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SENATE

SELECT COMMITTEE ON INFORMATION TECHNOLOGIES

Reference: Online gambling in Australia

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CANBERRA

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SENATE

SELECT COMMITTEE ON INFORMATION TECHNOLOGIES

Friday, 1 October 1999

Members: Senator Ferris *(Chair)*, Senator Mark Bishop *(Deputy Chair)*, Senators Calvert, Harradine, Lundy, McGauran, Stott Despoja and Tierney

Senators in attendance: Senators Mark Bishop, Ferris, Harradine and Stott Despoja

Terms of reference for the inquiry:

To inquire into:

a. the nature, extent and impact of online gambling in Australia;

b. the feasibility of controlling access to online gambling, especially by minors;

c. the adequacy of State and Territory regulations in relation to online gambling; and

d. the need for federal legislation.

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Committee met at 9.01 a.m.

COLQUHOUN, Mr James Robert, Chairman, Canbet Pty Ltd

SWIERINGA, Mr Derk, General Manager, Canbet Pty Ltd

CHAIR—Good morning. Can I welcome you to this first hearing of the Senate Select Committee on Information Technologies in relation to its inquiry into online gambling. Online gambling is a new and growing industry in Australia, and the purpose of this committee's inquiry is to examine its nature, extent and impact at this early stage in its development to ensure that, if there is a need for regulatory intervention in the operations of the industry, these measures are put in place at the earliest opportunity.

We will today be hearing from witnesses representing various government agencies and industry groups. Unfortunately, since we publicly announced details of our program we have been advised that Mr Nick Xenophon, independent No Pokies campaign member for the Legislative Council in my state of South Australia, and Dr Robert Bayne from the Australian Medical Association are now unavailable to give any evidence to us today. Accordingly, the committee now proposes to hear all other scheduled witnesses in sequence before adjourning at approximately 1.30 p.m. The committee will also be conducting hearings in Sydney, Melbourne and Alice Springs to ensure the comprehensiveness of its inquiry.

I now welcome our first witnesses, Mr Derk Swieringa and Mr James Colquhoun, representing Canbet Pty Ltd. The committee prefers that all evidence is given in public, but you may at any time request that an answer to a question from either me or one or my colleagues is given in camera—that is, in private—and we will hear that request. However, you should note that any such material given in camera could be made public by order of the Senate. The committee has received your submission and has published it. Copies are available from the secretariat officers on my right. Would each of you like to make an opening statement to the committee before we move to questions?

Mr Colquhoun—I will make a short one. Canbet is a bookmaker and, therefore, carries on business in effect under contract with its customers. It seems that in Australia the distinction between gaming and wagering is becoming increasingly blurred. I think that is a shame, really, because wagering is what Canbet is all about; it is the placing of a bet by a backer with Canbet, and that is a contract between the offer by the backer and the acceptance by Canbet of that proposition. Gaming, on the other hand, all takes place in a machine. There is no contractual relationship between anybody.

Bookmaking has been legal and well regulated in Australia for over 100 years. The only modern development is that it is available legally to people who wish to bet on sports. Canbet has made a commercial decision to offer to accept bets on sports in the ACT. To do that it had to be licensed under the laws of the territory, and it obtained sports betting licence No. 4 in August of 1996.

The contract between Canbet as bookmaker and its customers involves a judgment by the punter as to which team might win a particular sporting event—or, for that matter, which party might win an election. The punter, therefore, is pitting his judgment against the

judgement of the bookmaker, who has set the odds on that particular result. A very short description of that relationship is that the odds quoted by the bookmaker, if accepted by the punter, leave the bookmaker with a very small margin to win or, alternatively, a high risk of losing. That is not the case in gaming. The net return to the bookmaker in Australia on horseracing and greyhound racing is about 5.5 per cent. On sports bookmaking, in the way we do it, it is about four per cent. So the best you can do on a balanced book is make four per cent of the turnover, from which you have to pay your taxes and your overheads.

We believe there is a clear distinction between wagering and gaming. We do not wish to be lumped in with gaming—which seems to be where the Productivity Commission considers problem gambling arises—as 'bad boys'. We do not have problems with problem gambling, because our people are making what they think are informed judgments as to what they want to do, and then enjoying the sporting contest. That is all I wish to open with.

CHAIR—Thank you. Mr Swieringa, would you like to make a short statement?

Mr Swieringa—I will just add a couple of comments to what Jim has said. The difference between wagering and gaming is that in the gaming scene—where you are talking about poker machines or casino games, whether they are done in a casino, on the Internet or in a leagues club—the system is totally set so that over a year a poker machine will return 85 per cent back to the players and, depending on which state you are in, about 10 or 15 per cent goes to the club, and they divvy that up between the club and taxes. It is predetermined. Except for the people who used to drill holes in the sides of poker machines, there is no skill. In casino games the only skill that may apply could be in blackjack, but even there the casino can ban people who get too good at counting cards. So they are non-skill based.

The wagering which you do with a bookmaker is skill based. At its simplest it is the chap who sits down on Saturday morning with the newspaper and entertains himself by going through the favourites, making a judgment. Then there is the person who is a bit more interested, who spends maybe all week actually doing a form guide in much more detail. That develops then to people who are professional punters, who over the years do win, because they spend a hell of a lot of time at it. Of course, with modern technology, such as computers, the ability of the punter to gain information and to consolidate that information to help him make his selection is far higher than it ever was. So the contest is very sharp between the punter and the bookmaker.

It is interesting, as Jim said, that if bookmakers make 3.5 per cent gross margin, we think we are having a good time. As I said, it is interesting that, for example, poker machines have a 10 to 15 per cent margin to the clubs and taxes. When you then get into lottery products, the punter only actually gets paid back 60 per cent. So the odds are very much against them getting a high return.

In many ways it is interesting to think that the Internet people are choosing to do sports bookmaking on the Internet, but you do ask yourself how different that is from the person who signs up for Internet share buying. Again, Internet share buying is a test of skill—knowledge of the market—and timing. I think, as the Productivity Commission has recognised, the sort of people who are doing Internet sports gambling are younger, have

higher incomes and are better educated. I suspect that they are also the people who are doing the e-trading. That is all I want to say.

CHAIR—Perhaps I could open the questioning by asking you to build a little profile of your business for us. I note that you most frequently take bets from the United States, which I find interesting given that Internet gambling is prohibited in most states except Nevada. Can you give us a profile of the sort of person who gambles with you? Can you tell us a little about the way in which you ensure that under-age people are not able to gamble with you? Have you looked into whether people have a problem? If you determine that somebody is gambling in that way, how do you deal with that? How do you set up the accounts? We need just a profile of your business activities.

Mr Colquhoun—It is not true to say that Internet gambling is illegal in the US. It is not illegal at all. The punter or the backer commits no crime under federal law or under most state laws.

CHAIR—So it is the person who receives the bet?

Mr Colquhoun—Yes, it is the person who receives the bet, and that is not thought to be changed by Senator Kyl in his bill. For obvious reasons it is almost impossible to enforce that, so our window of opportunity was to offer American citizens a legal way of doing something that they had been doing illegally for years. The offer by that person in the US is a perfectly legal offer and the acceptance of that offer by Canbet under its licence in the ACT is perfectly legal and therefore both ends of the contract are legal. We are properly regulated. So that became a great window of opportunity.

Where it is illegal in a state, under state law, to offer to place a bet, we indicate on our Internet site that is the responsibility of the punter. If he is barred by his own jurisdiction from placing a bet, he should not bet with us. If he is under-age, he should not bet with us. Legally, if he opens an account and offers to place a bet, we make it a warranty that it is legal in his place of jurisdiction and that he is over the permitted age in that jurisdiction.

CHAIR—Can you take us through how somebody can open an account with you? Is it always a credit account with credit checks?

Mr Colquhoun—You go to the site and just get a form to fill in which asks a whole stack of questions, for some of which the answers are compulsory and for some of which the answers are discretionary.

CHAIR—Do you know the age of the individuals? Do they have to provide proof of age?

Mr Swieringa—As to the process of opening an account, 75 per cent of accounts are opened by people using a credit card, so we receive an Internet message to say, 'I want to open an account. I want to deposit $US500.' We then take that $US500, do a conversion to Australian dollars and then ring it through to the credit card company and obtain authorisation, so as to make sure it is a valid card. It is a bit like if you go and buy a dress; it is no different. So, having obtained the authorisation, the account is opened and we send

an email back—because the person is operating over the Internet—to say, 'Your account has been opened.'

The rules that are on the Web site—it is www.canbet.com.au and you can have a look at it—say that we reserve the right, which we do in nearly all cases, to ask for a photocopied copy of the credit card—back and front—with an ID, which is either a passport or a driver's licence. In the United States they have the same format of driver's licence pretty well as we have in which there is a photo—in which we are not particularly interested—and the name and age. So what we are linking is that the credit card that is used is in the same name as that in which the account has been opened, which is in the same name as the ID. Of course, if the age given on the identification shows a person is under the age of 18, we do not pay out. That is made clear in the rules right from the beginning.

It is fairly rare that those under 18 have credit cards. I suppose in *Melrose Place* they have credit cards but in reality very few people under the age of 18 have them. But, if they were to borrow dad's credit card to make a deposit and they had a win, we would not send the money back without the ID linking it. Even if somehow they winkle through that, when dad gets his credit card bill and sees 'Canbet Pty Ltd—$500', dad has the option of going to his bank and saying 'chargeback'. Banks do not dispute chargebacks. As long as he fills out the American form of a statutory dec. and says, 'I did not authorise this transaction,' the banking system just comes straight back to us and pulls it out of our account—no argument and no discussion.

I think there are levels of protections in there that make it reasonably effective that 18-year-olds do not collect wins from us. If they lose the money and if eventually there is a chargeback because dad said it was not his original deposit, it is our cost.

Mr Colquhoun—Because of the judgemental approach to this—that you are making a judgment about what team will win—it does not attract children. Children want to play in cyberspace casinos. They want to play poker machines and Nintendo. They want to play games; they do not want to have wagers.

CHAIR—Does that extend to things like American football, baseball and so on? So children do not want to bet on those?

Mr Colquhoun—No. Generally speaking, they do not. If they were and they were stealing dad's credit card and dad's driver's licence, we would have a lot more chargebacks debited to our account than we have. We have never had one on that basis.

CHAIR—You have never had one?

Mr Swieringa—On under-age persons we have not had one chargeback.

CHAIR—I have lots of other questions but I will pass the questioning to my colleague, the Deputy Chair—Senator Bishop—and see how we go for time.

Senator MARK BISHOP—Is the bulk of your business domestic or offshore?

Mr Swieringa—Ninety-eight per cent of our turnover up to this stage of our company has been offshore American support.

Senator MARK BISHOP—Is your company purely in the business of receiving bets?

Mr Colquhoun—Yes.

Senator MARK BISHOP—So 98 per cent comes from offshore and all of that 98 per cent is from the US?

Mr Colquhoun—Most of it; some is from Canada.

Mr Swieringa—While 98 per cent is US, the two per cent is Australia and Canada. From some informal information we have, we think that the one per cent that comes from Australia is mainly Americans in Australia.

Senator MARK BISHOP—Are the Americans betting on American activities in America or are they betting on other activities that are around?

Mr Colquhoun—They are betting on American sports, basically American football—professional and college—baseball, basketball—professional and college—and ice hockey. Sometimes there is a fight or a golf thing but that is rare.

Senator MARK BISHOP—What activities are Australian punters betting on?

Mr Colquhoun—Rugby league and Australian rules.

Mr Swieringa—Sorry, we do not offer rugby league and only very recently did we offer AFL.

Mr Colquhoun—Maybe we should explain that. We concentrated on the American market initially; we are now going worldwide and offering Australian. We are now taking worldwide the business we have built out of America. We are going to offer English soccer and the rugby World Cup, so we are gradually expanding the number of products. But the original products were to do with American sport and that is why Americans came to us.

Senator MARK BISHOP—Once you get through your initial growth spurt and establish your market, will your client base continue to grow or will it then level off and you will have the same punters just betting in a different way?

Mr Colquhoun—It has to grow. If it does not grow, we cannot succeed. That is because of the low margins. We have been in loss mode ever since we started. You have to get the critical mass where your costs become static and your turnover increases.

Senator MARK BISHOP—Have you got to that stage yet after four years?

Mr Colquhoun—Probably about now.

Senator MARK BISHOP—So you are going from breaking even to profit.

Mr Colquhoun—Yes.

Senator MARK BISHOP—How is your business in principle different from my going down to the local TAB on a Saturday afternoon?

Mr Colquhoun—I offer fixed odds.

Senator MARK BISHOP—You offer fixed odds?

Mr Colquhoun—Yes. To bet with us on a straight football match such as the San Diego Chargers playing the Washington Redskins, they have to bet $110 to win $100. So it is 11 to 10 on. Those odds always remain constant. The only thing that changes is the point spread.

Senator MARK BISHOP—The point spread?

Mr Colquhoun—The margin of start one team gets.

Senator MARK BISHOP—Do you receive bets on racing as well?

Mr Colquhoun—No. We are entitled to, but we do not. The policy decision is that we do not do it.

Senator MARK BISHOP—So at the moment the only bets you are receiving are essentially related to sporting activities?

Mr Colquhoun—Yes, sports.

Senator MARK BISHOP—Excluding racing.

Mr Colquhoun—Excluding racing, yes. We exclude it, but we do not have to exclude it; we chose to exclude it.

Senator MARK BISHOP—Are you intending to go down that path?

Mr Colquhoun—No.

Senator MARK BISHOP—Why is that?

Mr Colquhoun—It is just too hard. You cannot win.

Senator MARK BISHOP—Too much competition?

Mr Colquhoun—In Australia it is just far too hard.

Senator MARK BISHOP—In offering this punting service on football, basketball and the like, who are your competitors?

Mr Colquhoun—There is International All Sports in Darwin. Do you mean in Australia?

Senator MARK BISHOP—In Australia and around the world.

Mr Colquhoun—There are probably about 200 sites in the Caribbean offering the same sort of stuff we are.

CHAIR—Can you tell us a little bit about the Caribbean as you answer this question because there has been quite a lot of criticism of their sites.

Mr Colquhoun—If you want to start a cyberspace casino or sports betting business in the Caribbean, you go down to one of the islands such as Dominica, Grenada, Antigua, Dutch Antilles and you walk up to the—

Mr Swieringa—Police chief.

Mr Colquhoun—and he takes $100,000 and says, 'Go for it.'

Senator MARK BISHOP—And you just create all the necessary processes to achieve bets then?

Mr Colquhoun—You have to put it on the Internet and you have to have the right bandwidth and the ISDN lines and those sorts of things, but they can do it, and they do do it.

Senator MARK BISHOP—So you pay a fee to the local authorities and then you are in business.

Mr Colquhoun—Yes, you are away. They do not care who you are, what your name is and whether you are a goodie or a baddie.

Senator MARK BISHOP—Senator Ferris might want to explore some of those things. I do not at the moment. She might come back to it. So there are a couple of hundred firms internationally offering competitor services and you have two or three competitors in Australia. If I am a punter in Los Angeles or Boston betting on a football game through the Internet, why should I care whether it is through some place sourced out of the Caribbean or in Australia? What makes you attractive to me as a punter?

Mr Colquhoun—Because the perception out there is that we are well regulated. The money is held in trust before the contingency is determined, before the game is over. You cannot lose your money. I cannot pick it all up and run away with it. Over the three years we have been in operation, we have managed to convince all our customers that that is true. The Caribbean people find that very hard.

Senator MARK BISHOP—I saw in your submission that you are effectively regulated by the ACT government.

Mr Colquhoun—Yes.

Senator MARK BISHOP—In relation to that regulation brought down by that government, is that a key comparative advantage for you?

Mr Colquhoun—Absolutely. It certainly is.

Mr Swieringa—It is.

Mr Colquhoun—You can sell it, you see. Firstly, it is reasonable. Secondly, it is well designed. Thirdly, it is a selling point. Everyone believes that Australia is the right place to go.

Senator MARK BISHOP—Okay. What scale of money on norm is being bet on football games or whatever?

Mr Colquhoun—In individual bets?

Senator MARK BISHOP—Yes.

Mr Colquhoun—The phone betting minimum—we take phone bets as well as Internet bets—is $50. On the Internet it is only $10. The reason for the phone bet being bigger is that you do not want to tie your telephones up with some guy who wants to have little bets.

Senator MARK BISHOP—What is the maximum bet?

Mr Colquhoun—Maximum bets are at the discretion of whoever the bookmaker is on duty at the time.

Mr Swieringa—It should be added to that that as a company we have positioned ourselves in the medium area of taking bets. We would take great care in accepting a bet over $2,000 on any event. I am not saying we would not, but—

Mr Colquhoun—That is the stake.

Senator MARK BISHOP—Any individual bet?

Mr Swieringa—Yes, any individual bet. The average bet size with us—and it depends on different sports at different times—is in the area of $150 to $250. Obviously, we are not like the Saturday afternoon guys putting $10 on, but we are certainly not round the big end. We do not believe we have Chinese bookies coming in and hitting us with $20,000. It just does not happen.

Mr Colquhoun—We do not do it.

Mr Swieringa—We have taken a fairly conservative approach to build the business and to minimise our risk. You have more chance of having a balanced book if you are taking a lot of bets around $200.

Mr Colquhoun—It minimises your risk.

Senator MARK BISHOP—If this is not commercial in confidence, what is your annual turnover?

Mr Colquhoun—I will take you through the figures. We started business on 1 September 1996, so there were 10 months of operation till 30 June 1997. The turnover was $14.2 million. For the next full year, 1997-98, the turnover was $25 million. For the year 1998-99 the turnover was $47 million. This year it should be up around $80 million.

Senator MARK BISHOP—So it is growing significantly.

Mr Colquhoun—And it has to grow significantly.

Senator MARK BISHOP—Do any police agencies or government agencies come and inspect your books and your accounts for possible improper or illegal activities?

Mr Swieringa—Absolutely. We have a couple of extra requirements. Canbet is a privately owned company—it is not listed—but we are required to be audited. For example, Duesberrys have just completed their annual audit and that audit is a full commercial audit and the report is provided to the registrar of bookmakers in the ACT. In addition, all the directors of Canbet and key employees, both managerial and bookmaking, are required to go through a police check—fingerprints, the whole bit. The regulator can come in at any time and visit our premises. All phone bets are monitored—telephone calls are monitored.

Mr Colquhoun—Recorded.

Mr Swieringa—Yes, so if there is a disputed bet we can go back to that bet and if the dispute is a real dispute the regulator will adjudicate for us. But all those bets are recorded. In addition, all the Internet bets are currently being downloaded to the regulator once a week, and in the near future he is actually coming online to regulate us, so he will be able to tap into our activities live.

Senator MARK BISHOP—One of the suggestions that has been made in this debate, more particularly I suspect in the United States rather than here—and we will pursue it with the Reserve Bank and Treasury later on—is the issue of money laundering and improper use of money obtained from drug sales and the like. The suggestion is that large sums of money come out of Asia or the US and are put through punting activities, through various online casinos and the like, and then come back as clean money.

Mr Colquhoun—It cannot happen to us.

Senator MARK BISHOP—Why can't it happen to you?

Mr Colquhoun—The Cash Transaction Reports Act governs us and we comply with it. That is the Australian act.

Senator MARK BISHOP—What does that act say?

Mr Colquhoun—That act says that you cannot take any cash lump sums of more than $10,000 without reporting it. So we do not take any cash sums.

Senator MARK BISHOP—So if I ring up and put $20,000 on a team—

Mr Colquhoun—You could not do that without the money being in your account. You have to establish your account and to establish it you would have to comply with the Cash Transaction Reports Act.

Mr Swieringa—An amount of that size would not come from a credit card.

Mr Colquhoun—You would have to have won a lot of money to do it because you could not create the account with that amount of money.

Senator MARK BISHOP—Would you give any credence to the suggestion that online gambling is a vehicle for laundering large sums of money?

Mr Colquhoun—No, it would be far too hard. There are many easier ways than that. It is just crazy to even suggest it.

Senator MARK BISHOP—I meant not just in respect of your own company but more generally.

Mr Colquhoun—The level of account creation and the level of bets just would not lend itself to it. They are betting $10 to $300. It would take an enormous amount of time. You have to remember that you have to create an account first. You cannot bet on your credit card. You can only transfer money with your credit card. That money is then held in a trust account. It is in the name of the person who created the account. He cannot say, 'I want to put $2 million in it,' because the law will not let him.

Senator MARK BISHOP—I accept that. I am more referring to some of the briefings we have received in respect of activities out of the United States and the Caribbean.

Mr Colquhoun—That may well be the case. With our system it is just inconceivable. The Caribbean have no regulations like we have.

Senator MARK BISHOP—Just to summarise, the licensing process you went through for the ACT government is essential. It gives you a comparative advantage in that your customers trust you. You also need to have effective regulation for the establishment of bank accounts for trust purposes. You say that those elements are all essential.

Mr Colquhoun—Yes and they are also in place.

Senator MARK BISHOP—Thank you.

Senator HARRADINE—At the beginning of this public hearing I should declare an interest in that I have a telephone betting account and have had one for years. Generally speaking, is there any difference between odds that are available? I am not necessarily

talking about your major operation—that is to say wagering on football matches and sporting events—but in respect of online wagering compared to telephone betting?

Mr Colquhoun—No difference.

Senator HARRADINE—There is no difference in the odds or anything else.

Mr Swieringa—No. They are integrated into the same computer, if you like, risk management bookmaking system. Our clerks receive the bet on a telephone. They have a set of headsets on. As that bet comes through, they put it into the computer and do a read back of the bet. The read back, in a sense, is a recorded betting ticket. So if there is a dispute—

Mr Colquhoun—But that is not the senator's question. The senator's question is that the person on the phone quotes the same odds off the computer that the Internet is showing.

Senator HARRADINE—The same.

Mr Colquhoun—Exactly the same. It can change, but it changes both.

Senator HARRADINE—Sure.

Mr Colquhoun—The only thing that changes is the points.

Senator HARRADINE—This next question might be unfair or one which you may not be able to answer. I think back to the old bookmakers' club. There was a bit of difference between the odds there for various races but not much. In respect of competitors in that particular sphere now, is there much difference between the odds?

Mr Colquhoun—It is only marginal but it is there. It is competitive. You can shop around. You could look on the Net and find out what International All Sports point spread is as opposed to ours as opposed to Centrebet's. They might be marginally different. But either way, it does not really matter. What they are trying to do is balance the books. It is their decision how they think they can best do that. Our decision is how we can best do it.

Senator HARRADINE—At the beginning of your evidence today you drew the distinction between gambling and wagering.

Mr Colquhoun—Gaming and wagering; they are both gambling.

Senator HARRADINE—Yes, understood. You were concerned that the Productivity Commission may in its final report lump you in with the others. Could you elaborate on that a little?

Mr Colquhoun—As I said before, we operate a contractual exercise, whereas gaming is playing poker machines or cyber state casinos. The problem with gambling that has been identified in the Productivity Commission report I put fairly and squarely in the gaming area, not in my area. I also think any child problems are in that area, not in my area. I omitted to mention that our web site is really conservative and boring. It does not have flashing lights

and 'win win win' or anything like that. We want to attract the guy who is sitting out there making a judgment as to which football team will win; we do not want to attract a whole lot of children who want to come in and do strange things and distort our operation. The cyber state casino site opens itself to that sort of problem gambling—there is no judgment, there is no homework to be done, if I can put it that way, before you have your bet. My way is fun.

Senator STOTT DESPOJA—In the submission, and certainly in your verbal submission this morning, you referred to the fact that tight regulation gives you credibility. I am curious as to your thoughts about the different laws and regulations around Australia. Do you have an opinion on the inconsistencies or differences?

Mr Colquhoun—There are not many. The Northern Territory will permit a bet to be made directly onto a credit card, whereas the ACT law will not permit that. The ACT law provides an added advantage to the punter in that his money is held in trust. I do not think the other jurisdictions have yet come to that, but I think they all will. Generally speaking, in America, Australia is considered very well regulated. That is what we use as a selling point.

Senator STOTT DESPOJA—Indeed.

Mr Colquhoun—There might be only marginal differences, but the reputation of the country is one reputation, rather than a number of state reputations.

Senator STOTT DESPOJA—Do you have any changes that you would advocate to the role of the Commonwealth or the Commonwealth's jurisdiction in relation to gambling, online gambling specifically?

Mr Colquhoun—No, I would advocate that you leave it to the states and territories, because they compete with each other for businesses like ours and they use their tax regime to compete.

Senator STOTT DESPOJA—Do you have any procedures in place to deal with problem gamblers? Is that something that you are able to identify or have to deal with?

Mr Colquhoun—No. If someone wanted to self-exclude and asked us, 'Will you please not take any more bets from me forever', we would let him, even if he changed his mind the next week. We offer that sort of service, but that is about all.

Mr Swieringa—The ACT government is introducing new legislation to regulate casino-type games as separate from the sports wagering which we do. I do not know whether that legislation has been passed or whether it is in draft form.

Mr Colquhoun—It has been passed.

Mr Swieringa—There is a requirement for the Internet service provider to provide self-exclusion. At the same time, the ACT government is consolidating its management of this whole area. My expectation is that in the near future, although it is not a requirement on us now, we will be required to provide formal self-exclusion and counselling links on our web

site. If that is the case, we have no problem with that. In fact, we do it anyway, but no-one has ever asked to self-exclude yet.

Senator MARK BISHOP—Can you explain what formal self-exclusion is?

Mr Swieringa—If a person believes they have a problem and they get to a point in their own lives when they say, 'This has got to stop,' they can actually click a button on the Internet that says 'I wish to self exclude'. Then a process comes into place where the whole thing is frozen. The procedure would need to be developed, but we would then close the account. If there were a balance of money in the account, we would send it back to the person and close the account. But they can initiate it. There is usually also a provision of information on gambling counselling services. You just click on that, and that takes you to another Internet site which gives information which they can also follow up.

Senator STOTT DESPOJA—Are there any circumstances, apart from someone emptying their account or monetary reasons, where you would exclude someone or have had to exclude someone?

Mr Swieringa—Yes, we have excluded people who have beaten us constantly and at a very high stake.

Mr Colquhoun—But that is because we do not accept the contract. It is not because we think they are having the problem; we are having the problem.

Senator STOTT DESPOJA—I was getting at if you were identifying that they might have a problem, apart from the fact that they were beating you.

Mr Colquhoun—No, I do not know how we could identify that.

Senator STOTT DESPOJA—No, I understand that would be difficult.

Mr Colquhoun—It is not the sort of thing that is inherent. The problem gamblers do not want to do this sort of thing.

Mr Swieringa—The Productivity Commission identifies that clearly. With problem gambling, there is huge growth in dollars of gambling, and the problems are literally confined to poker machines.

CHAIR—I address this question to both of you. I am sure you are aware of the mood by some in Australia to ban all forms of gambling on the Internet. I wonder whether you could express a view on that, and also whether you could take us through how you see that process being able to be delivered in a technological sense? Have you got a view on that?

Mr Colquhoun—The short answer is that it is impossible. Even if by law you banned every operator in Australia, you could not stop the Caribbean operator.

Mr Swieringa—Or the Botswana operator.

Mr Colquhoun—You could only stop me operating by saying, 'You'll be breaking the law if you do it.' But that is not going to stop it happening.

Mr Swieringa—Because the Internet is global, you only have to type in 'sports betting' and hit 'search,' and 100 different sites will come up.

Mr Colquhoun—Three hundred.

Mr Swieringa—You can punch in any sorts of words that you like, such as 'rugby' or 'football', and those sites will come up. If we have been banned from operating in Australia, okay, we cease operating. It just means our site does not come up and a site in Botswana comes up.

Mr Colquhoun—It is impossible to stop. Therefore, it should be properly regulated. I say to you that it is properly regulated in Australia.

Senator HARRADINE—What about employing fiscal means?

Mr Colquhoun—By preventing the transfers of money?

Senator HARRADINE—Yes.

Mr Colquhoun—I think the national impact gambling study in America recommended that that be done, but I cannot see how that could be done either. The online banking system is such now that you will soon have international EFTPOS. How could you block it? I suppose you could legislate that the credit card companies are not allowed to—

Senator HARRADINE—Clearly in other fields of activities the Commonwealth does have these powers. In particular, they are utilised where criminal activities are identified.

Mr Colquhoun—They certainly have the power to stop a licensed person doing it, but the state—

Senator HARRADINE—Perhaps that question should be asked of Treasury.

CHAIR—On the subject of global EFTPOS, it is possible now to take an Australian credit card, walk up to a hole in the wall in the United Kingdom or the United States anywhere and get out a good deal of money, certainly more than you seem to be accepting as an individual bet from the United States.

Mr Colquhoun—Yes.

CHAIR—So I take that point. In the last couple of minutes I want to explore the statement that is around in this industry that the Caribbean run shonky betting enterprises, that many people have bet with them and either have lost money or have not been paid their winnings. I am wondering whether you have ever had this comment made by any of your clients. If you have, could you tell us the sorts of things that they say or they might have found? Also, could you tell me how you have marketed yourself into the US market? Have

you ever been there? Do you worry that, if you go there, given that you have been accepting bets from people who are able to place them but it is illegal to receive them—

Mr Colquhoun—I have been there, and I have no worry about that at all.

CHAIR—Would it worry you if you went there?

Mr Colquhoun—No. I have been a practising lawyer for 30 years, and my view is that, if both ends of the contract are legal, the transaction is legal. There are many American cases that reinforce that statement. I have not got any problems with that side of it.

As to how we market, it is mainly on the Internet. There are a lot of sites on the Internet. There is one that operates out of America called Bettors World. It assesses all the people offering Internet gambling and gives them marks out of 10. We are always in the top five. We bought a site on that and created a brand name. They have chat rooms which discuss the merits and demerits of various Internet bookmakers. We do very well out of that.

Mr Swieringa—We recently had a disputed phone bet. Because it needed to be referred to the regulatory body, it took us three days to resolve it. The bettor was very cranky about it and he immediately got on the chat message system of Bettors World and started bagging us. We were not very happy about that. But, as other people kept coming in and commenting, the whole argument swung over a day to 'well, isn't this really good that there are regulators? They may be a bit slow but isn't it good that there are government officials who are determining this?' In the end I suppose we would rather that it had not happened but it turned out to be a reasonable result for us because it came back to the word trustworthy. That was the main one that they used for us.

Mr Colquhoun—At the end the bloke who was upset put in what was in effect a 200-word apology. The problem was it was on a weekend and we could not get anyone to play the tapes.

CHAIR—Your comments on the Caribbean?

Mr Colquhoun—There are some reputable ones there that are well operated. Intertops is one. They originally started in Austria and went over there. They seem to be doing very well but they have been going since 1985. What happens in the Caribbean is that you can walk in there and buy a turn-key operation which gives you all the software and all that is needed if you have some customers. You pay the man who is the commissioner of police, if you have to, and then you can start straightaway as long as you have the bandwidth.

A lot of them do that but they do not last very long. Where they do not last very long, that is because they pick up all the money and put it in a suitcase and go away and do not pay the people or they lose. I do not really know, but I know that they do not last. Here the four licences were all granted in 1996 and they have all lasted, and they are doing quite well.

CHAIR—It seems that we have come to the end. We do appreciate the time that you have given us this morning. Your evidence has been very valuable. Thank you very much.

[9.49 a.m.]

CROSSIN, Mr Paul Dominic, Member, Australian Hotels Association

LEESONG, Mr Daniel James, Public Affairs Manager, Australian Hotels Association

MULCAHY, Mr Richard, National Executive Director, Australian Hotels Association

CHAIR—I welcome representatives from the Australian Hotels Association. The committee prefers all evidence to be given in public, but you may at any time request that an answer to a question asked by one of my colleagues or by me be given in private and we will take that into account. You should be aware that any answer given in private could be made public by order of the Senate. We have received your submission and we have published it. I wonder whether one of you would like to make a short opening statement. After that we shall ask you questions.

Mr Mulcahy—Members of the Senate Select Committee on Information Technologies, I would like to thank you for the opportunity to present to you today. Firstly, I would like to introduce my colleagues. Mr Paul Crossin is from Network Gaming, a company that has been recently extended into Internet gaming with a licence in Tasmania. Mr Daniel Leesong is the public affairs manager for the national body of the Australian Hotels Association.

As you may be aware you, the AHA represents the interests of approximately 7,500 hotels and resorts throughout Australia. I think it is appropriate to mention that there is a small number of members that are either operating an online gambling operation or looking at entering this emerging market. Mr Crossin's company, which is associated with Federal Hotels in Tasmania, is one such member. The AHA is not unequivocally opposed to the development of online gambling sites. We recognise that this is a new and emerging sector. However, it should, with its increased availability in the home, be subject to regulations that control the provision of the services.

The issue of effectively regulating this emerging sector is a difficult and complex one. The range of issues, such as online gambling legitimacy, computer fraud and hacker operations, accessibility by children and invasion of privacy have been identified by experts in this sector as areas that will require major policy responses. Given the global nature of this industry, the hotel sector believes that there is a need for government to ensure there is a coordinated and national framework of regulation and taxation regimes. Additionally, traditional gambling providers that have invested substantially in capital investment should also be protected through regulations that ensure a fair operating environment for both traditional and online mediums.

As you would be aware, the hotel sector has particularly worked tirelessly to ensure that a range of responsible gambling initiatives have been implemented. Many of these I outlined yesterday before Productivity Commission hearings in Brisbane. Counselling services, self-exclusion, staff training and comprehensive industry codes of practice have been implemented and those businesses utilising the benefits of the online medium should be subject, to the extent that is possible, to the same rigorous commitment to providing safe gambling services.

Speaking from the Australian Hotels Association's point of view, rather than on behalf of Mr Crossin's company, we have made the observation that the recent issuing of the network gaming licence in Tasmania has shown that there is a potential for state and territory governments to stray from a consistent approach to regulating the online medium. It seems to us that it is impractical to suggest that Tasmanian residents cannot use their own Internet gambling sites but are able to use less legitimate and often unregulated sites that are based offshore. This is the present case under the Tasmanian arrangements. The AHA stresses the importance of ensuring that the online gambling medium works actively to promote responsible gambling. We have concerns about access to credit betting—that again is an AHA perspective—and we believe there should be a range of consumer protection measures to ensure access to minors is not only limited but in fact, to the extent that is possible, prevented.

Additionally, there may be an opportunity for hotels and traditional gambling providers to utilise the infrastructure and technology contained in the online medium to offer unique services. The AHA submits that it is essential that venue based online establishments are subject to the same licensing regime—or to an equivalent licensing regime—that currently exists in our traditional LAN based venues.

Again I would like to thank the committee for the opportunity to present our submission today, and I would welcome any questions. In appearing before you today, the AHA has taken certain perspectives in dealing with this matter in the broad. We would not purport to present ourselves as experts on the finer details of Internet gambling but Mr Crossin has a deal of experience, from his management in overseeing not only the network gaming operations in Tasmania but in particular the development of their Internet site. He has kindly agreed to join us today to assist in that regard. There may be some perspectives of the Australian Hotels Association that are not necessarily shared by Mr Crossin's employers. Where those matters arise, we will do our very best to identify them.

CHAIR—Thanks, Mr Mulcahy. In view of that experience, Mr Crossin, would you like to make a short statement?

Mr Crossin—In terms of the federal group, we have negotiated the licence for an Internet casino based in Tasmania. As a company, we have a very strong commitment to the Tasmanian community and we pride ourselves on the level of integrity and honesty in the conduct of our business. In going into the Internet industry—bringing casino to the Internet—we are concerned to ensure that the same levels of probity, control and responsibility are applied to that business as are applied to the Tasmanian operations so that we do not degrade, in any way, the standing we have in the community, and so that we can rely upon that standing as a significant competitive advantage in exporting our product overseas. That is the position I am representing here with the Hotels Association.

CHAIR—Would you see the profile of the casino gambler as being similar to the Internet gambler?

Mr Crossin—That has not been clearly determined. We have spent a fair bit of time addressing that question. We believe there is an overlap but we suspect it is relatively small.

CHAIR—Can you tell us about the work you have done in trying to define that market? I am interested because I was going to pursue with Mr Mulcahy the development of Internet gambling. He may have heard Mr Colquhoun go through the growth in his company which has taken it from a couple of million to almost a hundred million in four years. That is pretty spectacular growth, given that it is only sports bet. If you see an overlap in the profile of the Internet and the casino gambler, what are you going to do to make sure that the current position with hotels is not eroded by people choosing to stay at home and gamble on the net rather being interactive on the premises, either the casino or the local hotel? Mr Crossin might like to go first since he made the initial overlap comment.

Mr Mulcahy—I think the question has been deferred to me. This is an area of great speculation and I have a view that is not necessarily shared by a number of my industry colleagues. From the point of view of land-based operators, for want of a better term, rather than casino patrons, I think there will be an increased interest among people who might have a tendency to gamble to favour electronic, online services overtime. I have arrived at that view independently but I have also spoken to one of the gambling service providers in Victoria who regularly track trends and make observations ten years out as to what might be happening. They are very much of the view that there is a trend in our society—I am not one who thinks it is particularly desirable—for people to move more towards their own private entertainment.

People are not as social as they used to be and I guess there are issues there of crime and security and so forth. The net effect of it all is that people are spending an increasing amount of time creating their own entertainment on computers. You see it amongst young people now that they are spending—one might suggest—a disproportionate amount of time playing video games and so on. But it is difficult to believe that, with the best intentions of the world, that trend will not continue. That would suggest there may be a tendency for people to have virtual reality entertainment mediums in the home environment, and various other forms of electronic entertainment, that eliminate their requirement to go to outside venues, such as hotels, for their enjoyment. I think it would be a sad development in society that people would become what I would deem antisocial but you have to look at the growth in the range of electronic games and so forth—not just in the gambling dimension but elsewhere.

Looking at that sort of information, it would be very difficult not to reach the conclusion that that is the way things are heading. How long that will take, I do not know. What percentage of the population will insist on having the sort of social contact that we provide in hotel venues—the entertainment, the range of food and so forth—is difficult to speculate. I think, and this was reinforced by an earlier witness, there is considerable growth in that type of activity. Whether the profile is the same, we do not have any evidence for that—possibly some of the more specialised firms in the Internet area may—but I suspect it would be amongst the younger generations who may be more familiar with electronic gambling.

We certainly see amongst our patrons in hotels, for example, that those who like to play poker machines generally do not match the profile of people who like to consume alcohol on the premises. We see, and this is anecdotal, I cannot support this with evidence, a high correlation between people who play poker machines and people who drink coffee and soft drinks, so it is a different customer base that we have seen appearing. We have observed this

particularly in South Australia where there has been almost a displacement in some respects in terms of the focus because of this new type of customer who likes to play electronic gaming, for whatever reasons.

CHAIR—Presumably, Mr Crossin, you decided this was a market worth exploring to the extent that it is differentiated by the decision—not only by your group but also by Lasseters in Alice Springs—to offer both forms of gambling?

Mr Crossin—When we initially went into this business, we viewed an Internet casino as a casino. I think the company's view on that would be different now. The business is not necessarily running a casino. The skills required for an operator to run an Internet casino are totally different from the skills required to run a land based casino. What we do have in this process is a very good understanding of our consumer base. We spend significant resources ensuring that we understand who our customers are, what needs they are fulfilling in visiting our premises—whether it be a hotel, a club or a casino—and what other interests they have in their lives.

An interesting factor in this is trying to get an image of who we are talking about with Internet users at this point in time, and I agree with Richard that you have a classic take-up cycle here for technology, as you have in any other new area, and that you get the early adopters coming in and using the Internet. As the life cycle of this product progresses, people who are more conservative will become more comfortable with the Internet and begin to participate in the product. But, at this stage, it is the early adopters in the product's life cycle who are participating more in the Internet.

We have a product which gives us a bit of a picture as to who they are. There is a very strong representation for premium wines and premium end spirits. They are the sorts of people, as a correlation, who are using the Internet at the moment. We do not get a lot of those in the casinos at the moment. That is what we call more the high roller end of the market, the more serious, affluent gambler. But, as people become more confident in the Internet, certainly those who are further along that take-up horizon, they will participate in Internet gaming.

We went into the business thinking we would be able to use the skills we had in running a land based casino to offer an Internet casino. There are many skills required for an Internet casino which are not relevant for a land based casino, such as foreign exchange risk, international law et cetera. All of these things mean it is a different business. We believe it will become a product which we will be able to use to compete overseas against other land-based gambling operations.

Senator MARK BISHOP—Mr Mulcahy, in your submission you said, 'Of major importance is the development of an effective regulatory regime for Internet gambling sites.' What are the essential features, in your mind, of that effective regulatory regime?

Mr Mulcahy—There are a number of issues that are paramount. I guess—speaking both as a parent and also as an industry representative who deals with this issue in the Australian environment—there needs to be every possible measure employed to make it inaccessible to minors. I realise that technically that may not be entirely achievable but I certainly believe

the impact of minors accessing this facility can be severely contained. I understand from Mr Crossin that in the case of his company the level of credit extended over a cycle of two months would provide a strong level of protection against stolen credit cards being misused for this purpose.

I think also, and this would be an issue that only the banking industry could respond to, that there is a capability for the banks to be required to deny access to their facilities by operators that are operating outside the regulated environment. This issue came up yesterday at the Productivity Commission hearings, but I understand from Mr Crossin that the US government at some point—we are not sure of the precise details—was able to impose on the US card operators—Visa, MasterCard and the like—an insistence that they not do business with certain organisations. I believe that they threatened to take proceedings against those institutions if they were to accept sale of certain products through their facility. I know that the banks would probably be less than enthusiastic to embrace such a level of responsibility in the credit card area, but there is a persuasive case that unregulated operators should not be entitled to use the facilities that are available in the banking system.

Those sorts of measures ought to be imposed. We would also favour some method of requiring the providers of these services, where they are under the regulated environment of our jurisdictions, to at least support, participate in and encourage the services that are available to people whom we would generally identify as problem gamblers. The Productivity Commission has identified that as being, in the broader Australian community, around two per cent of the adult population. It is debated as to whether it is 1.6 per cent or 2.2 per cent, but we would not take issue with those finer details. But, as is the case with Federal Hotels, which Mr Crossin is associated with, and with our members throughout Australia where they have access to gambling services, the providers of these online facilities should not be permitted to simply enter the market to make a quick dollar. If people can set up businesses that grow from $1 million to $100 million, that is fine for their investment, but attaching to that is a considerable responsibility to the community to ensure that the activities that they are promoting are not causing unintended harm to people who are not responsible in the use of these facilities.

I have been advised by some of the banking industry that somewhere between three to five per cent of their cardholders are unable to manage access to credit cards. The banking industry recognises that there are people who cannot handle things of that dimension. Similarly, the online gambling companies must recognise that there will be people who misuse those facilities, who go beyond the normal level of enjoyment, and that there need to be controls in place. They would be some of the key elements. I am sure there are others that we may come to, but they are some of the key elements that we would suggest should be considered under these arrangements.

Senator MARK BISHOP—When I looked through all of the submissions there emerged not a uniform but a fairly common thread on the issue of regulation. There was a desire for effective regulation, there was a desire for regulation that allowed the online gambling industry to develop in a proper way, and there also seemed to be a desire for uniform and national regulation. Mr Crossin's company has relationships with the Tasmanian government. The previous witnesses have a relationship with the ACT government, and operators within the NT have relationships with the Northern Territory government. In the market there

appear to be different regulations emerging in the three principal areas. Does your organisation have a view on the need for national regulation, or should we allow that to develop ad hoc at a state or territory level?

Mr Mulcahy—In the context of electronic gambling services such as these, or the online gambling services, we would prefer there to be, to the extent possible, a nationally controlled situation. I said in my opening remarks that we were already concerned that inconsistencies were emerging. We cited the inaccessibility by Tasmanian residents to their own gambling site, but they could hop onto a site in the Caribbean that could be totally unregulated. We saw that as fairly illogical, and we would certainly seek that there be some national measure of control. I am not sure how difficult it will be to achieve that for the Commonwealth because of constitutional issues, but I would imagine that, in electronic areas, there is more scope for the Commonwealth to move than there has sometimes been in other areas of gambling, which have been more traditionally handled by state governments.

Senator MARK BISHOP—There is a posts and telegraphs power which probably covers communication and media.

Mr Mulcahy—Yes, I recall that. We would favour a national approach. Ideally there would be an international approach, as exists in areas such as copyright and the like, but we understand that that would be a fairly monumental task.

Senator MARK BISHOP—So you favour a national approach. Do you also favour a uniform approach?

Mr Mulcahy—From the point of view of businesses operating cross-border within Australia—interstate—the need for consistency and uniformity is desirable. In most areas of business we can achieve that. Where there are likely to be companies operating outside a state environment, there is a strong case. In our land based gambling operations there tends to be very limited interstate activity. Even operators with multiple hotels tend to be in one state, except for our accommodation sector. So it is not such an issue there. In the electronic commerce area there is a more persuasive case for uniformity and a national approach.

Senator MARK BISHOP—Thank you.

Senator HARRADINE—One of the previous witnesses referred to the fact that the Productivity Commission has said that problem gambling is largely in the pokies area, the gaming area. Would you agree with that?

Mr Mulcahy—They may have said that, but it is certainly not supported by the evidence we have. The highest problem area is in the area of wagering, according to the research of the Productivity Commission.

Senator HARRADINE—Wagering is betting on the races?

Mr Mulcahy—Yes.

CHAIR—Perhaps you could expand a little for us.

Mr Mulcahy—I am not sure of the rules about crossing jurisdictions in committees, but I would like to make available to the committee our response to the Productivity Commission. I will, for the purposes of the record, draw attention to page 36 of our response, where there is a table which is from the Productivity Commission's own research. Certainly in terms of their research, the problem of gambling prevalence was very high in sports betting in terms of its rating under an accepted measure for determining problem gambling. Bingo was the second highest. Wagering was also high. Gaming machines were not quite as high. Keno was a little higher. This survey is fairly complex. The work of the Productivity Commission was based on a number of different approaches, and led in some areas to slightly inconsistent data, but it certainly indicated that, whilst there was no question that there was a percentage of the population that had difficulty with gaming machines as problem gamblers, there were also a significant number in other methods of gambling.

We certainly encouraged the commission to consider ensuring that all sections of the gambling industry—not just those in control of the poker machines—were contributing to self-exclusion programs and to the various other activities provided by welfare agencies to deal with people who may get into difficulties with gambling. You see a lot of that happening in the sections of the industry involved in electronic gaming and the casino sector, but there is a marked absence of activity in relation to other forms of gambling. Certainly the commission's work suggests that they are by no means immune from these difficulties.

Senator HARRADINE—From just a quick calculation of the figures that you read out, it would seem that gaming was more of a problem, and that problem gamblers were gaming ones rather than wagering ones. You talked about keno—that is gaming and so are lotto and bingo. Could you just read those figures out again please.

Mr Leesong—Sure. The commission based it on a SOGS score. If you answer yes to a certain number of questions you get a certain score. SOGS 5 is where they drew the line as a potential problem gambler. SOGS 10 is an extreme problem gambler. With a SOGS 5 score, they found that sports betting was registering around 9.5 per cent; private games, 9.6 per cent; bingo, 9.4 per cent; table games, 7.4 per cent; keno, 6.4 per cent; gaming machines, 5.1 per cent; and racing, 5.1 per cent. So there is quite a big differential there between sports betting and other forms of gambling and gaming machines.

Mr Mulcahy—I may have misled the senator there. I was talking about sports betting, and I think we confused the term with racing.

Senator HARRADINE—That is a potential problem.

Mr Mulcahy—The test for identifying problem gamblers who engage in those forms of gambling—

Senator HARRADINE—But that is potential—SOGS 5. What about SOGS 10, the actual problem gambler?

Mr Leesong—Gaming machines actually registered one of the lowest, with sports betting among the highest—one per cent; table games, 1.1 per cent; racing, 0.85 per cent; private games, 0.88 per cent; gaming machines, 0.76 per cent.

Senator HARRADINE—I would like to see those figures.

CHAIR—The committee will make arrangements to have those pages photocopied.

Mr Mulcahy—There is a fair section dealing with the SOGS issue and how the method was arrived at, but most of the people involved in researching problem gambling accept the survey method as a way of identifying people who have a problem with their gambling activities.

CHAIR—Can you explain to us what SOGS means?

Mr Leesong—It is Southoaks gambling study. It is quite complex. They ask a series of questions which are designed to judge how people respond to their gambling habits. A person might be asked a question such as, 'Do you feel guilty when you have finished gambling?' If the person answers yes, that is a 1 for their SOGS score. They might be asked, 'Do you bet more than you would wish?' If they answer yes, that is another 1 score. Another question is, 'Do you hide your betting habits from your wife or from your family?' That is another 1 score. They are questions based around that sort of study. In the research community for gambling, the academics tend to accept the SOGS score as the industry standard, if you like, of gambling research.

CHAIR—Thank you for that explanation.

Senator HARRADINE—With all of the gaming area which is available in hotels, including bingo, keno, poker machines et cetera, there is a considerable gambling problem. How do you overcome that? How do you suggest to your members that this be attended to?

Mr Mulcahy—There has been a range of different measures in different jurisdictions. The issue is complex, as I am sure you would appreciate. Apart from the survey work that Mr Leesong is referring to, in an open environment it is not always that simple to identify what might be a problem gambler. If I could pick a couple of very simplistic examples, you can look at a person's attire—a person might not look as if they are particularly affluent but they may be spending large amounts of dollars. It may be that they are in a position to do that. Another person may look as though they are quite affluent and be spending a moderate amount, and it may be in excess of their means. There are significant difficulties in identifying what would be a problem gambler to an employee of a hotel. As much as our primary responsibility is to protect the interests of our members, we also share responsibility in the position of our employees who are attempting to do their job in a sensible fashion.

As an industry, we have voluntary contributions and special tax measures in place in various jurisdictions. In South Australia, as Senator Stott Despoja and Senator Bishop would be aware, there is a voluntary levy on every gaming machine, which is accumulated.

Senator HARRADINE—Senator Bishop is from Western Australia, although he had contact with South Australia.

Mr Mulcahy—Thank you. Those funds are made available for distribution to appropriate agencies, with the participation of a number of welfare agencies determining how those

funds will be allocated. In Queensland there is a component of the tax that is made available for a range of welfare activities. Again, under the administration of the Queensland government, those funds are distributed. In Victoria there are similar sorts of programs. I am not as up to date on where things are in Tasmania, but I know that the industry works very closely with the various welfare agencies down there and is supportive, and it has raised funds to assist in dealing with those people in the community who may have difficulties.

Senator HARRADINE—The old pub has gone, hasn't it?

Mr Mulcahy—I would not say that the old pub has gone so much as the nature of business has changed in a number of different parts of Australia. For many years hotels have been reliant upon the sale of alcohol and, in more recent years, food as a method of operating. Gambling has injected increased capital into those operations and it has not only made them more viable but it has enabled them to upgrade their facilities. South Australia would be one of the best examples of where the industry was almost on its knees several years ago, and we have now seen hotels improve. We have seen hotels less reliant on the sale of alcohol, and there are fewer difficulties because of that. I think there has been a reduction in harm to society because hotels no longer have to sell alcohol to survive.

In an environment such as the ACT, where we are at the moment, hotels have been consistently denied gaming machines, and there is an incredibly heavy reliance on the sale of alcohol. With that, I believe, goes a range of social issues because there is no other source of income for hotel operations. In Western Australia, where the government has consistently denied access to gaming, hotels are either failing or, sadly in some cases, are engaging in activities and practices that are not desirable in terms of responsible service of alcohol. The difficulty is that if governments deny access to new technology or new services to hotels, they are essentially asking them to rely on the sale of alcohol. I do not think, in our society, that forcing people to rely on that as their sole source of income in providing entertainment is necessarily good for society as a whole.

Senator STOTT DESPOJA—I want to begin by picking up that last point. Is it the case that gaming machines et cetera have made the industry, say in the case of South Australian hotels, more viable, or is it the case that hotels are increasingly dependent on poker machines in order to maintain their viability? I have a friend who owns a pub who says that he cannot imagine keeping a business alive without poker machines. What is your theory?

Mr Mulcahy—I guess the answer is yes on both counts, in some respects. I do not want to sound indecisive, but you can still operate a hotel without gambling, and there are hotels in markets where gambling is available that choose not to have poker machines because of the type of customer they attract or because of the area they are in. I see parts of Sydney where there is not much interest in gambling because they are areas where there are a lot of young professionals who do not seem to be attracted to those sorts of venues. But, speaking in the main, as I travel around Australia I see hotels that have gone into the gaming area that have been able to create an entire package of entertainment and hospitality, which is where the consumer is expecting standards to go.

If you are solely reliant on alcohol for your business, as I said earlier, your capacity to provide the range of services is not there. What we have seen from the ABS study on pubs,

bars and taverns that was released in June this year is a radical decline in the quantity of food being sold in non-gambling establishments and a marked increase in food sales in gambling establishments. This tells us that people are going to those venues for an all-round experience. They are not simply going to play pokies. They are saying that a particular venue has got gaming, but it is also able to offer a good range of food, good bar facilities, good music and so forth, and all that is part of the viability of those operations.

To quote specifically for the record, the food sales in hotels offering gambling facilities increased from $352.7 million in 1994-95 to $510 million in 1997-98.

Senator MARK BISHOP—That is not news. That is the way clubs have operated in New South Wales for years—that multifaceted entertainment approach where families or individuals go and one aspect of their expenditure essentially provides cheaper services in the rest of the venue.

Mr Mulcahy—In the case of clubs, they are able to offer vastly cheaper food and beverage services because of their tax advantage position.

Senator MARK BISHOP—You can go to a club in New South Wales and enjoy the cheap food, the gambling, the grog and other forms of entertainment.

Mr Mulcahy—The difference is that in the club situation those services are offered at very low prices because the clubs are not required to pay federal tax—and that is another issue we have pursued vigorously, as you may be aware. In the hotel situation, where they are not in a position to simply give away food and beverages to attract people to gambling, we have seen that the gambling facilities have enabled the hotel to upgrade and make more contemporary operations, and many people are going there simply to eat food because of the quality of the service available. Similarly, they are abandoning the hotels that do not have gambling facilities. We saw a fall there of 20.69 per cent. Some of those people are drifting into the cafe scene as well, which is part and parcel of Australian cities these days. We are seeing it take off particularly in Brisbane and elsewhere, and it is certainly well established in Sydney and Melbourne. But we are also seeing, with our own industry, a significant number of consumers voting with their feet and saying, 'If a hotel offers all these facilities, that is where we will go.' There is a decreasing level of interest in facilities that are simply outlets to serve alcohol.

Mr Crossin—In support of that, in Tasmania, in addition to doing Internet gaming, I am also the General Manager of Network Gaming, which runs all the gaming machines and keno through hotels and clubs within Tasmania. I am very close to operators in the other states and I understand the environment they are operating in as well. In Tasmania, 60 per cent of the population visit a hotel or a club at least once every three months. Twenty per cent of the population in Tasmania participate in gaming—keno or gaming machines—once every three months. What has occurred with the introduction of gaming machines has not been to drive demand. It has been in response to the consumers' demand, but it has enabled a significant increase in the sophistication of the product offered, which is being supported very strongly in terms of the actual patronage for those venues.

I would also like to make a statement in relation to the manner in which responsible gaming is conducted within those outlets. I believe it is, without a doubt, world leading in terms of what we are doing. Whilst money is important—to contribute money to fix the problem—it is also critically important that we identify the problem before it becomes a problem and that we structure our hotels and clubs to minimise the harm that may be caused by it. That has certainly happened right across the board at the highest level in Tasmania, it is happening increasingly in Queensland, and I am sure that it will start to happen more in Victoria.

In those issues, I am talking about the way that we provide advice to the hotels on how they design their gaming venues in terms of having open, light areas rather than subdued lighting. If you read all the gambling industry reports, they say subdued lighting is a contributing factor to gambling related problems. We work with the venues to ensure that we look after the consumer because we wish to ensure that we have a position in the community for the long term. The hotel operators are in there with a long-term investment and wish to ensure that they manage their customers properly, which means that they have them there as a long-term customer. We actually do a lot of work to ensure that issues in the hotels with respect to gambling problems are covered off, and I believe they are covered off to the highest possible standard. When you translate that into the Internet environment, Federal Hotels is concerned to ensure that that same level of respect for the individual is maintained. It certainly is not maintained with many of the overseas operators operating out of the Antilles or wherever.

CHAIR—I was just going to make a point, Mr Mulcahy. Surely the growth in the food industry sector of a hotel is related also to price. I also come from South Australia, and a hotel not too far from where I live offers a roast meal for lunch for $3. I have noticed a lot of elderly people going there, and I am grateful they have the opportunity to buy nutritious food at a low price, but I think the growth in the distribution of food is related as much to price, however much it might be subsidised by the poker machines and whether or not most people then go on to spend some money on the poker machines. There is a market there which perhaps is unrelated to poker machines whilst being subsidised by them.

Mr Mulcahy—Yes. Obviously, though, price is a factor. The evidence we presented to an earlier inquiry threw some doubts about the correlation between people accessing budget priced meals and playing gaming machines. In fact, I have seen work in South Australia that illustrated that the exact opposite occurred. People were going to venues in some of the less affluent areas of Adelaide, accessing the modestly priced meals and filling the car parks and those restaurant facilities whereas the prospective gambler would move on because of the difficulty of getting into the places because so many people were accessing the cheap meals.

I acknowledge that price is an important factor. I guess, though, our observation is this drift in activity of people from one area to the other. There are other factors, such as the two-income household and the fact that younger people seem to be less interested in preparing meals at home. I know that a lot of the people who work in my own organisation seem to eat out regularly at one level or another. It seems to be part of the modern culture now.

Senator STOTT DESPOJA—I have a few more questions. First of all, could I ask you, Mr Mulcahy, to elaborate on some of the techniques that the hotel industry uses to deal with problem gamblers—in particular, the ability for patrons to ask for self-exclusion?

Mr Mulcahy—I will refer that to Mr Crossin. I think he is looking after 100 hotels on that very issue.

Mr Crossin—The approach we adopted in setting up gaming through hotels and clubs in Tasmania commenced with an evaluation of all the research which had been done by the Australian Institute of Gambling Research looking at the probability of people developing compulsive gambling behaviour and identifying the factors which work to cause a gambling related problem. Based upon that, we designed the venues in a way which would mitigate some of those factors, including accessibility to credit on the premises and location of cash withdrawing facilities within the gaming room and having a discrete area for the gaming machines rather than sticking them in an area people have to walk through. We designed it in such a way that, if a person was having a meal and wished to go to the toilet, they did not have to go through a gaming room so there was no impulse process involved. They were the structural aspects.

The industry then funded the establishment or the support for the welfare groups, assisted them to become established as an industry working group and developed a code of conduct for the industry. That code of conduct addressed such issues as not serving alcoholic drinks to people who are playing on machines; not conducting promotions based around alcohol; providing rest areas for people so that when they are gaming they can move out into an area; and providing small business cards saying, 'If you think you may have a gambling related problem, here is the number to call.' That has to be located at every cash point, whether it be for a Keno terminal or for getting coins from machines, strategically around the gaming rooms.

We also addressed such issues as putting signs on the backs of all the toilet doors to advise that if people have a problem there is a number they can call; providing brochures on how to determine whether you may have a gambling related problem; putting in place training courses for every licensed employee in the state, which the Hotels Association conducts to ensure that all the staff are aware of the potential for people to develop problems, how to identify people who may have a problem and how to assist them to manage those problems; and putting in place self-exclusion arrangements so that, if a person wishes to be excluded, it is easy for them to do so, even though there are a lot of issues with that. It becomes very difficult. If a person excludes themselves from one hotel and decides that they wish to go back in, they can go to another hotel. That is a difficult one to manage, but it is an important component of the equation. That is state wide with notification, so that is circulated through.

We then have situations where our staff, particularly in relation to Keno, monitor in real time every bet that goes on the network. We train our staff in how to identify a problem gambler. If you get a person who is doubling up all the time, they will see that pattern appear on the screen and they will ring the hotel and say, 'There seems to be a person there who may be credit betting or may have a problem.' We pursue that proactively. I think that is pretty impressive. That has resulted in us having the lowest incidence of problem

gambling in Australia as per the draft report of the Productivity Commission. Based upon the reports by the various social groups which are monitoring people attending for assistance with problem gambling, it is also showing that in the actual incidence of problem gambling cases coming to TasCOSS, Anglicare, Centrelink or whatever in that area the lowest area is from gaming machines, hotels and clubs in Tasmania. We have done it very well, I believe.

Senator STOTT DESPOJA—Clearly, in terms of those statistics, Tasmania is doing better than the other states. You obviously attribute that to some of the codes that you have implemented. What is your opinion on the other states then? If this compares so well, are there similar patterns or procedures in other states? For example, where does the G-line operate?

Mr Crossin—The G-line is the South Australian one.

Senator STOTT DESPOJA—South Australia only?

Mr Crossin—South Australia has put in place those same processes in terms of the responsible gaming, the code of practice, the code of conduct. New South Wales is going, or has gone, down the same path, and I believe that Victoria is going down the same path.

Mr Mulcahy—Victorian has self-exclusion programs and complaints handling facilities. There is an independent tribunal that looks at that and a secretariat to deal with any complaints against advertising. I believe there has not been an unsatisfied complaint—or not too many. Each state has a range of measures. One of the reasons Tasmania also has such a good track record is probably that it was the first place in Australia to have a legal casino and it gave it a lot of focus—as I am sure Senator Harradine will remember—back in the early 1970s when that happened. A lot of these issues came up probably earlier in Tasmania than they did in the rest of Australia because of that casino being built. It would certainly have given Federal Hotels a longer time to consider all the issues, so it has probably evolved to a more developed stage.

Senator STOTT DESPOJA—How would you assess the impact of Internet or online gambling on your industry in terms of any impact on revenue? Is that something that you are able to quantify?

Mr Mulcahy—Do you mean on the hotel land based component of our industry, because obviously we represent some of the interests such as Lasseters Casino and Federal?

Senator STOTT DESPOJA—Yes.

Mr Mulcahy—At this stage we are not aware of any significant impact at all. In fact, we are not aware of any impact from these operations. The industry is in its very early days. I have no access to revenue figures and have not sought to inquire as to the revenue figures generated, also keeping in mind that a deal of the revenues may be coming from offshore. So there are export earnings, if you like, into Australia that would not be impacting adversely on the Australian industry. I do not know what percentage of domestic and international players there are on these online facilities. Mr Crossin may or may not be in a position to elaborate, but certainly at this stage we do not see an impact. I believe that in 10

years, because of the way in which things are changing, this form of entertainment along with a range of other new things that are coming through will have an impact on electronic gaming machines. That is a personal view, not an official view of the association.

Senator STOTT DESPOJA—I have one more general question, Mr Mulcahy, and it relates to a comment you made in that you do not want to see antisocial behaviour. How do you respond to people who perhaps lament the decline in, say, the live music industry in hotels and pubs in Australia which they directly attribute to the gaming industry and the increased number of poker machines or keno, et cetera, in hotels? Is that something you are able to counteract? Do they have a legitimate argument?

Mr Mulcahy—There has been work undertaken recently by a New South Wales branch. I would be happy to obtain that information and submit it to the committee, if I may. I have been involved in the discussions only to a very broad extent. What I would say, however, is that I know they subscribe to the view that there is still in fact a wide level of live entertainment in Australian hotels. I know that the *Australian* newspaper, for reasons of its own determination, continues to initiate stories of that sort of nature saying that the poor old musician has been destroyed by the poker machine. If we look at a two-year history of News Ltd, we see that in each of their newspapers throughout Australia they have waged a consistent campaign against the Australian hotel industry's electronic gaming machine activity, on many occasions without any newsworthiness in the story. They have simply been initiated at editorial level. We have seen this in the Hobart *Mercury*, the Adelaide *Advertiser*, the *Daily Telegraph*, the *Courier-Mail* and the *Australian*. I find it intriguing that one newspaper group sees this issue constantly and it does not emerge elsewhere.

The other factor is that the price of live entertainment versus electronic entertainment is in fact the most overriding consideration. Many of our venues, even before poker machines were on the scene, took the view that the cost of just simply having recorded music as opposed to a DJ was a cheaper and more manageable option. Unfortunately for the live musicians that development in electronics coincided with many of them trying to ask for higher rates for performances. I think there are more complex factors involved, Senator. That would be my observation, but I will secure some additional material which they have gathered in our state office which is more specific in terms of numbers.

Senator STOTT DESPOJA—Thank you.

Senator MARK BISHOP—Mr Crossin, I think you said that your organisation runs 100 Federal Hotels around Australia.

Mr Mulcahy—Can I just correct you, Senator. That was my comment, but what I meant is that there are 100 hotels in Tasmania offering gaming under the Network Gaming group, but they are not actually owned by Federal Hotels. They handle the gaming arrangements under the legislation in Tasmania.

Senator MARK BISHOP—Thank you, Mr Mulcahy. Mr Crossin, Mr Mulcahy told us earlier that his organisation favoured uniform and national regulation for online gambling. Your organisation has dealt with the Tasmanian state government. Do you have a view on that issue?

Mr Crossin—Yes, I do. We favour a national model. In fact, that is what we are working under at the moment. A group of the various state regulatory bodies who meet regularly have developed a basically broad outline common framework for the regulation of Internet gaming. Whilst Tasmania is not a signatory to that, we have adopted all of the controls that are attached to that for the Tasmanian market. We believe that to be competitive against other operators we have to operate under similar controls and also to protect what we see as the main competitive advantage we have against overseas operators, which is the fact that we are regulated. People playing on our site can do so with a high degree of confidence that if they win they will be paid and that the odds are not rigged in any way. That is a major competitive advantage from our perspective and therefore we would support a common approach or at least an approach in common for all the states.

Senator MARK BISHOP—So you would support a national and uniform approach to regulation?

Mr Crossin—A uniform approach across the states. The Tasmanian government's perspective at the moment is that they have declined to commit to the national model.

Senator MARK BISHOP—We will come to the Tasmanian government later. I want to pin you down on this issue. You favour a uniform approach to regulation. Do you also favour a national approach to regulation?

Mr Crossin—Regulation of what, Senator?

Senator MARK BISHOP—Internet online gambling.

Mr Crossin—Yes, we do.

Senator MARK BISHOP—Thank you. I now turn to the issue that you are licensed to provide online gambling services to apparently all of Australia and the rest of the world excluding residents of Tasmania. Is that correct?

Mr Crossin—That is correct.

Senator MARK BISHOP—Can you explain to the committee why that distinction exists? Why are the good citizens of everywhere else allowed to gamble through your company online but not the good citizens of Tasmania? What is the justification for that?

Mr Crossin—I believe it was politically motivated in that at the time the discussions were occurring between the company and the Tasmanian government there was a degree of concern about the level of penetration of gaming within Tasmania. The Tasmanian government wished to support Federal Hotels pursuing an export strategy but did not wish to aggravate further the issue of state based gaming. So they put that condition in there.

Senator MARK BISHOP—Did the Tasmanian government express concerns to you of perhaps untoward social costs attached to their residents gambling online in Tasmania?

Mr Crossin—No. The agreement was struck in the week before the state election. It was driven by, I would suggest, political considerations and not based upon any real understanding or concern regarding the social implications of gaming in Tasmania.

Senator MARK BISHOP—Is that agreement a letter of exchange or is it in current legislation?

Mr Crossin—I am not exactly sure of the terminology here. We have the licence under the Gaming Control Act. There was an interpretation of the Gaming Control Act which said that the Gaming Control Act 1997 was broad enough to encompass an Internet casino. There was a document provided by the Crown to specify that that was their interpretation and that was the basis for Federals proceeding with an Internet casino.

Senator MARK BISHOP—So where does the exclusion for Internet gambling come for residents of Tasmania?

Mr Crossin—Effectively under the Gaming Control Act the Tasmanian Gaming Commission may issue rules regarding the conduct of a gaming operator, and that is covered under that section of the act.

Senator MARK BISHOP—Is your organisation planning to readdress the issue, considering there has been a somewhat recent change of government in Tasmania?

Mr Crossin—No, we are not readdressing the issue.

Senator MARK BISHOP—So you are not readdressing the issue?

Mr Crossin—No.

Senator MARK BISHOP—Have any residents of Tasmania made any objection or comment to the fact that they cannot engage in this pursuit?

Mr Crossin—It has not become an issue at this point in time. We have not launched the site. We do not expect to launch the site until probably just before Christmas. It is currently in testing with the government's testing laboratory. We will not be launching the site in Tasmania. In fact, we will not be launching the site in Australia. We will be launching the site overseas because we view it as an export product. Therefore, I would suggest that it is unlikely that it will get significant comment from the public in Tasmania because there will only be a limited level of awareness of it.

Senator MARK BISHOP—So you are launching the site overseas which is regulated by Tasmanian regulation?

Mr Crossin—Correct.

Senator MARK BISHOP—How would you stop a resident of Tasmania accessing that offshore site?

Mr Crossin—We require every person registering to submit details regarding their identity, including their name, date of birth and place of residence, and their bank account details. We then cross-reference that against a database to determine whether they are whom they say they are, and anybody who cannot show that they are from a market that we are actually targeting will not be permitted to play on the site. We are being very restrictive in the areas that we do target for the very reason that we do not wish to cut across any other country's legal position.

Senator MARK BISHOP—So what will your target market be?

Mr Mulcahy—I think there are commercial considerations there that Mr Crossin is a bit concerned about. It is not sharing this information with the committee that is a problem but the fact that in doing so we might be sharing this information with competitor organisations.

Senator MARK BISHOP—That is a fair comment. I am just intrigued. You are launching an online casino offshore under Tasmanian regulations, and you have certain markets that you are trying to chase and one of them is not residents of Tasmania. Are residents of other states excluded?

Mr Crossin—We will not be targeting or accepting bets from any Australian based person. We will not be targeting or accepting bets from any United States citizen or United States based person. We will also be very careful with Muslim countries. We do not wish to offend local cultural interests. From there, we then look at the markets to say where we think the potential revenue base is.

CHAIR—Why are you not targeting the United States market?

Mr Crossin—We are not targeting the United States market because it is against the law of that country. If we took a bet from a United States based person, then as general manager I could have legal action taken against me. The company will not operate in any market where it is contrary to the laws of that country.

CHAIR—We had contrary evidence from the previous witnesses, one of whom gave us his credentials as having been a lawyer for 30 years. But I am not suggesting that you should necessarily follow his advice.

Mr Crossin—I think you will find that legal action has already been taken against one of the operators by the United States.

Senator MARK BISHOP—So, in summary, the licence issued by the Tasmanian government is directed solely at export revenue—that is the market that you are chasing—and the key issue is the probity attached to the regulation emerging in this country, isn't it?

Mr Crossin—Correct. From our perspective, the online gambling industry—where there are currently some 400 online operators offering gambling facilities on the Internet and it is worth about $US1 billion a year—has significant growth potential. It has potential that we would like to exploit in a responsible manner. We believe a major factor in targeting that market is to turn around and project ourselves as being an Australian regulated site, with all

the positives that come from that regarding safety, trust, et cetera. We need to be able to do that in a way which justifies the tax that we pay in Australia, to ensure that the social costs of it are addressed, against the competitors who do not have the security requirements and regulatory controls over them and therefore operate at a lower cost and pay taxes of five per cent or less. The difference between their position and ours—what makes us competitive—is the government regulated environment. We believe that is a very important factor if this industry is to be successful for Australia.

CHAIR—Thank you, Mr Mulcahy, particularly, for offering us the material that you have presented to the Productivity Commission. That will be very valuable. Thank you also, Mr Crossin, for making yourself available.

[10.58 a.m.]

FARAGO, Mr Robert (Private capacity)

GRIFFITHS, Mr Anthony George (Private capacity)

CHAIR—I welcome Mr Griffiths and Mr Farago. Thank you for making the journey to Canberra from the Gold Coast. We prefer as a committee to receive all evidence in public, but if any of my colleagues ask you a question which you would like to answer in private please tell us and we will consider your request. I should make it clear to you that any evidence given in camera could subsequently be made public by an order of the Senate. The committee has received your submission and it has been published. I wonder whether either of you would like to make an opening statement before we move to questions.

Mr Farago—Yes, thank you. We would like to thank you for the opportunity to appear before the committee today. We sincerely hope that our contribution will add value to the discussion. We appear today wearing two hats. Firstly, we are directors of an Internet service provider and in many ways we would stand to benefit from the proliferation of online gambling, both from the increase in the number of hours spent online by consumers and by the provision of many services to the online gambling industry—for example, bandwidth and web site hosting. However, we are also here as ordinary citizens who have observed the expansion of the gambling industry, particularly gaming machines in the last decade. Recently, we have been alarmed by reports from the various commissions on the impact of gambling. Those commissions have been both in the US and Australia, as you are no doubt aware, and they have outlined the incredible social costs of gambling to society.

Despite the benefits we personally might gain from online gambling, we are here to urge extreme caution before allowing gambling to spread to this new medium, because the accessibility of gambling products would explode to every home and workplace—in fact, everywhere—with an Internet access device. The Productivity Commission used the words 'quantum leap in accessibility', and we would agree with that. The increased accessibility of the types of products which currently do the most harm—for example, gaming machines—and the types which are currently least accessible, for example, casino games, would very likely increase the problems of gambling.

Secondly, community sentiment seems to be against further gambling expansion, and we refer to the Productivity Commission's survey where 75 per cent of people surveyed said that gambling does more harm than good and 92 per cent opposed further expansion of gaming machines. Thirdly, we believe that Australian youth could suffer the most from problem gambling, due to there being a high correlation between the demographics of Internet users and people with problem gambling.

In conclusion, we do not believe that banning online gambling—if the parliament was to go down that path—is out of the question, because of what we understand to be the US government position. They would make a powerful ally in designing control measures and participating in enforcement. If we do not ban online gambling, there is also a risk that the US might take a very dim view if we were to target their citizens in this area of the industry. We believe technical measures are not enough to regulate online gambling, due to encryption

and other issues, so we believe that the financial system could be used to regulate online gambling.

CHAIR—Mr Griffiths, did you want to add to that?

Mr Griffiths—I really have nothing much to add to that. I will take questions as they come.

CHAIR—Fine. I am very pleased that you have come before us because, as you have explained to the committee, you are already Internet service providers; so, presumably, we can ask you some technical questions about blocking access and you will be able to give us some informed answers. I noted your comment in your opening statement, Mr Farago, that you would see the financial system being used to block access to Internet gambling. Presumably this would be by blocking the transfer of funds back into Australia. But is it not the case that the financial system is now so effective worldwide that trying to block in that way would be difficult, if not impossible?

Mr Farago—Firstly, I am not an expert in the financial system's workings. However, just thinking about how it might work, I believe that there could simply be regulatory controls. For example, one might not allow credit cards to be used by Australians for online gambling, and that would cut down on the success of credit cards being used by online providers. Some people have suggested that the way this could work is that debts incurred on credit cards would not have to be paid. I believe that people have tested legislation like that in various US states and in the end have not had to pay their gambling debts. That is a bit of a roundabout example, but it might give you an idea of some of the things that are possible.

The other aspect is the efficiency of the financial system. Again, I am not an expert. However, I believe that there are approximately two billion electronic financial transactions for Australia in its entirety each year—according to the Reserve Bank web site anyway. A typical Internet provider like us would do more than two billion Internet transactions per year. By that I mean: get this particular web page or that image off the Internet. Under current legislation we will be blocking those sorts of transactions, so I would put to you that perhaps the financial system could investigate the feasibility of that.

CHAIR—Technologically, would it be possible to do it?

Mr Farago—Blocking in the financial system?

CHAIR—No, preventing people from using the Internet to gamble. You are suggesting that there is compelling evidence to support a ban on Internet gambling, and you have just said that basically the financial system is the way to do that. Is it possible to do it by any other way—for example, by trying to block on the Net—or is the financial system the only way?

Mr Griffiths—You can do partial blocks on the Net. You can stop what is called the http protocol, which is commonly used for viewing web pages. But anybody who wants to bypass that can do so quite readily by downloading from a selected site a special viewer, or

something like that, which would then totally bypass any proxies and so on that ISPs would put in place.

CHAIR—I think you just answered me. I think your answer then is no.

Mr Griffiths—Yes, basically—

CHAIR—So, realistically, although you say there is compelling evidence to support a ban, you believe the only way that that ban could be imposed is through the financial system.

Mr Griffiths—We believe that technically, by itself, you cannot do it. There are significant issues—

Mr Farago—There are just enough ways to get around it that you just could not—

CHAIR—I think it is called tunnelling, isn't it, Senator Stott Despoja?

Mr Griffiths—Tunnelling, encryption and various other techniques.

Senator HARRADINE—What about the new technologies in the area to block?

Mr Farago—Are you referring to perhaps dynamically filtering the content or something like that?

Senator HARRADINE—Yes.

Mr Griffiths—You run into the same problem—

Senator HARRADINE—Let us take the Caribbean, for example.

Mr Griffiths—that all the person has to do is encrypt the packets. So, unless you have the budget of the CIA and you try to do an on-the-fly decryption of an encrypted transfer, you have no idea what actual data transfer is taking place; it is just some random bytes being transferred backwards and forwards.

Senator HARRADINE—I understand that, but what about future technology to break the code?

Mr Farago—Encryption is a very esoteric branch of mathematics. The US government, for example, has spent a lot of money and time researching it and has made it available for institutions like banks to securely transfer information. So I have some confidence in how good the scrambling technology is. It is used by financial institutions every day of the week. If there was a future breakthrough in mathematics which would allow scrambling to be done easily, then I believe that would be a great threat to financial systems, because they rely on these technologies to secure their transactions. So, technologically, I do not think there is an easy way to solve the encryption and tunnelling problem. Does that answer your question?

CHAIR—I just have one question, and then I will move to my colleagues. You have talked about Australia's youth being particularly at risk from problem gambling. I am just wondering if you can explain to me how you see problem gambling being linked to online gambling and, in fact, whether you see the growth in online gambling presenting further evidence of a problem with gambling in Australia.

Mr Griffiths—I will answer that. The Productivity Commission estimates that revenue from gambling—this is the actual losses by punters—has increased from $4.6 billion to $11.3 billion in the space of 10 years. The curve is actually trending upwards, rather than downwards, so it is actually looking fairly bleak. That is a 250 per cent increase in gambling, as opposed to a 34 to 35 per cent increase in the GDP of the country in that time frame.

CHAIR—Is it not the case that the controls on Internet gambling—the fact that you can only bet off a credit card that you have already predetermined the amount of, establishing your bona fides, not being paid in cash, and so on—are more effective than the controls on other forms of gambling, where you can go to the hole in the wall, which is often very close to the hotel, and take out as much cash as you want and then blow the lot in an hour?

Mr Griffiths—As long as there are good exclusion capabilities in the online gambling system, yes.

CHAIR—So your concern is with some sort of either state based or overarching federal legislation which controls the access to online gambling rather than—as I thought you had suggested—a total ban?

Mr Griffiths—If you cannot totally ban it, and we are not ruling that out—

CHAIR—Do you think you can totally ban it?

Mr Griffiths—You can make it illegal. The point is that gambling is still available. We are not prohibiting gambling by making online gambling illegal.

CHAIR—I believe Lassiter's biggest clients are the United States and Germany—the United States anyway. It is questionable depending on whom you believe. As to this question of banning it in a particular country, people are finding ways around it. The United States is probably the best example.

Mr Griffiths—Is Lassiter's attempting to weed out US customers?

CHAIR—We have not taken evidence from them yet, but they have made that information available to me.

Senator MARK BISHOP—I am intrigued by your submission, Mr Griffiths. Essentially you argue that there has been a huge growth in gambling in recent years in Australia, that more facilities are available and that the attached social cost to that growth in gambling is so high that other forms of gambling should not be permitted. You then recommend that, if possible, online gambling be banned. But all of the adverse developments in terms of social

costs have come from real sites, not virtual reality sites—that is, casinos, hotels and restaurants in all of the states. Any social costs that are attached to date are minimal to zero from online gambling by residents of Australia. What is the justification for banning a future industry, the online gambling industry, but not banning existing land based gambling industries which are directly causing the growth in untoward social costs? I do not see the logic in your conclusion.

Mr Griffiths—The logic is perverse in that you are saying we have an industry which has a social cost—and I think 3.3 per cent or 200,000 people are problem gamblers. That group on average loses $12,000 a year, which is fairly substantial.

Senator MARK BISHOP—Yes, but that is the gambling industry.

Mr Farago—I believe the key is accessibility, and we have seen that loss exponentially increase as gaming machines have been made more available in our society. Our argument was that, if we allow online gambling, a gaming machine will be in every home, every workplace and every community where there is a PC potentially.

Senator MARK BISHOP—That is a fear that might exist some time in the future, but at the moment we have huge social costs attached to gambling around Australia. My point is that, if you are so keen to attend to the social costs, why do you not argue for banning of existing gambling, not for unrealised future problems?

Mr Farago—I think a lot of people have argued that to the Productivity Commission. That is their right, and we welcome people trying to address social costs. Our submission was to do with online gambling, so we can have that conversation—

Senator MARK BISHOP—I understand that. I am not being overly critical; I just do not see the connection in terms of your regulation from current social costs and this as yet developing industry. The online gambling industry has not been a contributory factor to current social costs attached to gambling abuses.

Mr Farago—But people who know more than us say there is a direct link between accessibility and problems. We are saying, with online gambling, accessibility will increase. So there is a danger of there being a growth in problems.

Senator MARK BISHOP—I understand your argument: accessibility leads to danger. The second point I want to raise is whether you have a view as to the nature of regulation of this industry, if any. Should we have uniform and national legislation or should we simply leave it to develop on an ad hoc or needs basis at a state or territory level?

Mr Farago—My understanding of the existing model is that each state does its own thing under a common model. Theoretically, that sounds very workable and perhaps is a function of the way the Commonwealth-state relations work. However, I think there is a potential conflict of interest or perceived conflict of interest by the states because they are beneficiaries of gambling related revenue in the form of taxes, and they are also regulating it. In my mind anyway, that creates a problem.

There are also inconsistencies, as the previous speaker has pointed out, in that Tasmanians cannot gamble at a Tasmanian casino, but Western Australians might not want their people gambling at online casinos at all. I think there are already inconsistencies between the different states, but I am not a lawyer and I really do not want to speculate too much on why that would be the case.

Senator MARK BISHOP—So you do not wish to comment as to the nature of any regulation?

Mr Farago—I believe there is a problem—

Senator MARK BISHOP—Essentially, do we go to a uniform national approach, or do we stay with the current state development approach?

Mr Griffiths—I think both of us would prefer a national piece of legislation which controls what the states can and cannot do in terms of financial systems or whatever. I would even argue that there should be a national broker which controls all money going between clients and providers so that, effectively, to use any online gambling facility in Australia, clients would have to go through a central broker. And any gambling facility would have to be a registered provider through that broker.

Mr Farago—If we are going to have online gambling, then we want people to be able to say, 'I have a problem with it. I want to be kept out of all Australian online gambling sites.'

Senator MARK BISHOP—Understood.

Senator STOTT DESPOJA—You argue in your submission that access to financial information, for example, could enable a form of regulation. Are there any privacy interests there which you think might have to be reconciled?

Mr Griffiths—There are privacy issues, as there are with people who open accounts directly with providers currently. If there were a national organisation which controlled the transfer of moneys, then I think the privacy issues would be even less, which might be an encouragement to use online gambling. But at least it is a central point of control where the tap can be turned off if an exclusion order is made or if a person wants self-exclusion. From that point of view, a central body improves the privacy of the client, which might not be a good thing, and allows better control over what is going on.

Senator STOTT DESPOJA—Earlier witnesses, in relation to access to online gambling by young people, talked about the processes which they believed would deny access to online gambling for minors. Are you convinced that there are such procedures in place and that they are effective? In this case, it was a combination of having to open an account. You did so presumably by using credit card facilities. The idea was that opening an account had to be verified with a copy of the credit card information and with a photocopy of a driver's licence or some form of ID. So you could cross-check the data to ensure that it is both legitimate and that they are over age. Do you believe those processes are working fine in some cases?

Mr Farago—I believe the issues are similar to that of mail order and over-the-phone stock trading or whatever industry you are talking about. Identifying people is a difficult thing, unless you go in with the requisite number of points, and the person can see you and match you with your photo ID and so on. If you just do things online, it is very difficult—until we have a regime in place that will allow very strong identification of people's identities, I guess.

Senator STOTT DESPOJA—We may be able to prevent the creation of gambling sites or hosts in, say, Australia, but how do you prevent Australians using overseas hosts or gambling sites? Any ideas?

Mr Griffiths—Webpage blocking is possible, but once a person has downloaded a piece of software from some site in Finland or somewhere that is not blocked—once they have a viewer on their PC—it is going to be impossible to stop them, basically.

Senator STOTT DESPOJA—Is it not better in that circumstance to have it regulated and perhaps taxed?

Mr Griffiths—That is an argument, yes. There is at least some social payback from gambling by taxing it.

Mr Farago—There is also the issue of operators operating in other jurisdictions where there is lower tax. There will always be pressure to decrease the tax in Australia from people needing to compete with overseas sites which are more lightly regulated.

Senator STOTT DESPOJA—That is an argument we are hearing a lot of right now.

Mr Griffiths—Making overseas sites illegal will stop a percentage of people, and the use of financial control mechanisms to try to stop funds transfers might catch another small fraction of a per cent of people. They are basically the options that are available.

Senator STOTT DESPOJA—Thank you.

Senator HARRADINE—I want to explore this question of accessibility. You mentioned that wherever there is a computer, whether it is in workshops or offices or whatever, there will be availability. What about filtering technology for end user purposes? For example, a government department head could want to ensure that nobody spends their lunch breaks on the computers gambling. In the event of a recommendation being made that online gambling be banned, what would be the effectiveness of such filters? What stage of technological development are they at? You are a major ISP, aren't you?

Mr Griffiths—We are a regional ISP in the Gold Coast area. We would be the biggest ISP in the Gold Coast region.

Mr Farago—Nationally we are a medium sized ISP.

Mr Griffiths—Most businesses are putting in what is called a firewall, which blocks certain data transmissions.

Mr Farago—That is done to protect their internal computers from the rest of the Internet. Firewalls are much more restrictive in what services you can use.

Senator HARRADINE—Firewalls are not much good in the event that you do want the Internet services.

Mr Farago—That is right, but firewalls have holes put in them to allow things like email and web traffic to go in and out, but you can stop some things from going in and out. To use an analogy from the real world, if you want to send something to the Australian Taxation Office you send it to PO Box 9994 in whatever your capital city is. You know that 9994 is the number of the tax office if you want to send something. Similarly on the web, if you want to do web traffic the number might be PO Box 80, for example, so you might only allow things going to or from 80 through your firewall. If an online gambling site provides an extra piece of software that works on another number, you would not be able to block that through your normal ISP, but if your firewall did not allow those other numbers then it can still be usable for email and web traffic behind the firewall, but not to do online gambling.

Mr Griffiths—Quite often, a firewall will implement a proxy so that the proxy fetches the data from outside—in terms of webpages or whatever—and not the individual PCs. You can then apply more filtering levels at the proxy itself. They might be able to download a piece of software, a browser or a Java output or something like that to plug into their browser, but once it fires up and tries to back connect to the gambling site the firewall blocks that connection. So, while they might be able to download some software from a banned site, they will not be able to connect to that banned site using that software.

Senator HARRADINE—I am trying, in practical terms, to get into my head what is needed to implement what you are suggesting—that is, a ban on online gambling.

Mr Griffiths—Technically, from an unprotected computer on the Internet—in other words, there are no firewalls or proxies or whatever between that computer and the site providing the gambling—there is no realistic way of blocking access.

Mr Farago—If there is encryption and other scrambling devices—

Senator HARRADINE—Yes, but what about an Australian site, which is going through an Australian ISP. If there were legislation—say, under the post and telegraph power or whatever—which implemented what you are seeking, what then so far as Australian ISPs are concerned? Of course, they could refuse business from the operator or content provider, but there might be rogue ISPs that would not accept that and would not refuse this type of thing. How would you deal with them?

Mr Griffiths—For an illegal gambling site, again, you would have the same problem of not being able to deny access. With a legal site there is obviously some central control authority that this person has to go through before they can get access to that site, so you can provide some sort of blocking.

Senator HARRADINE—What can be done for parents who are concerned about their young adult spending time accessing those illegal sites? I do not know your organisation very well, but is it possible for you as a responsible organisation to give your clients a filtering system to download so that that could be used as a blocking device or a filtering device?

Mr Griffiths—A certain degree of filtering could be applied but, again, once they have a piece of software on their computer—the site may have mailed out a floppy or whatever—they can bypass any filtering technique that we could possibly put in place. The way to stop unauthorised people accessing a site is for the site to provide blocks by having a user-name password or pin or something that has to be keyed in before you can get access to the games or whatever.

Senator HARRADINE—But it has to go through an ISP?

Mr Griffiths—Yes, but an ISP is really no more than you picking up the telephone and saying, 'I am allowed to call the UK but I am not allowed to call Bulgaria,' or something like that. It would be fairly difficult for Telstra or Optus to police that sort of activity. Yes, it can be done, but it requires a huge amount of resource to do it. If people start encrypting packets, there will then be an issue with decrypting them because that requires incredible amounts of computing power—tens of millions of dollars worth—and it might take a week.

Senator HARRADINE—I understand that, but I am trying to get to the filtering technology available to serve the purpose.

Mr Griffiths—The filtering technology available now is effectively a URL, which is just a string of bytes checked against a database. If it matches, you can deny access and it will return an error. You can do that at certain levels: you can do it at the PC or workstation level or by forcing people to go through a proxy system so that they cannot get direct access to the outside world. That proxy can then do the check and deny access. But that will only work for one in 64,000, effectively. Let me give some possible options. With respect to the way the TCPIP protocol works, you have these things called ports. The ports range from port No. 1 up to port No. 64,000 minus one. The web protocol uses port 80. It does not have to use port 80, it can use any port from one to 64,000, but by convention it uses port 80.

If an illegal site decided they were going to use some random port number, and they can change it dynamically, it does not have to be fixed—that is, every new client can get a new port number—then there is no way that ISPs can divert their packets to the proxy to do the check to say that this should be denied or this should be allowed. We rely on the fact now, with the transparent proxying, that everybody is using the port 80 convention so that our routers can catch their packets and say, 'Yes, it is a port 80 packet. I will not let it go directly, I will send it to my proxy. The proxy can look at it and either let it through or deny it.' If an illegal site decides to use anything other than port 80 our router will say, 'This is a random data transfer of some variety,' and let it through. So we can get port 80 blocking but nothing else. An illegal site will obviously try to bypass any sort of filtering that an ISP would put in place under regulations.

Senator HARRADINE—Are you then saying that it is unrealistic for us to accept your recommendations?

CHAIR—In relation to banning?

Senator HARRADINE—In relation to managing and making effective what you are suggesting.

Mr Griffiths—If we have legalised online gaming in Australia, then having a central site that clients would have to use to open accounts to access any of legal sites obviously provides control. It does not provide control on accessing an illegal site. An illegal site in Australia once it is found can have the Federal Police knocking on its door. If it is overseas, you complain to the FBI or whoever.

Senator HARRADINE—I understand that.

Mr Farago—That is why we have come to the conclusion that other forms of blocking need to be investigated—for example, using the financial system. Technically, if you are just shipping bits and bytes around on the Internet, it is very difficult to absolutely block sites. We are saying, because online gambling is a financial transaction of some sort, perhaps there could be more information available by which you could do some sort of regulation. We are not experts in the financial system, so we are just raising that as an option.

Senator HARRADINE—If you have any other thoughts on how to deal with Australian sites—I understand the point you are making about international sites—perhaps you could give them to us.

Mr Griffiths—I think basically it has to be a multilevel affair in terms of the regulation, in that online sites in Australia need to have either access to or control from a central point for exclusion and other types of activities. If a central broker were set up that all the legal sites in Australia had to become accredited with, any client would have to go through that central broker, which then gives a single point at which exclusion and the checking of financial transfers and whatever can be done.

Mr Farago—As for the political practicalities of that, we do not have an opinion on those.

Mr Griffiths—I do not think, quite frankly, that the states would like that particular model but it is probably the one that provides the greatest level of control of online gambling.

Senator HARRADINE—Leaving everything else aside, what about parents in the home or, as I said, someone in a government department? Let us deal with the home: they do not want online gambling in the home. What do they do?

Mr Farago—The existing filtering software can help to some degree, but it will not be a total solution. Firewalls in the home perhaps?

Mr Griffiths—Yes, firewalls at the home. Obviously you have physical access to the PC and it is somewhat difficult to secure it—but possibly offering firewall type access to selected customers by the ISP so they can put a firewall in place for certain customers saying, 'Don't allow anything other than these sets of protocols through this firewall.'

Senator HARRADINE—Is that expensive for customers?

Mr Griffiths—It probably might add a couple of dollars a month to their existing bills, that sort of level of activity.

CHAIR—Your evidence has been very interesting. Thank you very much for making the effort to come down from Queensland this morning. We have appreciated that very much.

[11.37 a.m.]

FORD, Mr David Kenneth, Executive Director, Queensland Office of Gaming Regulation

GORDON, Mr Brian Michael, Manager, Racing, Department of Treasury and Infrastructure, Australian Capital Territory Government

McKEE, Mr Desmond Edward, Manager, Taxation Services, Department of Treasury and Infrastructure, Australian Capital Territory Government

CHAIR—I welcome representatives of the ACT and Queensland governments. Mr Ford, thank you for coming down to Canberra this morning. The committee is grateful to your respective governments for permitting you to appear today to assist the committee in its deliberations on this issue. As you are probably aware, all evidence to this committee is given in public but if you are asked a question which you would like to respond to in private—that is, in camera—please mention that to the committee and we will take that into account. However, as you would probably realise, the Senate can order the disclosure of any information provided under those circumstances.

As public officials, you will not be required to answer questions which seek your opinion on the merits of your respective governments' policies. The committee has already received the ACT government submission from the Chief Minister, Mrs Kate Carnell, and we have already published that. The Queensland government's submission has not yet been received unless, Mr Ford, you have a copy with you.

Mr Ford—I have a copy with me. I had thought it had been transmitted, but I will check that as soon as I get back. I will ensure that if it has not been transmitted it will be forthwith.

CHAIR—Perhaps it may be possible for us to borrow that copy and quickly copy any recommendations that you may have. That would make it a great deal easier for us with our questioning. Perhaps that could be done while opening statements are being made. I propose to invite each of you in turn to make an opening statement—I am not sure if Mr Gordon or Mr McKee wants to make one statement on behalf of the ACT government—and then we will move to questions. Perhaps while Mr Ford is sorting out the question of his submission, the ACT government would like to begin. Mr McKee, would you like to make an opening statement?

Mr McKee—Yes, very briefly, and we would prefer to have just one statement for the ACT. First of all, in respect of the ACT's submission, I would like to make a clarification to the last paragraph on page 2. The paragraph reads:

> The ACT foresees that in the matter of taxation, unless at the outset the Commonwealth addresses the issue of Commonwealth/State financial arrangements in respect of gambling taxes, little progress will be made.

By this reference the ACT was suggesting, before we move to any new form of gambling revenue with regulatory standards, let us first overcome the perceived deficiency within the

context of Commonwealth-state financial arrangements and the Commonwealth Grants Commission's processes. The ACT is concerned about the use by the commission of household disposable income as the measure to assess the states' and territories' capacity to raise revenue from gambling activities.

The ACT has put a submission to the commission that it believes that household disposable income fails to recognise the differences in the propensity of individuals to engage in gambling activities. The ACT has the highest household disposable income in the country, hence the commission assesses the territory as having above average capacity to raise revenue from gambling, thus requiring less general revenue assistance. The ACT has raised the point in its submission for information, but obviously it will progress the matter outside of this forum. I just wanted to clarify what the ACT was intending by the statement.

CHAIR—Thank you very much.

Mr McKee—In relation to your inquiry, our statement is very brief. It is to say that the regulatory framework in the Australian Capital Territory does not attempt to regulate the thing we call the Internet, nor do we impose obligations on Internet service providers or Internet content hosts or any component or participant through the World Wide Web.

It is clearly recognised that if we set out to regulate or control the Internet we would fail dismally. What we do is to regulate the activity and operations of a number of individuals or entities that have been granted the appropriate licence or approvals to allow them to offer and accept bets via the Internet. In terms of online gambling, we facilitate it through the Internet; we do not attempt to regulate it. I think it is an important point that, from the ACT's perspective, we do not try to regulate the Internet.

CHAIR—I think it would be a fruitless task. Mr Ford, would you like to make an introductory statement or would you prefer us to question Mr Gordon and Mr McKee and then move to any statement you might like to make when you have had your submission returned to you?

Mr Ford—Whichever suits the committee. I am quite happy to make the statement without the submission.

CHAIR—It may be wise for us to wait until we have your recommendations before us. Perhaps we could focus on Mr Gordon and McKee at this stage while we wait for those recommendations to be copied. I will open the questions to each of you—we do not mind who answers. I wonder if you could take us through your legislation, which I think puts in place the desired outcome from the model agreement which all states have decided to take up. Could you cover why it is that, so far, you have issued a licence only for sports wagering and not for Internet gambling?

Mr Gordon—The ACT has two separate pieces of legislation which essentially cover online gambling. The first piece of legislation is our Bookmakers Act 1985. That act was amended in 1994 to specifically allow for sports betting. Over the last number of years, as a result of discussions between state and territory governments through the interactive wagering working party, the ACT strengthened the sports betting regulatory regime to

incorporate online betting. We have four licensed sports bookmakers at the moment, of which two have received additional approvals to enable them to accept bets via the Internet. That is why we have only two operators who have approvals to bet via sports betting. There have not been any licences granted at this stage under the Interactive Gambling Act, which Des could probably explain further.

Mr McKee—The ACT is assessing an application under the Interactive Gambling Act. We have had that application under assessment for almost 12 months now, and it is just a long process—largely to see that all the t's are crossed and the i's dotted. We have got the regulatory process there.

CHAIR—Is that process taking 12 months for political reasons or are there legal reasons? Could you take us through how that licence is evaluated? Presumably that will be the template under the Interactive Gambling Act for how other licences will be evaluated.

Mr McKee—To get a licence there are about three stages. The first stage is for the applicant to put information to the ACT to say that they have got the wherewithal to do it and who is involved. On that basis we do all the probity checking. That is basically the end of stage one. It includes things like business plans, financial backing, history, stability—all of those sorts of things.

Stage 2 is largely documentation of all the control procedures that we require for a system. It will include the physical security belonging to the site; the accounting requirements, including the auditability of the whole system as well as the financial accounting requirements; the security that is involved with the system itself—the firewalls so that the system cannot be attacked, or, if it can be attacked, so that it can withstand any of those attacks—and the responsible gambling requirements. It is largely a documentation process to see that all that we require in this system is there. And the third stage of the process is for the system to be built in accordance with stage 2 documentation.

CHAIR—Within the umbrella of responsible gambling, do you take into account the need to establish a framework to ensure that access to an online betting account is sufficiently controlled to prohibit minors from being able to access such an account or establish such an account?

Mr McKee—Those matters are certainly taken into account through the registration process of the player—for example, having to provide identification, proof of residency and those sorts of issues, and having those verified by the service provider, the licensee. There is also the issue of a PIN number or a password number for the person to be able to access. There is still the possibility that a minor could use a parent's credit card, but I would expect it would be very short-lived because of the financial bank statements that are provided on a monthly basis.

Senator HARRADINE—So you call that not regulating the Net?

Mr McKee—No, absolutely not. We are trying to regulate the provider of the service. The Net is just the medium which they use.

Senator HARRADINE—I am sorry, but without them the Net would be nothing. It is really a tautology, isn't it? You say, 'We are not regulating the net,' but without a content provider and without a service provider the Net would be nothing.

Mr McKee—True.

Senator HARRADINE—So you are going to regulate the situation. I have written down a number of things that you require before you license a content provider.

Mr Gordon—I think we actually license the service provider rather than the content provider.

Senator HARRADINE—Let us not beat around the bush: this is regulating the Net. It is regulating gambling.

Mr McKee—It is certainly regulating gambling, I will agree with that. But as to regulating the Net—

Senator HARRADINE—It is regulating—

Mr McKee—The activity.

Senator HARRADINE—Exactly.

Mr McKee—Which is gambling.

Senator HARRADINE—Over the Net.

Mr McKee—True.

Senator HARRADINE—Online gambling. I am sorry, but I get a bit confused when people say, 'We are not regulating the Net,' because that is what it is all about, isn't it, regulating online gambling?

Mr Gordon—The original approval of our sports betting licensees enabled them to accept bets via the telephone. We had regulatory arrangements in place where all telephone betting transactions were recorded, and the punter and the bookmaker had appropriate protections in place. The next stage was, instead of a punter picking up a telephone and talking to the bookmaker, he used his computer to talk to the bookmaker's computer. But the betting transaction was essentially the same. The regulatory framework was broadened to cover that telecommunications activity, but we are still maintaining the regulatory onus on the service provider, not the medium through which they transact the activity.

Senator HARRADINE—What about the question of 'responsible gambling'. Could you explain to the committee what you mean by 'responsible gambling'? Mr McKee said that responsible gambling was one of the matters that would be included as part of stage 2, and I wrote it down. I would be grateful if you would explain it.

Mr McKee—It covers a number of things. A player who registers with a provider is given the opportunity of being able to put in their bet limits. We are not talking about minors here; this is just a normal player. They can put in bet limits either per game, per bet or per session over a period of time, such as a month. There are to be warning signs about gambling. There is also information to deal with people who might feel that they have a problem—for example, hot linking to a counselling service, which is just a click of a button. It is largely to make people aware of what they are doing, and for the service provider not to ignore the likelihood that their clients could have a problem with gambling.

There are various reports that the regulator can obtain from the providers' data, and one of the reports is significant transactions. You can set a limit. For example, you might think a $1,000 bet or a $500 bet is a significant transaction, and you would get a report on those sorts of things. You could also match that with player account numbers and things of that nature. So there are those processes.

Senator HARRADINE—Is that onus on the provider, or are you accepting that onus?

Mr McKee—There is an onus on the provider to provide that report. So they will be aware of it, but they provide the report to the regulator. For people who want to be excluded, there is also a provision that allows them to be excluded. There is also a requirement under a proposed amendment to the ACT's Interactive Gambling Act to have the regulator inform all the service providers of a person who is excluded.

Senator HARRADINE—Mr Gordon, you are the Manager of Racing at the Department of Treasury and Infrastructure.

Mr Gordon—Correct.

Senator HARRADINE—We are talking about more than racing and gambling; we are talking about the gaming side of things. We did not have too much telephone gaming. Could you explain to the committee whether you are in fact a manager of racing and gaming or otherwise?

Mr Gordon—My title may not reflect my range of functions. I am responsible for the regulation and control of both the racing and bookmakers and sports betting in the ACT.

Senator HARRADINE—I see.

Mr Gordon—There are two separate regulatory regimes: one for wagering, for which I am responsible, and one for gaming, for which Mr McKee is responsible. As I said, there are two separate pieces of legislation which cover the online gambling activity. We share the regulatory responsibility of those two separate activities.

Senator HARRADINE—I am sorry to ask you this, but no doubt as ethical public servants you would have asked yourselves: is there a conflict of interest between your responsibility as revenue raisers in the taxation field and your responsibility to license those who might provide the revenue?

Mr McKee—No, I would say definitely not. Even by the Commonwealth Grants Commission's measures, the ACT has the lowest or second lowest revenue raising effort in gambling taxes of any of the jurisdictions. So it is regulation rather than revenue raising.

Senator HARRADINE—I was asking that as a philosophical question more than anything else.

Mr McKee—No, I do not believe so. The two organisations obviously grew up apart, but they are now together in one department of the ACT government. There are some areas that overlap between wagering and gaming. For example, if an applicant wanted to obtain a licence for a virtual casino and a licence for a sports book, two pieces of legislation apply. We see that those will be merged in the not too distant future. The ACT has set up its independent regulatory body, the Gambling and Racing Commission. It is not yet effective, but the legislation is in place. It is expected to be up and running in about a month's time. It will be the task of that commission to review the legislation and get rid of the overlaps.

CHAIR—Are you confident that each of the states and territories are going to adhere to this national model of legislation, given the natural competitive instincts of our Australian states?

Mr McKee—At the moment I would say, no, I am not confident, largely because the taxation rate in the Northern Territory at the moment is eight per cent. The taxation rate that has been put in either legislation or subordinate legislation for Victoria, the ACT and Queensland is the same, and it is certainly much higher. We understand that Tasmania is running somewhere in between with their taxation rates. In those terms, no, it is not going to hold together at all.

CHAIR—What is the answer to that, in your view?

Mr McKee—I do not think just the variation in taxes should necessarily take away from the national regulatory model. I think the model itself is quite sound. I would advocate that all jurisdictions take it on board. However, we know that Western Australia does not intend to regulate or legalise licensed online gaming in their state. But I think it is a very sound model and it should be followed.

CHAIR—Is the answer federal legislation in some form?

Mr McKee—I think the jurisdictions that have made a decision about which way they want to go with online gaming and those that have made a decision to introduce legislation to regulate it are regulating it quite well. I am not too sure what a Commonwealth piece of legislation might add to that.

Mr Gordon—Des has been focusing on the home gaming regulatory model. There is also a regulatory model for interactive wagering which all the states and territories are essentially in agreement with. That arrangement has formed the basis of the ACT's regime. The Northern Territory and a number of other jurisdictions are moving that way as well. There is national consensus on the wagering front, which is not necessarily shared by the gaming front.

CHAIR—Do you think online gambling will have an economic benefit to the ACT? Do you see it as being a job creator in any significant way?

Mr Gordon—I do not believe it will be in a significant way. However, I think there are export earnings there for the territory.

CHAIR—So you would see that in an export sense as creating jobs which will provide a product that competes worldwide rather than simply for the domestic market?

Mr McKee—Yes, certainly. Because I think the marketplace is worldwide rather than Australian.

CHAIR—We have heard evidence already this morning—and this is our first day of inquiry—about the hundreds and hundreds of sites. It causes you to reflect on how many online gamblers there might eventually be in the world and whether or not this market for online gambling through a state based casino will ever be entirely saturated and when that might occur. Have you got any thoughts on that?

Mr McKee—I understand that quite a few of the sites are ghosts of an original site. So you might have half the number that has already been reported. The last I heard, there was something in the order of 600 sites, but there are really only about 300. As for Australia competing in that sort of marketplace, Australia has a first-class reputation for regulation of gambling industries. Australia's entrance into this arena is known worldwide, and the rest of the world are watching us to see how we perform. Most of the Internet magazines dealing with gambling issues, and even online news broadcasts and things of that sort, are referring to Australia quite regularly, and in good terms. If Australia does it properly, and that is certainly the intention, then I believe we will get a fair share of that marketplace.

CHAIR—Has the ACT made a decision yet about whether they are going to accept bets from the United States? We had conflicting evidence this morning from two previous witnesses. One was the federal hotels representative who said that the company had made a policy decision that they would not accept bets from the United States or, to put it more accurately, open an account with a resident of the United States. We had earlier evidence from Canbet which indicated that they are comfortable accepting bets from the United States, and I believe legally they are perfectly able to do so. Have you made a decision in relation to that for the United States? Will you follow the Canbet example?

Mr Gordon—In respect of our licence with bookmakers, we have no specific policy on where they may or may not accept bets from. I do know that the web sites of our licensed operators identify that, if the punter is in a jurisdiction where they are not permitted to bet, they should seek advice from their local authorities. We have also established a regulatory framework which includes significant protections for the punter. As long as our licensed operators operate within that framework, we have no regulatory concern.

CHAIR—So it will be up to them to make that decision.

Mr Gordon—Yes. It does not make a lot of sense to encourage potential betters from around the world to go to more unlicensed or unregulated sites—for example, the

jurisdictions where their funds are at greater risk. You mentioned earlier the export opportunities. Australia wide, we are exporting our strong regulatory reputation when players from around the world bet with Australian based, Australian licensed service providers. They can bet with some surety that they will get their money if they win. The operators that are licensed are licensed in strong regulatory regimes, so there are significant consumer protections in place. There are a number of casino sites on the Internet which, for all intents and purposes, look like Australian based sites, but they are from the Caribbean or other jurisdictions which are not as heavily regulated. But they are using the Australian reputation as a vehicle to try to sell their products.

CHAIR—I find it interesting because Lassiter's named the United States as one of their two top countries in terms of popularity of their sites. Clearly it is a decision that is being made on an individual basis. I just wondered whether you had reflected on that. Lassiter's describe their regulatory framework as a world leader. In setting your own regime for this new area that the ACT is moving into, have you looked at Lassiter's regulatory framework?

Mr McKee—No, we had not looked at Lassiter's regulatory framework. Along with the Northern Territory, we were part of the working party that put together the national model. I have not had the time to examine whether the Northern Territory's is close to that national model. I know that ours is. I am confident with the national model as to the strength of that regulatory model. I have not looked at the Northern Territory's in detail at all to see how it conforms.

CHAIR—Thank you. That completes the ACT. Can we now move to Mr Ford.

Senator HARRADINE—I have a very quick question. Mr Gordon, you mentioned 'interactive wagering'. I think you mentioned the words together.

Mr Gordon—Interactive wagering working party, yes. There was a national working party formed under the auspices of the conference of Australian racing ministers.

Senator HARRADINE—They have come up with a formula that everybody agrees with, have they?

Mr Gordon—Yes, there have been three reports presented by the working party. The report of 1998 set the minimum standards for systems to be used by licensed bookmakers in providing wagering online.

Senator HARRADINE—I am sorry. I thought you said 'interactive wagering'—whether that meant the customer could get the jockey to do what he wanted him to do.

Mr Gordon—No, we have not got to that stage yet.

CHAIR—Or even the horse!

Senator HARRADINE—Yes, the horse.

Mr Gordon—It is not betting in the run on the race, I am sorry.

CHAIR—Thank you very much, Mr Gordon and Mr McKee. Mr Ford, you have had the opportunity to hear many of the questions the committee would like to put to you. Could I ask you to begin by taking us very briefly through the submission that you have brought with you this morning.

Mr Ford—Thank you. Firstly, my apologies: I was not aware that it had not been forwarded down to give the committee an opportunity to read it before this meeting. I will endeavour to do what I can to rectify that situation. The submission attempts to place the Queensland regulatory framework in its overall context. Queensland, along with the ACT and a number of other jurisdictions, has been involved in the development of the national model since the beginning. The beginning for us was about four years ago, when regulators around the country, who meet quite regularly to discuss matters of common interest, formed a view that certain interactive activities—which in those days were not the Internet; they were much more phone based gambling activities—were presenting us with some regulatory dilemmas. We sought to put together a working party of regulators to deal with that issue.

During the life of that working party, it became clear that the biggest immediate challenge for us was not the phone betting activities but the Internet, which grew very rapidly during that period. The regulators from all of those jurisdictions worked together through 1995, 1996 and in May 1997. Ministers from all gaming environments approved a national model, which is the model that has already been referred to here this morning. The essence of that model is that it attempts to provide a very similar regulatory environment for interactive gambling as applies in the physical world. There are very many elements of regulating traditional gambling activities which translate across very easily into an interactive environment. There are, of course, other differences which we need to come to grips with.

The report starts from the presumption, I think, that interactive gambling is not something that is going to happen; it is something that is happening now. Therefore, unless the governments move fairly swiftly to deal with that issue, they are going to be left behind. In some ways, the gaming side of activities has already been left behind by the wagering side of activities. Mr Gordon has already alluded to where the wagering interactive working party has got to. In fact, it is sports betting that really has led interactive gambling in this country, as it has in a number of other jurisdictions.

The Queensland legislation is intended to cover both interactive wagering and interactive gaming. The extent of that coverage is somewhat limited by the fact that our exclusively licensed wagering provider, which is our TAB, has already in place a number of activities which are excluded quite explicitly from our legislation, simply because they were already up and running at the time that legislation was passed.

The Queensland legislation was passed through the Queensland parliament without dissent in March 1998. We accepted licence applications from October 1998. To date we have had five applications. One of those has been approved and has gained some media notoriety that I am sure members of the committee have observed. The Queensland environment, unlike the Northern Territory's and Tasmania's, looks to treating interactive gambling as a new form of gambling rather than the approach which has been taken by the Northern Territory and Tasmania to date, which is simply to extend existing licences. There are a couple of key elements in our legislation which are also reflected in the ACT

legislation. The two are really quite similar. That is embodied in part in the title of the legislation, which is the Interactive Gambling (Player Protection) Act. It has a very strong emphasis on player protection. Indeed, I think it is fair to say that a lot of the government's motivation in moving that legislation through in the time frame they did was to ensure that some of those player protection elements were able to be provided before players became wedded to interactive gambling sites that were not properly regulated. There are a number of elements in there, including bans on credit betting and on minors betting, the ability to set betting limits and some self-exclusion provisions, including exclusion provisions by third parties. There are cooling-off periods for changing set bet limits, and there are very stringent audit controls on the activities of the online provider. That is all I would like to say by way of introduction.

Senator MARK BISHOP—I have one question. In the sixth paragraph on page 10 of your submission, you say:

> The Draft Report also states that the Commonwealth Government could assist in the regulation of Internet gaming through policing illegal interactive gaming sites. Unlike the prohibition of pornographic material on the Internet, policing of illegal Internet gaming sites would not require "blocking" of content. In this regard, the difficulties associated with content blocking as examined by the CSIRO would not arise.

Can you explain what you are driving at there?

Mr Ford—Unfortunately, in the final drafting, that paragraph has come out meaning something other than it was originally intended to mean. The original intention was for it to mean that some of the mechanisms for blocking pornographic sites—for instance, through the use of key words and so forth—are not available for attempting to block interactive gambling. We believe interactive gambling is in fact much more difficult to block—and I am no technical expert—than things like pornography because some of the characteristics that you can assign to traffic to check the content of that traffic are not applicable to what is probably just an encrypted stream of bits and bites. I guess the message is: if you are going to attempt to block interactive gambling sites, you have to attempt to block the sites rather than the content.

Senator MARK BISHOP—Yes. Thank you.

Senator HARRADINE—I was interested to hear Mr Ford mention the emphasis on player protection. What other measures have you in place to identify problem gamblers when it comes to online gaming?

Mr Ford—One of the advantages of an electronic form of gambling, be it interactive Internet or even wide area games such as Keno, is that the ability to audit data is of a much higher order than it is for, say, a casino table game. With an interactive gaming site, our legislation quite strongly places an onus on the product provider to have a relationship with the gambler—that is, the gambler has to be a registered player. That means that all of their betting activity is able to be tracked. The extent to which we can use that information in detecting problem gambling is obviously a matter we have to work through, because there are significant privacy implications in all of that.

Senator HARRADINE—The privacy question comes up all the time. Taking, for example, a land based facility such as in a hotel—say, poker machines—you will have the representatives of the hoteliers saying, 'We can identify people who have a problem. We have our staff looking out for this problem.' If that can be done in land sites, why can it not be done with online gaming?

Mr Ford—There are two answers to that, Senator, and they work counter to one another. On the one hand, it can be easier in a physical environment where staff are watching people's playing habits, because the amount of money a person bets is not necessarily illustrative of the fact that they have a gambling problem.

Senator HARRADINE—I understand that.

Mr Ford—The person who is physically present in a hotel is a member of staff who has been trained and probably has a better chance of picking someone who is moving into desperation territory, if I can call it that, than what is really a fairly clinical environment on the Internet. Having said that, I believe it is possible—although we are still in the early stages of doing this—to detect gambling patterns, because we do have information that ties players' activities back to the player through Internet gambling. I think that will enable sites and regulators—and, I should say, players themselves and their families—to identify that a problem is emerging. One of the things that can happen with Internet gambling—it can happen to an extent with electronic gaming machines, although not to the same degree—is that players can be given a simple statement of their gambling activities. That in itself can be a timely reminder to people that they are moving in an unhealthy direction.

Senator HARRADINE—It is an important question for this committee, because it has been put to us that the expansion of the facilities for gambling will mean an expansion of the problem.

Mr Ford—I think the history of gambling products in Australia would support the argument that new products create a new demand. Having said that, however, I go back to where we started, which is that this issue is one that is upon us and it is a situation where the regulatory framework needs to deal with the potential problem that it is facing now, given that the alternative approaches which may be possible with physical gambling activities, like banning them and being able to police that ban, do not appear to be open to us as regulators in this environment.

Senator HARRADINE—That is an interesting comment.

CHAIR—Do you see this as being a significant revenue generator for your state—or the territory, Mr McKee? Do you think that this form of gambling will make inroads into casino style gambling? How significant do you see the growth of this form of gambling to be, perhaps over a five-year period, given that this morning we had some figures from Canbet which showed a quite remarkable increase in their revenue base over, I believe, four years? I wonder whether you see this as being something that is going to make a significant difference to the sorts of revenues that are generated from, for example, Casino Canberra and Jupiters, and whether you have ever projected the export revenue from this source of gambling.

Mr Ford—My personal view—and we have very little evidence, other than anecdotal, to back it at the moment—is that the impact of interactive gambling will vary enormously from product to product. That means its impact on existing products available in the marketplace, and therefore the revenues open to us, will vary accordingly. It is not clear to me that people will substitute a computer for going to a casino or even to a large club to gamble. They are there for purposes that are other than just gambling. Therefore, there is a social experience involved that would suggest they will continue to do that sort of thing. I think the situation is quite different with wagering. The evidence of Canbet and Centrebet to date has indicated quite strong growth. That is, more than likely, going to be at the expense of the more traditional totalisator operations. It is an extension of their already existing telephone betting activities, rather than being something new for them.

I guess, in short, my answer is that it depends on the product. For wagering type activities, I think there will probably be quite strong growth. For the more traditional casino and club gambling, I do not see quite the same inroads into existing activities. To me, the interesting question is in five to seven years when a generation comes to maturity which has grown up using the Internet for all manner of activities. Kids who are 13 to 18 now are highly Internet literate and tend to look to that as their first form of information for school projects, entertainment, communication with their peers and so on. To them, moving into an environment where they are going to be gambling on the Internet will be much more second nature. Having said that, I am not sure that the existing products will suit their needs after years of playing *Doom.*

Mr McKee—I agree with much of what Mr Ford has just said. We have not tried to hazard a guess at revenues. We do believe that it will differ from product to product. As to whether casino style games will be affected, I suppose the ACT is in a better position than are the larger states. Our population base is very small and we do not see that it will be any problem for Casino Canberra. On a larger scale, Australia's population is still small by world standards and I do not see that, based on population, we are going to have a downturn in casino style gaming—on the floor, real, physical gaming.

CHAIR—You might both be pleasantly surprised, because within six weeks of Lassiter's online casino opening, they were selling their products to more than 100 countries. It took off very quickly. The taxpayers of the ACT might be in for a pleasant surprise.

Thank you very much for your helpful information this morning. It has been very useful to get a perspective from a state and also a territory on this issue. I particularly thank you, Mr Ford, for making the journey down here.

[12.30 p.m.]

DALE, Mr Thomas, General Manager, E-commerce and Regulatory, National Office for the Information Economy

FIELD, Mr Tim, Chief General Manager, Government and Community Strategies, National Office for the Information Economy

PINNER, Mr Graham Charles, Acting Director, Australian Transaction Reports and Analysis Centre

KOOYMANS, Mr Michael John, Acting General Manager, Corporate Governance and Accounting Policy Division, Department of the Treasury

RILEY, Mr John Anthony, Project Manager, Department of the Treasury

WUNSCH, Mr John, Manager, Coordination Unit, Consumer Affairs Division, Department of the Treasury

CHAIR—This is a fairly formidable array of witnesses from government agencies. I welcome Mr Tom Dale and Mr Tim Field from the National Office for the Information Economy, Mr Mike Kooymans, Mr John Riley and Mr John Wunsch from Treasury and Mr Graham Pinner from AUSTRAC. I am sure you are all familiar with the rules of evidence in the Senate. If you wish to answer a question in private—that is, in camera—please ask us and we will consider your request. But, as I am sure you know, the Senate can order that such evidence be made public. We have received a joint submission from NOIE and Treasury and one from AUSTRAC, and they have been published. I invite a representative from each agency to make an opening statement. I ask Mr Pinner from AUSTRAC to begin.

Mr Pinner—AUSTRAC is a Commonwealth prescribed authority under the Financial Transactions Reports Act. Its role is to both regulate certain areas of the economy and collect information from the financial sector and other sectors in the economy—including the gambling area, which includes casinos—which is provided to law enforcement revenue agencies for the detection of criminal activity and tax evasion and also to create a climate of hostility in that sector to major crime, including money laundering, drug trafficking and other organised crime activities.

The organisations that are required to report to AUSTRAC include, as I said, casinos. Those organisations have obligations to report certain financial transactions and to identify the signatories to accounts that might be held with those institutions. The legislation also creates an offence of operating an account in a false name. All of the casinos that operate within Australia are caught by the Financial Transactions Reports Act and must adhere to those obligations under the legislation.

We take the view that casinos that operate within the borders of Australia would be subject to the same obligations in relation to Internet activities as they would in relation to domestic gambling. Although casinos operating outside Australia might be involved with persons gambling within Australia, it is really a question of jurisdiction. The Financial

Transactions Reports Act purports to operate extraterritorially but, of course, it is a question of whether you can assert that jurisdiction in particular circumstances, and that is not always easy to do. I think that is all I really need to say.

Mr Wunsch—Mr Riley and I are here representing the Consumer Affairs Division of Treasury. We made the contribution to page 3 of the joint submission. We are currently undertaking work to develop an effective consumer protection environment by promoting good business practices in respect of online trading. The underlying principle in our work is that consumer protection in respect of online transactions should be equally as good, to the extent possible, as consumer protection in the off-line environment. Our work does not address issues unique to gambling, but the underlying principles may impact on that to some extent. We are directed to the provision of online goods and services in general.

We have provided the committee with a copy of our exposure draft entitled *The policy framework for consumer protection in electronic commerce*. That was released by Minister Hockey in May. We are currently working towards the production of the final version of that document, which we expect the minister to release later this month. We are also currently working on the development of a model code of conduct for electronic commerce which will apply to traders supplying goods and services online. We have an expert group helping us in that work.

I should add that the existing provisions of the Trade Practices Act 1974 would in some circumstances apply to gambling. For example, section 52 of the act provides for civil remedies in respect of misleading and deceptive conduct in the supply of goods and services. Section 53 provides for civil and criminal remedies for false representations in respect of the supply of goods or services. To a lesser extent, the new provisions in part IVB, relating to prescribed and enforceable codes of conduct, may in some circumstances apply, if it was taken to that level.

CHAIR—Mr Kooymans, would you like to give a more general Treasury view?

Mr Kooymans—Perhaps I could just mention that, apart from the consumer protection issue, Treasury has a broader interest by virtue of its responsibility for coordinating Productivity Commission issues—the Productivity Commission gambling report is due to be released in its final form in November of this year—and also aspects of taxation issues and Commonwealth-state financial relations.

Mr Dale—The National Office for the Information Economy is a unit of the Department of Communications, Information Technology and the Arts. Our responsibilities include awareness raising on a range of issues relating to the Internet, or the online economy, coordination of a number of legal and regulatory issues and encouragement of e-commerce take-up by Australian firms and consumers.

In relation to legal and regulatory issues, I should mention that our part of the department has been involved with the preparation of the government package of measures to deal with online content, which I am sure the committee is well aware of. As we indicated in the submission, while we have been very closely monitoring developments on the issue of online gambling, the government has indicated that it is awaiting the final report of the

Productivity Commission before taking the matter further. So our role at present has been limited to generally keeping up to date with developments and, I hope, being able to help the committee.

CHAIR—Perhaps I could just ask Mr Pinner a couple of questions related to AUSTRAC. We have had some evidence today that suggested to us that the best way to ban online gambling—if the committee were to determine that that should be its recommendation—would be through the financial system by preventing the movement of money to and from Australia through gambling accounts. Given your experience in international money transfer, I am wondering whether you would see that as feasible.

Mr Pinner—I think, although that is feasible, it really takes us back to the time of things like exchange controls. In most economies these days, there is a free movement of funds internationally between economies. We get reports of those international funds transfers and so we are able to look at them. Insofar as I am aware, there are countries that still have some forms of exchange controls that require approval before funds can move between countries. There are also some provisions in some European legislation that enable funds to be held in certain circumstances where, for example, a suspect transaction report has been lodged. That would be somewhat radical in terms of the current free movement of funds between countries, but I think it would be possible.

CHAIR—I think, in evidence that you have given to other Senate committees that I have served on, we have talked about the speed with which money can move around world—in seconds. It would therefore seem to me that it would be pretty difficult for us to set up regulatory regimes which would prevent that money being able to be moved fairly quickly to accounts around the world.

Mr Pinner—Yes, it would. I had more in mind a mechanism like an exchange control where you would need approval before funds could move at all in the first instance. But, in a situation where there might be some kind of statutory obligation on the part of financial institutions to hold particular funds, that would be very difficult to do. For example, those European countries that I mentioned—Germany, Switzerland and others—have very limited situations where the financial institutions are required to freeze funds, generally for some statutory period of 24 hours or 48 hours, that give law enforcement agencies an opportunity to have a look at those particular transactions. But if there were a proposal to essentially intervene in those sorts of circumstances, because of particular concerns about particular funds, that would be difficult, I think.

CHAIR—Do any of my colleagues want to pursue that particular issue?

Senator MARK BISHOP—Yes. I might refer you, Mr Pinner, to paragraph 6.3 on page 14 of your submission where you report on money laundering. It says that an international committee, FATF, conducts an annual money laundering typologies exercise. It goes on to say:

The participants concluded that, inter alia, in the gaming sector, the emergence of new technologies and the Internet clearly pose new money laundering threats that need to be taken very seriously.

That is quite strong language. Can you tell us what those problems are—what those threats are—and how it is proposed to address them?

Mr Pinner—The 26 jurisdiction members of the Financial Action Task Force attempt to deal with the movement of laundered money and funds from criminal activities by placing certain obligations on the financial sector—that is, the traditional banking sector and, in some cases, going much wider, including casinos. The international standard in relation to those obligations is that the institutions that are covered are required to report only suspicious transactions—that is to say, where the institution suspects that the financial transaction relates primarily to criminal activity and, more recently, to tax evasion. Some other countries, such as Australia and the United States, have much wider obligations to report significant cash transactions.

In Australia, we have reporting of international funds transfer instructions. All of those transactions are reported by institutions that are presently within those categories that I mentioned—the financial sector and casinos—that are regulated. The risk with these new technologies is that the movement of funds, at least potentially, could occur outside of the traditional financial sector and be conducted by institutions that are unregulated. It might, for example, be conducted through what we might call either computing type companies or telco type companies that are not covered by those kinds of requirements. The concern of the international anti-money laundering community is that those technologies have at least the potential to bypass the controls that are presently in place in the financial sector and other organisations.

Senator MARK BISHOP—Does that concern extend to money transference through unlicensed or licensed online gambling sites? Is there any evidence of that?

Mr Pinner—There are some concerns about the proliferation of Internet sites, particularly in relation to countries that may not have in place the sorts of stringent anti-money laundering measures that Australia, as a member of the Financial Action Task Force, has in place. If those institutions are able to establish themselves in countries that do not have in place those kinds of international standards, that would be of concern to members of the Financial Action Task Force.

Senator MARK BISHOP—Is there any evidence to suggest that large amounts of either tax evaded money or criminally obtained money are being laundered through online gambling sites? Is that a real issue or is that not an issue at all?

Mr Pinner—I am not so sure that it is not an issue at all. I would have to say, however, that at this stage we do not have any direct evidence of that being done. But, having said that, we derive considerable comfort in Australia from the fact that our casinos are well regulated by state and territory legislation, including vetting controls and so on. In my view, the sorts of concerns that we see in the media about casinos being used to launder money are, in most cases, based upon what happened in the past in places like Las Vegas and Cuba, where the casinos are run by the criminal organisations. The ability to set up new casinos in a place where the people who are running that institution are sympathetic to the needs of these criminal groups would obviously be of concern.

Senator MARK BISHOP—If the same regulation that applies to real casinos and like institutions was extended to online or virtual institutions, the concerns about money laundering would be no more significant. Is that a fair conclusion?

Mr Pinner—I think that is a fair conclusion to the extent that I mentioned earlier that you are able to assert your jurisdiction over the organisation which you are purporting to regulate.

Senator MARK BISHOP—By definition that would apply only to virtual casinos licensed out of Australian states or territories?

Mr Pinner—Yes. Although the Financial Transaction Reports Act itself purports to have extraterritorial reach, if an institution is effectively operating in a jurisdiction beyond the borders of Australia, it is very difficult for that legislation to operate.

Senator MARK BISHOP—But it is not your evidence at this stage that there is a serious problem that this committee needs to pursue on this issue?

Mr Pinner—No, the issue is really one of the potential risk.

CHAIR—For the sake of efficiency, Mr Pinner, we will move to Senator Stott Despoja who also has questions for you, and I think Senator Harradine may have some questions for you as well.

Senator MARK BISHOP—Senator Harradine has said to me that there are other views concerning the discussion I just held with Mr Pinner that might be held by different sections of Treasury. Mr Pinner essentially summarised his position by saying that it was a risk issue. Do other divisions of Treasury perhaps have a different perspective or a different attitude?

Mr Kooymans—I am sorry, I am not aware that a view has been taken or what that view might be in respect of that issue. I could certainly endeavour to find out.

Senator MARK BISHOP—I would be appreciative if you could do that.

Senator STOTT DESPOJA—Senator Bishop pursued most of my queries in relation to money laundering or tax evasion. But, given one idea that has been put to us and one which we have asked you about, I am curious about online gambling and access to financial information. From AUSTRAC's perspective, are there privacy considerations involved which you are wary of or conscious of?

Mr Pinner—Yes, there are. Essentially, there is a degree of tension between the Privacy Act and the Financial Transactions Reports Act. Both pieces of legislation arose at about the same time. In the Financial Transactions Reports Act, there is a provision which sets out those organisations which may access that information at the director's discretion. Only those organisations that are named in that provision can have such access, and they can use it only for certain purposes that are set out in a memorandum of understanding between the director and the head of each of those organisations. If you were alluding to an organisation such as

a casino regulator, as that legislation stands, it would not be possible for AUSTRAC to pass information on to such an organisation.

Senator STOTT DESPOJA—I recognise this is not quite the same as online gambling, but what prevents the use of gaming machines and casinos for money laundering, apart from the obvious problem of putting so many coins into a gaming machine slot? Are there opportunities there that we should be conscious of or wary of?

Mr Pinner—Again, it comes back to the proposition that, if you are going to successfully launder money through a casino, although there are a couple of ways in which you might try to use a casino to attribute a source of funds that you have made, unless you can guarantee that when you go into that casino you are going to get back the money that you put over the table, it is not a very good form of laundering. I am not a gambler, so I do not know what percentage these gambling institutions take of this money, but I understand it is quite high. If I were a drug trafficker and I had just made $10 million from selling heroin, if I walk into a casino and put it across a roulette table or through a machine, I run the risk of getting none of that money back. That is not very sensible.

Let me contrast that with a situation that I referred to earlier. It has been widely written about and shown in movies where the mafia were running casinos and putting the profits of their illicit activities through those casinos. They knew what was going to come out at the other end. What they wanted was a source of money, but they knew they were not going to lose it all. It seems to me the only way you can guarantee that you are going to get anything back at all, let alone a percentage of it, is if you are able to influence what the institution does with that money that you gamble.

Senator STOTT DESPOJA—I recognise this is not an in camera hearing, but are there any online gambling sites or enterprises that are the subject of your interest or inquiries at the moment? Perhaps it is more appropriate to ask whether this is one of the factors that you feed into the search engines or databases that you operate. Forgive me for not knowing the complexity of the way in which AUSTRAC operates, but in terms of what you feed into your search engines is that one of the targets?

Mr Pinner—I think it is fair to say that we do not have any specific instances of concern at this stage. I should add that the information that AUSTRAC has on its database will not at the moment include transactions relating to Internet gambling casinos because of the nature of the transactions. For example, if the Internet gambling site were in the Caribbean, then I would imagine in most instances the funds would probably move using some form of credit card facility.

If the funds were to move from Australia through the banking system using international funds transfer, we would certainly have a report of that. But at this stage we are not getting data from those external sources. I guess we would be concerned if technology were developed to bypass the reporting mechanisms of international funds.

Senator STOTT DESPOJA—You do not advocate any changes or amendments to the FTR Act as a consequence of this new and possibly growing problem?

Mr Pinner—At this stage there is being set up a research group on electronic commerce made up of various elements of Commonwealth government looking at the whole range of issues brought up by the emergence of electronic commerce. That group is currently being chaired by the director of AUSTRAC, Ms Elizabeth Montano. Those sorts of issues are being considered at this stage. At this stage we are not recommending any response in terms of amendments to the Financial Transactions Reports Act.

Senator STOTT DESPOJA—Thank you.

Senator HARRADINE—I want to ask questions about the ability to control and regulate, and also questions about the adequacy of territory regulations in regard to gambling and the possible need for Commonwealth legislation. There is an array of witnesses here, and we thank you for coming, but from my own point of view I am a bit confused as to who is ultimately responsible for what. We have heard from Mr Pinner about his responsibilities under the Financial Transactions Reports Act, amongst others. Who is up there for the consumer? NOIE is regarded as pursuing IT as fast as it possibly can, but who is up there looking after the consumer? Do we look to Treasury or to the ACCC? For example, we have had evidence and we have received submissions which suggest that the expansion of gambling will mean the expansion of problem gambling. Who is looking at that?

Mr Wunsch—I will put my hand up, Senator. It is a difficult question to answer. For example, if I take the commission's draft report, it will report finally in December. My understanding is that it has not been decided who has the policy carriage for the government to respond by whatever means they wish to that report, which will be next year some time I guess.

The fundamental issue with consumer protection in gambling is: is it consumer protection? Consumer protection goes to providing adequate information, providing consumer choice, providing redress mechanisms and those sorts of things. But it does not quite go to protecting consumers from themselves, in my view. The problem gambling area, just like problem drugs, is a health issue or a social policy issue. I would probably argue that it is not a specific consumer protection issue. Does that clarify anything, Senator?

Senator HARRADINE—It appears to me that in areas of the states there may be a conflict of interest in that those who are the tax gatherers appear also to be the ones who are making the rules for online gambling. Philosophically, is there not a bit of a problem there? Has that matter been thought of at a federal level?

Mr Wunsch—We are probably not in a position to make a policy statement on that.

Senator HARRADINE—A philosophical one?

Mr Wunsch—We all realise that the gambling industry and tax revenue bases are interrelated. The government in its response to the final report of the Productivity Commission will have something to say in that area but, as I understand it, at the moment most of the tax revenue—correct me if I am wrong—is gathered at the state and territory level, and under current tax sharing arrangements that is where it is expected to stay.

Mr Dale—I think the point that you raise is a valid one to investigate, but the fact is, as was just said, that it has been raised in a practical sense to date only in the context of state and territory governments. It has not been a practical issue for the Commonwealth to consider. That may change down the track but, as we have said, the government will be considering broader issues involving online and off-line gambling when it deals with the Productivity Commission report. The majority of the revenues at the present time are derived from off-line gambling, but for historical or other reasons the issue has never arisen either philosophically or practically at the Commonwealth level, to the best of my knowledge. Obviously it will become a matter for some discussion between the Commonwealth and the states after that report is handed down. That is probably the only observation we can make at the moment.

Senator HARRADINE—Do you have any observations to make about the need for a uniform approach to this throughout Australia? Is that a matter which you have given consideration to?

Mr Field—A uniform approach could be adopted in time, depending on the government's response and its engagement with states, but obviously states have a certain flexibility within their jurisdictional powers to do certain things in the way they regulate. There may be, in time, broad uniform approaches in terms of relying on a mixture of consumer protection and state licensing or whatever arrangements could possibly fall out of this. There could, however, still be differences in state approaches to, for example, the specific requirements and regulations they put on online gambling, if they are licensing online gambling operators.

Senator HARRADINE—Previous witnesses who were principals of an ISP company in Australia were opposed to online gaming. If the committee were to take that view, how would you see that working? Would it be able to be enforced by Commonwealth controls on banking, for example? I heard what Mr Pinner said about the international transactions and so on.

Mr Dale—I am not aware of any work we have done in relation to financial regulatory structures and online gambling. I will leave it to my colleagues to comment on that. There is certainly more than one model that may be adopted to regulate or prohibit online gambling, if that is what the government eventually decides, for example, but that decision is still some way down the track. One model could be based on very strict licensing arrangements based on what might be termed eliminating shady characters, and to some extent that is what existing state and territory regulation is focused on. It may be that it is too early for an assessment to be made as to whether that state legislation on online gambling has been completely successful.

Senator HARRADINE—I am sorry, I was not asking you to comment that way. If the committee were to adopt the suggestion that emerged from the submission from the particular ISP company, what are the possibilities? How is that likely to be implemented, leaving aside the problem of international sites, of course. I was really asking Treasury whether there were measures available through the banking system or the Commonwealth banking powers.

Mr Wunsch—You are really going to legal issues, legal mechanisms and the frameworks for doing that, and we did not bring a lawyer with us. That is part of our problem. None of us would really like to tell you what the legal framework could possibly be. We would need to take some advice on that ourselves.

Mr Kooymans—It is very much a political decision, ultimately, for the government to decide what position it wants to take on the spectrum of prohibition to laissez faire.

Senator HARRADINE—Quite so, but we have the responsibility of doing a report, and I am just seeking help really.

Mr Kooymans—Presumably there are various mechanisms and powers that the Commonwealth government could potentially employ—covering banking, telecommunications and consumer protection, perhaps—but, as my colleagues said, we are not really equipped to canvass those in a sense. It is probably a little premature. It would appear to be getting ahead of the government's consideration to be talking about those things. Some of them would obviously involve rather draconian positions vis-a-vis the states. It is clearly a sensitive issue.

Senator HARRADINE—In the NOIE submission, you refer to schedule 5 of the Broadcasting Services Act. I am not sure why that was included. Is there any reason why you wanted to include that as information to this committee, which over a number of years has been dealing with that question.

Mr Dale—It is a fairly arcane issue, Senator, but we included it for the sake of completeness. We were trying to make a point there. Some members of the committee may recall that, during the passage of the amendments to the Broadcasting Services Act dealing with online content regulation, some concerns were raised about the impacts—perhaps unintended—of that legislation on existing state laws regulating Internet gambling. Those laws at the present time—at least in some states, certainly in New South Wales—provide for certain assumptions of liability on the part of ISPs which would be overridden by the Commonwealth legislation.

Senator HARRADINE—Section 91.

Mr Dale—Yes. Some of those state governments have expressed concern about the impact of that and have asked that the status quo in terms of their own legislation be maintained until the Commonwealth and the states have negotiated an outcome on the broader online gambling issues. We were just explaining that that is still an issue, we are still talking to state officials, but we are hopeful that we can reach an outcome that will keep the federal government and the state governments happy, at least until some rather more serious issues are dealt with in those broader discussions. It is an ongoing issue. It is a technical issue arising from that content legislation, but we hope to have that resolved with the states very shortly. Senator Alston has yet to consider a formal government response to that matter.

Senator HARRADINE—What about promotional advertising for online gambling? Where do you draw the line on those sorts of things, for example?

Mr Dale—Advertising is always a difficult area in terms of regulation, and it has been raised in other contexts of course before this committee and before now, as I know. I really cannot point to any particular initiatives at the federal government level that directly address the content of advertising in terms of gambling promotion. The only thing that I could think of there would be in relation to misleading advertising, which is a slightly different issue which the consumer affairs people deal with.

Senator HARRADINE—Yes, that was mentioned in the submission.

Mr Dale—Yes, the Trade Practices Act is relevant.

Senator HARRADINE—But I am not talking about it being misleading; I am talking about the really hype advertising that one can envisage would take place online.

Mr Dale—Whether the advertising itself is online or off-line, at the present time it is essentially, as I understand it, an industry based or self-regulatory matter, and one which, in relation to advertising in other media as well, the government has generally left to industry to develop codes of practice on. In relation to online advertising of gambling or anything else, I am not aware at the present time of any major studies being conducted on the effect of that as opposed to other forms of advertising.

Senator HARRADINE—But in respect of online content, schedule 5 does, in the first instance, require the industry body to establish a code of conduct. If the industry body fails to do that or if the code of conduct is deemed to be inadequate, in that particular case the ABA has the responsibility of approving or disapproving the code and, secondly, if it is not up to scratch to decide on one themselves.

Mr Dale—That is correct.

Senator HARRADINE—But that is what I am trying to get at: in this particular case—online gambling—what would be the avenue to be used for the purposes of regulating online advertising?

Mr Dale—It is a hypothetical question, but at least one avenue would probably be the Broadcasting Services Act using perhaps a model analogous to that in the online content area. But again, as I say, none of that has been considered at all by the government or indeed by anyone else in the Commonwealth because, as I am sure the committee is hearing, it is not a matter—this being gambling as such, online or otherwise—which has occupied the minds of very many officials in the Commonwealth at all. That is probably changing.

CHAIR—Mr Wunsch, I think it is quite well known now that there is at least one site in the Caribbean which purports to be Australian; I think it has an Australian flag and a koala or some such Australian icon on it. In terms of consumer protection, have you ever considered what could be done to deal with the fact that that site is not an Australian site? I understand it is owned by somebody in Holland and I think it is only one of a number which purport to be Australian but are not in fact. Have you ever looked at what could be done to deal with that misleading advertising on the Net?

Mr Wunsch—No. Basically we believe that would be a matter for the Australian Competition and Consumer Commission. They do monitor compliance with the misleading or deceptive conduct provisions. As for just what they have looked at or have done in that area, I would have to ask them.

CHAIR—Would it be possible for you to do that and supply the committee with the answer to that question?

Mr Wunsch—I would be happy to do that for you; yes, certainly.

CHAIR—Senator Harradine, do you have further questions?

Senator HARRADINE—I am concerned about this question of promotional activities online which can be quite influential, particularly on the young, and I am not necessarily saying people under 18 either but people in the young adult age group.

CHAIR—Or indeed any age group. Senator Stott Despoja?

Senator STOTT DESPOJA—I was just going to say that it might be an idea to ask the ACCC what their views are on a matter like that.

Mr Dale, I refer to one of your responses to Senator Harradine with regard to the idea that one possibility would be to amend the Broadcasting Services Act or to introduce something comparable with or analogous to the online services bill. You know—and certainly we have had evidence to this effect during the committee's inquiry into the online services bill—that it is very difficult to regulate or control the Internet, and some people would suggest it would be virtually impossible. Would it be one possible solution to have legislation comparable with that? I am not asking for a policy comment. I realise that there are difficulties in terms of your advocating a particular response, but that would be one possibility. Another possibility that has been put forward, which I referred to earlier, is access to financial information as a means of regulation. Do you have a view on that? Has your department investigated what can and what cannot be done?

Mr Dale—In terms of the second question, if you are asking about the financial scheme as a regulatory instrument, no, I do not think we would have a view on that.

Senator STOTT DESPOJA—I understand.

Mr Dale—I guess you have understood from the comments made earlier that there are still a lot of uncertainties about that area. I do not think that sufficient attention has been paid to it to enable us to form a view. But it may be looked at in the context of that follow-up work for the Productivity Commission inquiry.

In answer to your first question, when I said that the Broadcasting Services Act regime might offer a model for dealing with online gambling, I think that is true in a strict technical sense. But I think that would pre-empt the broader question of what exactly you are trying to regulate for.

There is a big difference between licensing gambling and trying to ban it. The online content regime is concerned, as you are aware, with enforcing a principal that what is illegal off-line should be illegal online. At the present time the fact is that online gambling is not illegal online, and in fact a number of jurisdictions in Australia have gone out of their way to regulate it and to license it. Offensive material is generally not licensed as such; it is made illegal. So you are regulating for different reasons and I think it is important, before moving to the stage of how you do it, to actually make clear what it is you are trying to regulate for.

As I said, I think there is a very big difference between prohibiting online gambling, which is certainly being looked at by a number of countries including some parts of the US, and regulating it strictly, which is the approach which has been taken by state governments here today. When you get it sorted out as to what line you want to take, I think then the issue of implementation opens up a bit more. Yes, the Broadcasting Services Act, probably rather differently from the one dealing with content, is one avenue; but I am sure that there are a number of others: the telecommunications act may be an issue and the Trade Practices Act may be relevant and so on. But I think that clearly the government would want to think through exactly what the purpose of any regulation is first.

Senator STOTT DESPOJA—I am assuming that under those circumstances there is a decision that you want to control it in some way, that some of the same difficulties arise in terms of ability to get around any kind of regulatory systems and also that there are the international jurisdictional issues. I was asking another set of witnesses earlier about the fact that we may prevent Australians from setting up host sites or gambling sites but not prevent Australians from accessing overseas gambling sites. I am very keen to make the point that we still return to this issue of difficulty in regulation of the Net for whatever purpose and to whatever degree we seek to do it.

Mr Dale—I do not think I would argue that it is easy by any means. But I do not think that should pre-empt an examination of whether or not something should be tried as the debate sort of fell out with online content. In the case of online gambling, yes, there are similar difficulties but I have not seen any evidence that they are insurmountable either. The fact is that a number of other countries are grappling with these issues at the moment and I would not pretend to you that anybody has the right answer. They do not.

Senator MARK BISHOP—I do not want to engage in debate here, but I am not so sure that Senator Stott Despoja's analogy with the online content is entirely appropriate or the conclusion correct.

Senator STOTT DESPOJA—I was picking up on the comment originally by Mr Dale in relation to whether it is analogous or not. I am not seeking to suggest that it is, but I am certainly saying that regulation of the Net is difficult for whatever purpose.

Senator MARK BISHOP—I take that point. I was just going to make the point that the purpose of regulation, as outlined by all of the industry people this morning, was to have an effective licensing system that they could use to build a competitive advantage to trade their products, and hence people who chose to gamble on regulated Australian online sites knew it was a safe product to deal with. They were assured in their gambling activities, as opposed

to some dodgy online system established out of the Caribbean where the users were not guaranteed as to the safety of their transactions. That was my understanding of the argument put by industry for a form of regulation.

Senator STOTT DESPOJA—I do not think anyone disagrees with that. Perhaps, Mr Dale, you could make available to the committee any suggestions you have about what international comparisons or debates we should be looking at as well. I think we are all conscious of the fact that comparable debates are going on, the US being a prime example.

Mr Dale—I would be happy to provide that to the committee. We do have some research on the relevant countries.

Senator HARRADINE—Can I just follow up that question, while we are still on it. The United States has already taken action and banned online gambling. Do you think they are going to change that in the foreseeable future? If not, has there been contact made between the government bureaucracy in Australia and the government bureaucracy in the United States in the federal sphere?

Mr Dale—Not on this issue specifically, no. My understanding was that the proposed federal legislation which was sponsored by Senator Kyl, while it had passed the Senate, I understood it was still stuck somewhere in the House of Representatives process and had not been passed. Again, our understanding was that, while the Administration in the US had not taken a formal position, the Department of Justice generally supported the intent of the legislation but had put a number of qualifications on that support, I think including that any regulation should not stifle the growth of the Internet and that there should be a technology neutrality approach to the matter as well. You may have more up-to-date information, but I think it is still legislation passing through the Congress.

It has not been the subject of any discussions that I am aware of at a government to government level but we are certainly closely monitoring how that bill is progressing and indeed the various lobbying activities and the interests of state governments in the US. As with Canada, or Germany for that matter, we are very conscious of the need to watch developments in federal systems in particular overseas, because state and territory governments in many countries can have an important effect on a range of Internet based issues, and we are very conscious of keeping an eye on that.

CHAIR—I have a question for Mr Kooymans. We had some evidence this morning from the ACT in relation to the model code. I asked about the degree of optimism that the territory felt about whether the code would be equally implemented by all states. Their response was that they thought there would always be competition in relation to the tax rates set from state to state. I am wondering whether that has any federal implications in relation to the way the Grants Commission might be structured. Would you take into account, for example, differential rates like that from gambling revenue in a policy sense in Treasury?

Mr Kooymans—I am sorry, Senator, I do not know the arcane workings of the Grants Commission. Certainly they do get down to that level of detail in terms of a state's taxing capacity and their taxing effort in their formula.

CHAIR—If you would like to take the question on notice, that would be fine.

Mr Kooymans—I would be glad to.

Senator HARRADINE—Just on that, in your submission on page 16 you have raised the question of the possible loss of taxation revenue as being a matter of importance. How much weight should we place on that? It goes back to the question I asked, whether it is appropriate for the tax gatherers to be the same people who license the online gambling organisations.

Mr Kooymans—I do not think it is our submission that you are referring to.

CHAIR—I think it is an AUSTRAC submission, Senator Harradine. You might like to direct your question to Mr Pinner.

Senator HARRADINE—My apologies. Mr Pinner, what priority should this committee give to the issue of a possible loss of taxation revenue?

CHAIR—Perhaps it is not really a question for AUSTRAC.

Mr Pinner—I think it is not really appropriate, but rather as an observation that if these transactions can occur out in cyberspace then that has some implications on revenue gathering in Australia. But it is not really an area that I could comment on.

CHAIR—Mr Kooymans, would you like to take the question on notice?

Mr Kooymans—I just note that the PC report observes that state tax revenue may actually increase as a result of online gambling. That is a judgment that we have not particularly weighed or considered separately, but we certainly take what the PC research has produced obviously as being fairly definitive. If there is something we can add to that, we would be glad to, but I suspect that it is rather speculative to say what the effect on tax revenue would be.

CHAIR—As there are no further questions, that concludes the evidence for today. I thank everybody for their attendance here this morning and early afternoon. Thank you all, particularly Mr Pinner for coming down from Sydney. We appreciate your effort. Thank you all very much.

Committee adjourned at 1.28 p.m.