



**Submission to the South Australian
Independent Gambling Authority Inquiry into
Pre-commit Cards for Electronic Gaming
Machines.**

March 2005

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EXECUTIVE SUMMARY

1. The Problem Gambling Foundation of New Zealand is the largest organisation providing counselling and harm prevention program services, in the world. As such it maintains an up-to-date data base of developments within the gambling industry, and thinking as to how to deal with the harm caused by gambling and to prevent gambling harm.
2. We accept that PGFNZ has no right to submit to the Independent Gambling Authority of South Australia, but wish to offer information that may help the Authority inform the South Australian Government in its role of adopting policy and legislation in regard to gambling.
3. Our experience of problem gambling is that 80% plus of people presenting with gambling problems use Pokies as the preferred mode of gambling. There is evidence to indicate that these figures are similar around the world.
4. The strategy of demanding Host Responsibility is introduced as an alternative to eliminating the machines either altogether, or to allow them only in (say) Casino Licensed premises. There is little evidence that the usual methods of offering host responsibility such as that offered in liquor licensed premises, is particularly effective in a gambling setting.
5. The introduction of pre-commit cards has a theoretical appeal. It also has the threat of the gambling industry being able to manipulate the use of their products to the point that not only will there be no improvement in rates and degree of gambling harm, but further deterioration. The gambling industry appears to operate in this manner and the Economist review suggests this (**APPENDIX I**). (Please note that since this article was written, the Blair government has reversed its policy to the degree that the gambling industry now claims that it has been “tied up” even tighter than before).
6. For pre-commit cards to have a good effect, PGFNZ holds that the following must occur
 - 6.1. Be only way to play a pokie
 - 6.2. Be able to be used in all sites
 - 6.3. Provide information to players
 - 6.4. Keep track of limits
 - 6.5. Be uniquely associated with individuals
 - 6.6. Must be able to be audited and monitored
7. The Independent Gambling Authority of South Australia had stated that the pre-commit system must be based on a cash driven machine system, This stipulation is based on research that suggest that non-cash systems are more dangerous in terms of creating gambling harm. It is the contention of PGFNZ that whilst this may be the case in non-cash systems with no other controls, with an effective pre-commit card, this will not be the case.
8. It is the view of PGFNZ that when viewed in the fullness of time, gambling problems in a number of jurisdictions are comparatively recent and the growth of such problems reflect the growth in pokie numbers. It is our view that sanitised versions of pokies will not be profitable enough to support the enormous number of operators feeding off the current facilities, and that it is a matter of **when** the machines will be eliminated and how much pain society is going to go through on its way there. Our view is that the nettle should be grasped now!
9. It is the view of PGFNZ that the IGA should recommend the elimination of pokies. If this is politically unachievable, then the restriction of such machines to Casinos should occur, with attendant restriction on access to the machines by local populations.

WHY IS PGFNZ MAKING THIS SUBMISSION

The Inquiry of the Independent Gambling Authority of South Australia may be considered the business of the Government and People of South Australia. The Problem Gambling Foundation of New Zealand respects this position and offers this submission as a means to providing perspective to the Authority's Inquiry. We would also like to suggest to the Authority that its advice to the South Australian government has an international, regional and national perspective. Whilst we have a concern for the people of South Australia, we have a wider concern for the impact of the strategies of the international gambling industry on communities throughout those parts of the world that can be targeted. (Parts of the world cannot be targeted such as Islamic Republics).

INTERNATIONAL GAMBLING INDUSTRY

The gambling industry is taking a more identifiable international dimension. (See **APPENDIX I** Economist September 2004). It has the potential to have more power than national and state governments. If there is any possibility that these organisations are (or may become) bad citizens, this is as concerning to us all as is the rise of rogue/delinquent states.

The possibility of this type of development often seeds off organisations that have an international presence. Sometimes these are community led (eg Amnesty International), governments led, (eg GATT to control "dumping"), and sometimes United Nations led (eg Commissions on, for example, Whaling). In the absence of a United Nations led Commission on the Gambling Industry, organisations such as ours, maintain an "earthwatch" to resist gambling industry destruction of communities, wherever they may be.

CLOSENESS OF AUSTRALIA AND NZ

Just as Australia and New Zealand accept a large amount of legal precedent from the same source, and from each other, societal developments are influential in both countries. Australian RSLs and NZ RSAs provide similar community facilities. Our sports clubs enjoy similar status. We share some football codes. Australia play cricket, we turn up. We have a strong interest in what is decided in Australia.

An Australian company, Aristocrat, extracts about a hundred millions dollars annually from the New Zealand economy by selling pokies here. Just as they have presented to your Inquiry because of their interest in South Australia, their views and any resulting decisions of the South Australian government have NZ implications.

INTERNATIONAL NETWORK

The Problem Gambling Foundation of NZ is part of an international network of organisations that monitor developments in the gambling industry. We have a duty to our associates to participate in making submissions to regulatory bodies.

REGIONAL SIGNIFICANCE OF DECISION

The closeness of the regulatory bodies in New Zealand and Australia is such that eventual conformity, to large extent, is entirely possible. We trust you see our contribution at this stage in this light.

THE BIG PICTURE

WHAT WILL HISTORIANS THINK?

It is useful to put the current flirtation we have with the (Electronic Gaming Machine) pokie, in the context of economic, social and ritual history

Gambling itself has been a form of diversion and decision making for millennia. Various games which exist today are known to be centuries old and used for gambling. Decisions have been made by gambling. The roman guards at the crucifixion of Jesus Christ cast lots for his one-piece robe. It seems that groups of men who had nothing better to do such as groups of soldiers and later sailors, ranch hands, etc idled away the hours with various games of chance, and in effect, swapped their pay packets.

Charity has been associated with gambling. Indeed there has been the use of rituals of chance to decide who would be sacrificed to the god of the crops for the greater good of a civilisation. In some cases the participants had to be of noble birth - a sentiment that does not appear to present itself in modern times.

The identification of a gambling industry does not appear in literature until a few centuries ago. Mark Twain recorded riverboat gambling on the Americas. Until this time, gambling was a diversion of the rich and ancillary to social ritual. The British aristocracy would retire to the smoking room and play gambling card or board games. Growing tourism resorts for the rich saw the development of such destinations as Monte Carlo/Monaco.

The groups of men started to come from new backgrounds such as ethnically identified groups in the new world who later went on to become the various version of the mafia. Asian development which reached Europe and American shores included the Triads.

These developments were taken from games, to gaming machines. These machines found their way into a few venues in states/cities that legalised gambling (Atlantic City, Las Vegas, Nevada New South Wales). During the 1970s and 80s, machine manufacturers, looking for new markets, penetrated some more states, (South Australia, Queensland, Victoria), countries (NZ, Canada) and in the USA, (Native American reservations). In the 1990s, the growth in pokies exploded.

The writer had visited South Australia in the late 1980s and again in the early 90s. It was so noticeable in February 2005 when I again visited, that the skyline of the City of Churches was now dominated by neon signs shouting out the presence of "Pokies" and "Jackpot"s.

Let two historians from the year 2105 continue..... (pick your ending)

QUERIUS So during the 1990s the presence of these machines in these new jurisdictions grew exponentially?

FACTUS Yes, and they all knew it was happening. It continued into the 2000s.

QUERIUS Well. I suppose it was just another economic development that brought with it opportunity and prosperity?

FACTUS This was claimed as a reason for their introduction but studies indicated that the sector, and especially the pokie part of the sector, had the lowest

economic multiplier effect of all sectors. It was only just above unity. Most government expenditure had a higher multiplier effect.

QUERIUS So was it the machines that were the major driving force in growth of the gambling industry?

FACTUS Yes. It was so easy. What they found was that you put a bank of these machines in a low cost rental space and wait for the despairing to arrive. Lured by the “way out”, the apparent “cheap entertainment”, “somewhere to go” and “habituation”, they continued to show up.

QUERIUS So it was another way of all of society chipping in through an entertainment channel, having some fun and collecting some tax?

FACTUS No. In NZ the machines concentrated in the deprived areas, in South Australia they followed the pubs and in NSW, the sports clubs. In some jurisdictions, it was mandated that some of the takings were to be made available to community groups and thus a dependency was established. (What about the Native Americans - disaster!)

QUERIUS So did they think they should do something? Where was the harm?

FACTUS There was considerable evidence of individual and family disasters. That had to be stopped. There was the community dependency through taxes and “charity”. The gambling industry could front with the money to “treat” the former, but the latter, the dependency, provided legitimacy for the industry.

QUERIUS A very tight corner. How did they pick their way through that one?

FACTUS Host responsibility my dear fellow - host responsibility. Borrowed from the boozing experience. Same language, “training”, “programs”, “audits”, you know the model.

QUERIUS So that was a good model to follow?

FACTUS No one was ever sure in regard to the boozers. A whole lot of other initiatives may have had more influence. The Harm Elimination groups started to explore the use of pre-commit cards for pokies. They had a variety of technologies but as a general principle, they prevented access to pokies other than through the use of one of these cards, and restricted the amount lost according to a pre-set limit!

QUERIUS How bizarre. Over the space of a few short years (was it ten?), these machines proliferated to a point where it was accepted that they were individually and communally dangerous, so, they tried to use technology to sanitise these machines and render them harmless. If they had only been around for a few years in most jurisdictions, why didn't they just get rid of them.

FACTUS Good question dear fellow. Well there was the dependency thing, the threat of lawsuits against regulators, the self interest of the gambling industry. There sure as hell was no threat of an underworld black market developing like the prohibition days. The pokies were just not that much fun.

.....

ENDING ONE

QUERIUS So did they go with the Pre-commit cards?

FACTUS Yes they did. They had the industry introduce them and manage the data base. This allowed the industry to understand gambling behaviours and thus design their products to make even greater profits and increase market size. Many new graduates of Business Schools found the industry to be a rewarding career using all their marketing models. The information was second to none. In addition to this they were able to develop new modalities designed to extend the reaches of the industry and escape control.

QUERIUS Was this satisfactory? Didn't some individuals gamble even more?

FACTUS It was proved that some individuals benefited but there were terrible spin-offs. In some cases the pre-commit level was treated as a "must lose" level. In fact some operators encouraged punters to lose up to their limit. In an unforeseen development, the previously targeted communities were even more vulnerable because the "card" provided "Identity", "Belonging" and it looked so much more impressive than the average credit card. If you didn't have one, you were nobody.

QUERIUS So did things get better?

FACTUS No. There was a long time where there was litigation around the host responsibility legislation, the industry saying that they had done all that had been asked of them. No it didn't get better - it got worse.

QUERIUS So here it is 100 years on and there are no such machines. What happened?

FACTUS Someone got **really** angry!!!

ENDING TWO

QUERIUS So did they go with the Pre-commit cards?

FACTUS Yes they did. IGA managed the data base and saw to it that the rules and requirements of host responsibility were observed.

QUERIUS So it all turned out OK?

FACTUS No. The effect of strong management by the IGA was to drive down profits considerably. The industry through the pokie barons, started all sorts of litigation. The machines had become so sanitised, they were boring.

QUERIUS So here it is 100 years later and there are no pokies. What happened?

FACTUS Well after years of litigation and lots of bile, it became apparent that a safe pokie was not profitably marketable, and that they were worthless. It cost state and federal government many millions but in the end, the pokies faded out. Apparently quite a few of them form the mole for the new marina out at the old

port. There are those who say we should have gotten rid of them in the early 2000s.

ENDING THREE

QUERIUS So did they go with the Pre-commit cards?

FACTUS No they didn't. They thought "What are we up to? We let this happen over a few years and regard this as part of our society - our make up. Well it isn't!! We in South Australia have many developments over the years that didn't need this money and this misery. Our farmers, manufacturers and miners have been great successes. We are famous for the Barossa and Clare Valleys. Our sportsmen developed free of this influence. No, we'll ban them"

QUERIUS So what happened then?

FACTUS Well there was a bit of litigation which cost the state and federal governments some millions of dollars, but we were still, at that point, bigger than the industry was, and they went away. Economic losses were imperceptible and some argue that our economy grew in a more sustainable and robust manner.

It is the view of PGFNZ that pokies will be seen to be counter-productive, harmful and devalue society. They have no long term future.

TECHNOLOGY AND GAMBLING MODES

PGF sent a staff member to the hearings of system vendors in Adelaide in February. The striking points of these presentations appeared to be:

Various parts of the current gambling industry are eager to provide a system

All seemed to think that the technological challenge was able to be met

Most thought that a system could be rolled out into all of South Australia within six months. One said it would take a year.

Each appeared to want to control the information although some said that this was not necessary

Some had to operate on cashless systems

One claimed that the technology could be extended to influencing the use of all modes of gambling.

PGFNZ thinks that it is **crucially** important that the information that the system collects and uses is only available to the gambling individual and not the industry. We also have some minor concerns about how individuals may circumvent the system. This may be possible but we view it as a small problem with few individuals doing this to their own detriment. We would be more concerned if the industry was able to circumvent the system OR encourage individuals to circumvent the system.

PGFNZ is only concerned about pokies and their spawn in regards to pre-commit cards.

HOST RESPONSIBILITY

PGFNZ supports the aims and ideals of host responsibility, but, we hold that this has to be done very well to deal with the gambling problems occurring with pokies. If host responsibility programs can be introduced that eliminate gambling harm from pokie machines, we will accept that this is a good result. We do however, caution that the evidence is that such systems have to be very controlling and that elimination of pokies may be altogether a better result for society as a whole.

PGFNZ

The PGF is a registered charitable trust that was formed in May 2001 to absorb and replace the functions of its predecessor, the Compulsive Gambling Society of New Zealand.

The Problem Gambling Foundation produces a variety of publications including special reports to Parliament, articles in peer-reviewed international journals, conjoint research findings with universities and other research bodies, technical reports. Other roles include arranging conferences and workshops, assisting in the development of public advocacy, and appearing before various select committees on emerging legislative responses.

The Foundation currently provides outpatient treatment and support services to approximately 3,500 problem gambling clients and members of their families on 48 sites through 41 towns and cities from Kaitaia to Invercargill. The PGF is the single largest provider of these services in the world and has a unique consolidated database of over 8,500 clients dating back to 1993. It employs highly qualified health professionals and it is currently restructuring its services to reflect comprehensive integrated and coordinated care on a region-by-region basis in conjunction with a multiplicity of providers, NGOs and Government services. Currently we are examining best practice developments throughout the world to meet the serious and escalating problems of youth gambling, elder persons gambling and cultural and ethnic treatment variations. We are developing new strategies for dealing with gambling-related criminal behaviours, understanding and responding to the needs of women problem gamblers and the phenomena of binge gambling, which currently typifies many of the characteristics of gambling behaviour associated with non-casino gaming machines.

In 2002 the Foundation decided to adopt a public health approach to problem gambling. Simply put, this means educating and empowering communities to take control of problem gambling, and to have a gambling environment and skill set which suits their local values. Essential to this approach is the provision of accurate and accessible information on gambling laws and gambling generally in the community, thus enabling them to ensure safer gambling through the accountability of a thousand eyes.

PGF is committed to eliminating harm caused by gambling by providing:

- **Quality of Life:** New Zealand communities need to be enhanced and not adversely affected by gambling.
- **Individual Choice:** In order to minimise harm, individuals need to be provided the resources and opportunity to make informed decisions about gambling and its consequences.
- **Collective Choice:** Communities have the right to determine the nature and level of gambling in their environment

PGF believe in empowering and encouraging clients by providing a range of free services designed to meet the needs of its clients with daytime and evening appointments. Qualified health professionals provide counselling services via individual appointments for both gamblers and others affected by gambling.

PGF is the largest organisation of its kind in the world. It has offices throughout New Zealand attended by sixty staff that represents Māori, Pakeha, China, Korea, Malaysia and the Pacific Islands.

We have a close relationship with the Centre for Gambling Studies (CGS) University of Auckland, NZ. CGS is committed to conducting quality research to promote community wellbeing and to minimise harm from gambling. PGF is also contributing to gambling research conducted by Massey University, North Shore.

PGF believes in:

- **Informing change:** Our Research, Training and Development team oversees all of our programmes to ensure the best quality advice and training to the problem gambling sector. As a service leader PGF undertakes research and develops resources for all problem gambling services.
- **Changing lives:** Our treatment and clinical services are world class. We provide specialist problem gambling counselling and group therapy throughout New Zealand. Our Asian service team also provides counselling in English, Mandarin, Cantonese and Korean.
- **Changing communities:** Our Public Health team is the first dedicated team to work on problem gambling issues using a health promotion approach. This empowers communities to take control of their gambling environments. Our Asian service team works holistically with Asian communities to strengthen their resilience to problem gambling. Our Youth services team works with young people to raise awareness and minimise harm from problem gambling.
- **Changing environments:** Our advocacy services seek to create a safer environment for recreational gambling. We are active in developing national and local gambling policies. Our specialist Local Government team works with territorial local authorities and their communities to develop gambling policies that minimise harm from problem gambling. PGF is committed to providing decision makers with the best possible advice on the impact of gambling and advocates for evidence based policies which minimise the harm caused by gambling.

OUR SOURCES

INTERNATIONAL NETWORKS

PGFNZ not only maintains networks with providers of problem gambling services and researchers, but it leads through provision of web-site information and continuous presentations at conferences throughout the world. The networks have provided information about host responsibility and in particular about pre-commit cards.

There is a robust debate in progress at the moment about the effectiveness of host responsibility. The consensus appears to be that host responsibility in regard to problem gamblers has the best chance of succeeding if pre-commit cards accompany this. In contrast to this view, there is some concern that the pre-commit system may just become a marketing system for the gambling industry. There is also concern that when individuals set a limit on their gambling in a particular time span, this may be treated as a "minimum lose" as well as a "maximum lose".

CONFERENCES

In the last six months, PGF staff have presented papers in Australia (3 occasions), Macao, Hong Kong (twice), China, Canada and United States

ACADEMIC - CGS

The University of Auckland in New Zealand has a Centre for Gambling Studies with a number of researchers working on counselling techniques and behavioural analyses. We work closely with this Centre and the advice they are able to provide in regard to host responsibility is that there is no evidence to show that it is effective.

ATTENDANCE AT VENDOR SUBMISSIONS

PGFNZ had a staff member attend the hearings. This has provided good information especially in regard to what the industry says is possible and time frames within which milestones can be achieved.

PRINCIPLES AND ISSUES

PGFNZ believes that the following principles and issues pertain in regard to pre-commit cards.

PREVENT GAMBLING HARM

For pre-commit cards to be effective in preventing gambling harm from pokies, they must be mandatory for all access to pokies and be interfaced with a data base that measures individual level of gambling.

Further, PGFNZ holds the view that if this data is not managed independently of the gambling industry, there is too much potential for the information to be used in a way that increases gambling harm.

COMMUNITY DEVELOPMENT

In South Australia, the pokies are largely run by bars. There appears to be no way in which the community benefits from this activity but through taxes.

ECONOMIC GOOD

PGFNZ is convinced that cash flow through pokies is not conducive to useful economic activity. The Victorian Productivity Commission study of 18 sectors indicated that gambling had the lowest economic multiplier effect and this was due mainly to pokies which are low running and labour cost machines. They only benefit the owners, especially when it is remembered that the machines are set to ensure that the gambler loses.

RIGHTS OF INDIVIDUALS

PGFNZ accepts that individuals have a right to use their cash as they wish, however societies usually take some responsibility for providing safe environments. It is the view of PGFNZ that the health and safety requirements of most western governments imply a duty of care when offering pokie entertainment. Although we see fishhooks with the pre-commit card system, we believe that if pokie machines are to be operated, most policy and law will require reasonable care to be taken. If protective systems are available, then law interpretations will with time, expect provision of such safeguards.

RIGHTS OF ENTREPRENEURS

PGFNZ accepts that entrepreneurs have rights to make a living. It is our view that with further development of consumer protection and safety laws, entrepreneurs will have to recognise their duties in regard to protecting their clientele.

THE PRE-COMMIT CARD**HOST RESPONSIBILITY**

The pre-commit card is an attempt to provide effectiveness for host responsibility strategies. It is significant that such a complex and controlling system is being promoted as such. This indicates that behaviour modification in regard to potential problem gambling, is such that it is nigh impossible when it comes to pokies and a significant number of people suffer. For the card to work it must:

- Be the only way to play a pokie
- Be able to be used in all sites
- Provide information to players
- Keep track of limits
- Be associated with individuals
- Must be able to be audited and monitored

Anything less than this will jeopardise the effectiveness of the solution

CONTROL OF DATA

It is essential that the data for this system should be managed independently of the industry. The data must be used for the good of the individuals. The type of organisation could be a data base management organisation or better still, a division of the regulatory body.

MACHINE TECHNOLOGY

PGFNZ has no view on the actual technology. It should be tamper-proof.

ID

There has been some debate about the ID of the individuals using the card. We accept that there may be ways in which a gambler may be able to circumvent the system, but it is our view that this will not be done frequently and thus the system can be relatively simple. It is more important for the system to be installed and of use to the great majority of individuals, rather than be so complex that the system has difficulty being launched. It is important that the industry cannot tamper with IDs.

RESPONSES TO TRIGGERS

There has been considerable discussion on what the system response should be to triggers. PGFNZ believes the following minimal responses should be available:

| | |
|---|--|
| Pre-commit limit reached | Card will not work for rest of period |
| Repeated attempt to use card that has reached limit | Venue operator alerted. Record kept of action taken and linked to machine log. |
| System gamble time reached | Machine closes for 1 minute |
| Incorrect password used more than twice | Card kept by machine and available through application |

LINKS TO DATA BASES

The technology may be able to connect to other data bases. PGFNZ thinks that this may be overcomplicating the system and in fact may make it more susceptible to tampering. The IGA may wish use this data through links to carry out legitimate research which helps provide good advice to its government.

EXPANSION TO OTHER MODALITIES

One vendor spoke of being able to connect his system to other gambling modalities. PGFNZ sees this as an over-complicating functionality and would not like to see the pokie part of the system jeopardised by an over-extended implementation program.

CONSEQUENCES OF THE IGA DECISION**GEOGRAPHICAL INFLUENCE**

Although the recommendation of the IGA inquiry is to the South Australian government, it will be closely studied by the gambling industry. It is important that the implications for neighbouring jurisdictions are understood and we commend the IGA for its continued contact with these including New Zealand's Department of Internal Affairs.

GAMBLING INDUSTRY IMPACT

It may be that recommendations of the IGA attract aggressive response from the gambling industry. PGFNZ offers all the resources it has to provide information and resilience to the IGA. The self interest of the gambling industry is manifest and it may be difficult to make decisions that threaten these cushy livelihoods.

SOCIETY

PGFNZ believes that the IGA has an opportunity to recommend changes in the management of the gambling industry that will benefit a large majority of South Australians. Whilst rights of individual entrepreneurs may exist, they cannot have rights that over-ride consumer protection and provision of safe products and service.

ESSENTIAL RESULT SOUGHT BY PGF

PGFNZ would like to see the South Australian government achieve the following results from this process:

REDUCED GAMBLING HARM

Although PGFNZ looks for elimination of gambling harm, in this case we are only looking at the pokie section of the gambling industry. It is our view that if the most radical outcome that we seek, namely that of elimination of pokies, was achieved, South Australia will largely eliminate gambling harm

LESS GAMBLING INDUSTRY CONTROL

PGFNZ is concerned that developments in regard to pre-commit cards may result in the gambling industry managing market information with an increased ability to grow expenditure on gambling. We emphasise that we would rather see independent data management, than for this development to result in increased (or even maintained) industry influence.

NO LONG TERM FUTURE FOR POKIES

It is no secret that PGFNZ would like to see pokies eliminated - or at least restricted to casinos with restricted local client access. It is our own dispassionate analysis that the machines do not have a long term future. The trade off between safety and profitability is not able to be squared away. It is our view that societies are faced with a decision on how long they want to debate this issue and how much is it going to cost them. We are not wowsers - we just think that for jurisdictions that haven't had this problem for very long (a few years), the sensible response is to eliminate pokies.

SUBMISSION FORM

Independent Gambling Authority Form 1 Smartcard technologies inquiry

1. Personal details

| | |
|--|-------------------|
| <i>Name of contact person (please include titles and qualifications)</i> Graham Aitken | |
| <i>Street address (include postcode)</i> 128 Khyber Pass Road Newmarket Auckland NEW ZEALAND | <i>Home phone</i> |
| <i>Work phone</i> 64 9 368 1520 | |
| <i>Facsimile</i> 64 9 368 1540 | |
| <i>Mobile phone</i> 64 21 728 125 | |
| <i>Email address</i> graham.aitken@pgfnz.co.nz | |
| <i>Do you wish to remain anonymous?</i> NO | |

2. Organisation details

| |
|---|
| <i>If you are making this submission on behalf of a body (such as a government department, a service provider, a recognised charity), on behalf of a group of people (such as an informal association of people with a specific interest in gambling) or in some other capacity (for example, as a university lecturer) please provide the details of the body and indicate whether your submission is the body's OFFICIAL position or simply your own UNOFFICIAL view.</i> |
| <i>Name of body, association or organisation</i> Problem Gambling Foundation of New Zealand |
| <i>Your title, designation or position</i> National Operations Manager |
| <i>Is the submission OFFICIAL or UNOFFICIAL</i> Official |

12 Inquiry into Smartcard technology Guide for making submissions Appendix A: Form 1 and Form 2 (Submission forms).continued

3. Submission details

This submission is made by (circle/strike out as appropriate)

EMAIL ONLY

If the submission has been provided as a handwritten version only, it will need to be typed to enable ease of reading and placement on the Authority.s website. Do you permit the Authority to produce a typed version of your handwritten submission?

(circle/strike out as appropriate.a blank is a .YES.) YES NO

Acknowledgment and consent

1. I have read the submission guidelines for the inquiry and make this submission on the basis set out in that document.
2. I take responsibility for the correctness and accuracy of statements made in this submission.
3. Unless specifically attributed to others, the opinions, comments and observations in this submission are my own.
4. I consent to the whole or any part of this submission being published by the Independent Gambling Authority.

| | |
|--------------------------------|--|
| | <i>Date 21st March 2005</i> |
| <i>Signature Graham Aitken</i> | |

APPENDIX I - ECONOMIST ARTICLE ON GAMBLING

Gambling goes global

All bets are on

Economist - Sep 30th 2004 | LAS VEGAS

As it becomes steadily more respectable, the gambling industry is trying to become a thriving global business

AMERICA did not invent gambling: but with its casinos, rightly celebrated for their ever more gloriously grotesque architectural excesses, it perfected an especially effective way of separating willing consumers from their cash. After a decade of spectacular financial growth, the industry there is trying to consolidate. And not content with dominating gambling in their home market, America's biggest firms are already planning to export their methods around the world.

Helping them is gambling's new-found respectability, as well as governments' increasing interest in deregulating businesses that have typically been tightly controlled. But the big American companies also face a threat. Internet gambling has been growing with astonishing speed, even though it remains illegal for American consumers. This is a double-edged sword for the big firms. The ban on internet betting at home protects their profits in so far as American consumers can be stopped from betting in cyberspace. But far better protection would come from offering the service and using their superior brands to mop up even more business. And unless they can grab a share of the cyber-betting outside America, their expansion might fail to produce the spectacular returns on which they are counting. The global capital of gambling is Las Vegas and a visit there reveals how the industry has evolved. These days fruit machines and roulette tables seem almost like an after-thought. Tourists take their pick of attractions—from strolls through ersatz versions of ancient Rome, medieval England or old New York—in the form of massive themed hotels. Luxury-goods shops abound. Some casinos get less than half of their revenues directly from betting.

Gambling has been Las Vegas's money-spinner since Bugsy Siegel built the first casino in the 1940s. An attempt in the 1990s to attract vacationing families by installing rollercoasters, crèches and Disneyland-style attractions failed badly. Now, Las Vegas pitches itself to adults. The latest draw is the "ultralounge", a bid to revive the lounge-lizard culture of the 1960s. After September 11th, the city was badly hit by a drop in tourism. But it rebounded strongly, capturing a growing share of America's tourism and convention trade. And it increasingly offers high, as well as low, culture. The Bellagio's art gallery, just steps from the slot machines, is currently showing Monet paintings from Boston's Museum of Fine Arts. The Guggenheim Museum has an annexe at the Venetian. Steven Wynn, who built the Mirage and Bellagio hotels, is likely to hang his Picassos and Modiglianis in a new development due to open next spring.

Las Vegas achieved iconic status by offering a mild taste of naughtiness in a country that often lacks it. The slogan for a new ad campaign sums it up: "What happens in Vegas, stays in Vegas." Money certainly stays. Casino gambling provided nearly \$800m in tax payments to the state of Nevada last year.

Other states have followed Nevada's lead: gambling in America has more than doubled over the past decade. Turnover in casinos grew from \$11.2 billion in 1993 to \$27 billion last year. Turnover from all forms of gambling reached almost \$73 billion last year (see chart 1). Recently gambling has even taken on a sense of cool, as poker tournaments featuring Hollywood stars have been some of the highest-rated programmes on cable television. In

August, WPT Enterprises, which runs the World Poker Tour, successfully floated on the NASDAQ stockmarket.

But bigger companies control the industry. A recent brace of mergers will, if antitrust regulators allow, create two giants. In early June MGM Mirage—itsself the product of a merger in 2000 between Kirk Kirkorian's MGM Grand and Mr Wynn's Mirage Resorts—bid for Mandalay Resort Group, a rival. Together, the two firms control nearly half the hotel rooms in Las Vegas. In July Harrah's Entertainment, a casino chain catering more for the mass market, made a bid for Caesars Entertainment. The latter has one of the best-known brands in the industry, but has been lumbered with debt taken on to finance a long-overdue overhaul of its ageing Las Vegas resort, Caesars Palace.

If regulators give the nod, both of the two big firms will have powerful capital bases from which to expand in Las Vegas and beyond. On September 27th Caesars and Harrah's announced that they had each sold two of their casinos for a total of \$1.24 billion. The deal was part of their efforts to convince regulators to approve their merger.

Casinos can be found in most countries, but the mass-market variety was pioneered in America. Contemporary attitudes towards gambling were set in the 1960s when the state of New Hampshire launched a lottery and brought in far more money than anyone had predicted. Today, 39 American states run lotteries, while 34 allow casinos. Only Hawaii and Utah ban gambling altogether. Moreover, states are still trying to join the party. The District of Columbia, the nation's capital, is considering allowing slot machines, and Pennsylvania wants to put them at its racecourses. California has just entered into a "compact", or treaty, with a native-American tribe near San Francisco to take a cut of what is likely to become one of the country's biggest casinos. Its projected \$100m a year in taxes will help plug the state's yawning deficit.

The pips are squeaking

Success for gambling in America has bred challenges. The first is that several of the states that so welcomed casino operators are now squeezing them through higher taxes. That has been increasingly true as the states have begun to face up to big fiscal deficits created in recent years. In Illinois, top-rate taxes on casino profits now run at 70%. Michigan recently increased its tax rate from 18% to 24%.

The second threat is of saturation. Most Americans who want to gamble in a modern casino can do so within just a few hours' drive from home. The North American market is "mature", reckons MGM Mirage, and Las Vegas is a case in point—analysts have long worried about over-supply there.

With higher taxes and a saturated home market, it is small wonder that American operators are looking hungrily at opportunities overseas. They are encouraged by the fact that other countries are preparing to follow America's lead. Britain is making some of the biggest strides towards freer gambling. It has already liberalised its betting laws by reducing taxes on sports and horse-racing wagers. It is also in the process of finalising a bill to allow Las Vegas-style casino resorts in its big cities. And the country also wants to become home to fast-growing internet-gambling companies, now typically based offshore.

In Asia, Macau is inviting foreign competition for its dreary, locally owned casinos, and has already given licences to three Las Vegas companies. Mr Wynn is planning one. Sheldon Adelson, founder of Las Vegas Sands, whose Venetian Resort offers as good an imitation of the Bridge of Sighs as one is likely to find in America, opened Sands Macau earlier this year. More gambling licences are likely to be issued in future. And other Asian countries, from Singapore to Japan, are looking to emulate Macau.

Why are so many governments loosening the laws that have long constrained one of the world's oldest businesses? Gambling is an especially attractive service to tax. There is huge

demand for it, and punters are mostly insensitive to price. Except for the small number truly addicted to gambling, people gamble voluntarily, but pay taxes only unwillingly. Introducing new forms of gambling—allowing, say, a lottery where sports betting is available—can often increase the overall demand for both types of punts.

Indeed, although casinos are the most visible part of the gambling industry, they are not the most important. Globally, gambling operating revenues—broadly the amount staked (minus the winnings returned to punters in the case of casino games and machines)—were \$433 billion last year according to Global Betting and Gaming Consultants. Lotteries, which are mostly state sponsored, are the biggest single sector. Wagering on horse racing is close behind, although growing weakly. However, for gambling businesses, the trick is to follow punters into new markets that can grow. The biggest growth rates are in casino-style betting outside America and, increasingly, in cyberspace.

A baize patchwork

Gambling is also a big business in Europe, but there it is fragmented and disorganised, characterised mainly by a few fruit machines in bars and amusement arcades. Monaco is an upmarket haven for rich punters. France has 160 “casinos”, but these are mostly small clubs away from the big cities. Europe's biggest casino is now in Estoril, Portugal. Each year Europe's gamblers place bets equivalent to 5% of the continent's GDP, almost one-third of which stays in the industry's pockets.

Britain's casino business is small. In London, most casinos are “clubs” attached to hotels. Punters must wait 24 hours before becoming a member. The poshest places, such as Aspinall's and the Ritz, are said to depend on a few rich foreigners for most of their turnover. If its long-anticipated gambling bill becomes law next year, as seems likely, Britain's gambling industry will be shaken up. Plans for casinos in places such as Blackpool, a faded Victorian-era resort, as well as in city centres from Birmingham to Glasgow, are already afoot. London's Millennium Dome has been mooted as the site of a casino to be built by Sol Kerzner, founder of South Africa's Sun City.

But the bonanza in Britain may not be as big as some hope. The government has pulled back from a full-scale free-for-all. It wants to limit the number of big-win slot machines—thanks to the terrible odds that they offer, these provide fat profits to operators. The government has two worries. The first is that such slot machines are highly addictive. The second is that their widespread introduction in new casinos would threaten the businesses of existing smaller operators, which rely on machines that have limited payouts. Despite the government's hesitations, MGM Mirage thinks that around 10% of its global profits could come from Britain by the end of the decade, up from almost nothing today.

Other European gambling Meccas are preparing to compete. Monaco has discussed the possibility of building a new (offshore) casino resort with Mr Wynn. Casinos in Nice have spruced themselves up. Their willingness to do so is not entirely unconnected to a factor that is affecting the entire industry and that threatens America's long-term dominance: the rise of internet gambling.

More bets than butts?

Arguably, only the pornography business is as well-suited to cyberspace as gambling. There are already around 1,500 gambling websites, offering everything from casino games, sports betting and punts on America's presidential election. Up from \$1 billion in 1999, the turnover of internet gambling is poised to rise to \$10 billion by the end of this decade, according to a recent report sponsored by the British government. Leighton Vaughan Williams, director of the Betting Research Unit at Nottingham Trent University, says that governments have realised that maintaining domestic prohibitions on gambling only loses tax revenues as consumers use internet services based elsewhere.

A new type of online gambling, betting exchanges, has done especially well. Unlike traditional bookmakers, which bear the risk of balancing their own odds to earn a profit, these companies, led by Britain's **BETFAIR**, match gambles between two individuals, thus keeping none of the risk themselves. But their success has created controversy. Punters on betting exchanges have the ability to "lay" odds, which allows them to profit from a losing horse or football team. Recently, British police rounded up dozens of suspects in a race-fixing investigation. Ironically, the transaction trail provided by websites is a help to those trying to catch fraudsters. The biggest challenge to the online gambling business is that it is still illegal in America, even though Americans already bet millions of dollars in cyberspace. Online betting firms have based themselves offshore, in places as far-flung as Antigua, Gibraltar and Costa Rica. The American government tries to interfere by sending out regulatory feelers to such places. Recently, however, Antigua won a WTO case by arguing that America's law interfered with the Caribbean island's freedom to trade. Britain has a declared goal of becoming one of the leading locations for internet-gambling businesses, using low gambling-tax rates and effective regulation as lures for site operators. One online bookmaker, **BETONSPORTS**, recently listed its shares in London.

Another technology that has quickly made a mark allows gambling via video screens. New machines make mechanical one-armed bandits seem old hat, but that has spurred innovation. International Game Technology, one of the biggest makers of the threatened machines, is crafting new ways to keep the coins coming in. Slot machines increasingly offer access to huge jackpot pools spread over a whole country. The firm develops new themes, working in much the same way as a film studio.

In Europe, where machines in smaller entertainment centres are common, video gambling is a challenge. Eduardo Antoja, of Euromat, a fruit-machine trade association, says that video games have made young people less attracted to traditional casino machines. He says that the industry will begin to offer more multi-player games and social games to fend off the threat faced by a big wave of new casinos. The European Union is trying to harmonise its laws, but that will take years.

Land-based gambling has more to worry about than just the internet. Sky, a British satellite-television provider, saw a huge increase to 12m in the bets placed through its interactive handsets during its 2002-03 financial year and is relying on betting to help make up for the slowdown of its main business. Mobile phones are likely to be the next new vehicle for betting. 3G services will allow casino-gambling games with attractive graphics and colour. Before too long, almost everyone will be able to have a taste of Las Vegas at the press of a button. Or will they? As outlets multiply, so do concerns about the negative effects of easy access to gambling. The internet has stoked anxieties that children will be targeted. According to GamCare (a British "responsible gambling" organisation), only seven of 37 gambling websites recently tested stopped a 16-year-old from registering online. Thanks to the increasing availability of debit cards to children as young as 11, vetting the age of online punters is obviously not easy.

The spread of traditional land-based casinos also inevitably causes controversy. There is some evidence that rates of suicide, bankruptcy and domestic violence all rise when casinos arrive in a city. However, a study in 1999 by an American commission set up to assess the impact of gambling found little evidence of any rise in these social ills when casino gambling is legalised. One reason is that it is hard to separate the impact of other factors, such as the state of the economy.

A harder perception to fight is that casinos, like lotteries, exploit the poor. In recent years they have been launched most often in the poorer bits of America. In the 1990s the fading rust-belt cities just south of Chicago brought in riverboats to create jobs that offset some of those lost by the ailing steel industry. To an extent that has worked: new jobs have certainly come. However, it is hard to tell how many people end up paying their wages back in the form of gambling losses.

Not so cheap thrills

Perhaps the biggest controversy attaches to "rapid-play" machines that give punters the chance to chase their losses, often using credit cards to rack up surprising debts in a matter of minutes. Australia has one of the highest rates of problem gamblers in the world, at around 2.2% of the adult population. That is due in part to a proliferation of gambling in pubs and social clubs, with a heavy emphasis on rapid-play fruit machines. Other countries are likely to try to limit the machines' spread.

But America's gambling industry is not exactly quaking in its boots. Years of learning how to defend itself at home have turned it into a formidable lobbying force. It points out, for example, that just over 1% of the adult population in any country will be prone to gambling addiction. It has donated millions to addiction clinics and other causes.

The effort has been so successful that the industry has largely shed its once dodgy reputation. But can it repeat its domestic success as it goes global? Deregulation favours it, as do the casino companies' obvious business skills. However, competition and a proliferation of outlets will drive down returns. How the big companies respond to that will decide their future more than anything else. In the short term, they will concentrate on establishing themselves and their brands using terrestrial casino outlets beyond America. But in time, further consolidation involving the internet seems inevitable. The question is how long new entrants have before the next shake-up begins. Odds, anyone?

APPENDIX II - CAN YOU DO IT?

The following article records the state of South Carolina's path taken to ban pokies. The case resulted in pokie machines being banned as a result of a court hearing and the machines removed in a matter of days. This reference is included to provide an instance where a radical decision was made, and put into effect.

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"From Mad Joy to Misfortune"

R Randall Bridwell
Dr Frank L Quinn

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