities constructed by casinos throughout

Australia (which facilities range from conference facilities to theatres and restaurants) have improved the quality of life of all Australians.

Do you believe these would have been built without gaming machine revenue?

A Safe and Relaxed Environment

Clubs, casinos and pubs offer a low cost, safe controlled environment to patrons who may, or may not, wish to participate in gaming activities.

This environment is funded by gaming machine revenue.

Tourism

Of the \$11.3 billion in net takings from gambling in 1997-1998, \$10.8 billion was spent by Australians, the balance (some **\$500 million**) having been spent by overseas visitors.

The AHA (NSW) has estimated that, of the additional 20,000 employees that hotels in NSW alone have employed since 1997 (taking the total number of employees in the hotel industry to approximately 120,000 people employed), 10% of these additional employees were employed directly as a result of the increase in gaming machine revenue derived by NSW hotels.

The ABS also reported that net takings from gaming machines in Australian casinos had increased from \$346.6 million in 1994-1995 to \$700.1 million in 1997-1998, an increase of 103.8%.

According to the ABS, Australian casinos employed 12,712 full-time, 3,208 part-time and 1,168 casual employees in 1997-1998.

The flow on (or 'multiplier') effects of such gaming machine revenue should also not be underestimated.

Gaming machine revenue funds a massive service industry which provides catering, cleaning, technical and administrative services to the clubs, pubs and casinos. Gaming machine revenue has also paid for the education of countless club employees.

Clubs alone have been estimated to contribute in excess of \$3 billion a year to the economy of New South Wales.

The ABS report indicated that 58% of the 37,035 employees it did identify as employees of its restrictive definition of businesses providing gambling services were employed on a permanent basis and more than half of the 37,035 employees were female.

According to the ABS, the total income (net takings) of the gambling industry amounted to \$11.091 billion in 1997-1998, an increase of 42% on 1994-1995.

Given that, according to the ABS, the major source of net takings (**58% or \$6.401 billion**) from gambling throughout Australia was from gaming machines, it is not too difficult to evaluate the contribution of Australia's gaming machine manufacturers to the economy and to employment.

It should also be noted that it has been estimated that even as little as a 1% contraction of gambling industry activity would reduce GDP by \$106 million.

More than 2,500 jobs would be lost and real consumption and expenditure would fall by \$135 million.

That estimate is different to the Productivity Commission's view that a change to the size of the gambling industry would have 'little impact on Australia's GDP'. The Productivity Commission's view is questioned.

Gaming machine revenue has also permitted Australian gaming machine manufacturers to develop world class R&D facilities and staff who create and develop increasingly more entertaining and sophisticated games, systems and machines.

Community Infrastructure

Have you ever stopped to think about the community infrastructure that has been built directly as a result of gaming machine revenue?

Before gaming machines received official sanction in 1956, the NSW club industry had recognised the financial significance of gaming machines and had fought for the right to gaming machines on the grounds that they were fundamentally no different to lotteries or horse racing.

The Gaming and Betting (Poker Machines) Act, 1956 permitted the clubs to provide entertainment to their members whilst raising funds which were all applied for the benefit of the cooperative.

This fund raising mechanism changed the social lives of many Australians and continues to do so by providing sporting and recreational facilities, subsidised drinks, food and service at a fraction of the real cost of such facilities and services.

Clubs are a major social outlet for the people of NSW. Over half of the 1,523 clubs are sporting clubs providing specific sporting facilities to members and their families. Ask yourself: how was the construction of the bulk of these facilities funded?

Gaming machines have accordingly improved and continue to improve the standards of living of many Australians and, in particular, the 2.5 million odd club members of NSW. Not only are members provided with world class

Gaming Machines

Interest in gaming machines has in fact increased even faster than 12% during the three years in question, the average increase in net takings from gaming machines being 17% nationally for each of the three years ending 30 June, 1998.

Indeed, **gaming machine revenue accounted for 58% of the total net takings from gambling in 1997-1998** (compared with 51% in 1994-1995).

The Productivity Commission estimated that Australia has approximately 180,000 electronic gaming machines and stated that these comprise 21% of the total number in the world. This is incorrect. Japan alone has close to 4 million electronic gaming machines. This suggests Australia in fact has less than 4% of the electronic gaming machines in the world.

Nevertheless, it is clear that gaming machines are very popular in Australia.

Why? The simple answer is that the number of gaming machines purchased has increased to satisfy demand - but what has fuelled that demand?

Australia's gaming machine manufacturers are producing the most entertaining, sophisticated gaming machines, systems and games *in the world* (as evidenced by the extraordinary growth of what are now referred to as 'Australian style' gaming machines in the United States and elsewhere).

Why are gaming machines attracting more interest than virtually every other form of gambling combined?

The machines and games are very entertaining and simply compete well against other available forms of entertainment. The venues are attractive, the odds are regulated and fair. The minimum return to player is between 85-87% in most states (90% plus is not uncommon) so it is difficult to find better odds than gaming machine odds if you are not a professional punter.

The Productivity Commission recommended that the mathematical odds of different outcomes be displayed on gaming machines using 'evocative examples'. Unfortunately these were very misleading and gave rise to incorrect media reports which distracted the public from the key 'return to player' requirements referred to above.

Contribution to Australia's Economy and Quality of Life

The Productivity Commission found that the 'consumer benefits' of the gambling industry, namely the net consumer surplus (including taxation revenue) ranged from **\$5.4 billion to \$6.3 billion**. The significance of this somewhat dry and arcane economic estimate should not be overlooked.

What it means is that the Productivity Commission recognised that there is a **huge net benefit** to the Australian economy after taking into account the costs of problem gambling.

The ABS report estimated that, as of June 1998, 7,072 employing businesses were involved in the provision of gambling services. The ABS stated that these businesses employed some **37,035 staff** as of June 1998, an increase of 16% since June 1995.

The ABS, however, utilised very restrictive definitions which did not even include any of the employees of gaming machine manufacturers in Australia (some 3,000 plus) nor most of the employees of the club industry. The 1,512 clubs in NSW (as of 30 June, 1998) alone employ over 65,000 people directly (comprising the largest private employment group in NSW) and 250,000 people indirectly.

The club industry of NSW would be unrecognisable without gaming machine revenue. Those clubs provide community owned gaming facilities to their 3 million plus members who enjoy those facilities knowing that the net profits derived are used for club and community purposes.

The ABS reported that net takings from gaming machines in Australian clubs had increased from \$2,621 million in 1994-1995 to \$3,595 million in 1997-1998, an increase of 37.2%.

Rugby League as we currently know would not exist without that gaming machine revenue which effectively funds most of the clubs' costs.

The ABS reported that net takings from gaming machines in pubs, taverns and bars throughout Australia had increased from \$990 million in 1994-1995 to \$2,105.7 million in 1997-1998, an increase of 112.6%.

*The media throw plenty of brickbats,
but here's the bouquets they forget...*

Wanna Bet?

Let's face it, Australian punters love 'a flutter', whether it's on a horse at the races, the dogs, the trots, on a favourite football team or at a casino, club or pub. Gambling is regarded as a pleasurable activity or recreation by the vast majority of Australians.

'Trifectas', 'Dishlickers', 'Red-Hots', 'Tatts', 'TAB', 'tote', 'pokies', 'pools' and a wealth of other terms have enriched the national vocabulary and become an essential part of the Australian national character.

Thanks to a world class regulation system, Australians can confidently bet on a wider range of different games and competitions than they have ever been able to and can be confident that the odds, licensed venues, manufacturers and operators and payback systems have been thoroughly scrutinised and continue to be checked on a regular basis.

The recent Australian Bureau of Statistics report on Australia's gambling industry indicated that Australians' interest in gambling (as demonstrated by net takings) has been increasing steadily and in fact grew at a rate of 12% pa nationally for each of the three years ending June 30, 1998.

Australians can now bet on a wider range of games and activities than ever before and, arguably, the widest range available anywhere in the world.



Australian Gaming Machine Manufacturers Association