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SENATE

SELECT COMMITTEE ON INFORMATION TECHNOLOGIES

Reference: Online gambling in Australia

FRIDAY, 15 OCTOBER 1999

SYDNEY

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SENATE

SELECT COMMITTEE ON INFORMATION TECHNOLOGIES

Friday, 15 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, Lundy, McGauran, Stott Despoja and Tierney

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 9.23 a.m.

CHAIR—I declare open this public hearing of the Senate Select Committee on Information Technologies and I welcome all the witnesses who will be appearing before us today. This hearing in Sydney is the second public hearing of the committee's inquiry into the nature, extent and impact of online gambling at this early stage in the industry's development to ensure that, if there is a need for regulatory intervention in the operations of this industry, these measures are put in place at the earliest opportunity.

I should also indicate that our hearings today are being broadcast back into Parliament House in Canberra through the ISDN network. This is the first time we have been able to do this from Sydney.

We will today be hearing from witnesses representing various agencies and industry groups. The committee will also be conducting hearings in Melbourne and Alice Springs, and is scheduled to table its report in the Senate by mid-December 1999.

[9.24 a.m.]

McMILLEN, Professor Jan, Executive Director, Australian Institute for Gambling Research, Aristocrat Chair of Gaming, University of Western Sydney Macarthur

CHAIR—Welcome. Do you have any comments to make on the capacity in which you appear?

Prof. McMillen—I should inform the Senate that I am also a gaming regulator in Queensland, but on this occasion I am appearing just in my capacity as a researcher.

CHAIR—Thank you. The committee prefers that all evidence be given in public. However, you may at any time request that your evidence, part of your evidence or, indeed, the answer to a question be given in private, and the committee will consider your request. I should point out that if we do take evidence in camera it could, under very unusual circumstances, subsequently be made public by an order of the Senate. I also remind witnesses that giving false or misleading evidence may constitute a contempt of the parliament.

The committee has before it submission No. 46, which has already been published. Are there any alterations or additions you wish to make to the submission at this stage?

Prof. McMillen—No. The only thing I would say is that it was prepared hastily. The submission includes a paper, 'OnlineGambling: a public interest perspective', which is a summary of a paper I gave at a conference here in Sydney. What is missing from that and needs to be stressed is my support for many of the findings in the Productivity Commission's draft report chapter 17, which is titled 'Policies for new technologies'. The Productivity Commission has made a very commendable effort to come up to speed with developments in this area and I endorse many of the suggestions that are made in that chapter.

CHAIR—Thank you. I now invite you to make a short opening statement and then we will have some questions to ask you.

Prof. McMillen—As I have indicated in my brief notes to the Senate, one of the things that concerns me is that the focus has been on Internet gaming. Realistically, I think the growth area—and it is just around the corner—is interactive gambling, which includes both wagering and gaming, and particularly with the introduction of digital TV. This will, for example, really open up the sports betting market and is something that is going to have enormous commercial potential. It is going to be very popular with Australians. It is certainly going to land on very fertile soil in the Australian culture. We are sports mad and we are gambling mad, but the congruence of the two is quite obvious. Interaction television is going to allow people to bet on their favourite sports. It is also going to be very popular globally.

There is a congruence here between gambling and gambling on sports, and telecommunications and technological development and the globalisation of sport. It is that congruence and the effect of globalisation and the convergence of those factors that is really

driving this. The driving forces for this market are commercial and technological. It is not being driven by consumer demand, although, as I said, it is certainly going to be well received by people both in Australia and overseas.

There is a policy lag, and that is my biggest concern. Policy is always reactive rather than proactive, unfortunately, and in this case the speed of change is putting increasing pressure on governments to grapple with the issues. At the same time, because of the structure of gaming regulation, what we have in this country is a highly competitive market between states, and state governments also compete with each other. That is the weak link we have got in the whole structure and process of the development of this form of gambling. I strongly urge the committee to consider a cooperative national approach, both with industry and governments. We need an industry body that is prepared to represent industry standards and, if possible, to enforce them; and we need cooperation between state governments and the Commonwealth government to develop a coherent national approach to this.

In terms of the impacts, this is, as a researcher, one of my major concerns. Whether regulation is effective, whether we are utilising all the technological resources at our disposal, whether the regulations are accountable and reflect the community's views, and the social impacts all need to be considered very carefully. The Productivity Commission has certainly rung alarm bells about the effect of gambling in our community. We have had a dramatic expansion of gambling over the last decade. Even though we are a gambling nation and gambling is well accepted in the Australian community, the majority of the population is saying, 'We have gone too far and we do not like the way it is being managed.'

I am certainly not supporting proposals for prohibition; I just think that is unrealistic for a number of reasons. But I am asking for a well-managed, well-regulated industry that is sensitive to the social impacts and community needs. Any regulatory model needs to take consumer protection issues very seriously. So I am calling for a uniform national approach, but, aware that this is a global industry, I am also asking that Australia does what it can to take the initiative to develop international cooperation on this issue. There is movement in this area in e-commerce and we should be taking advantage of those developments, for instance, with OECD nations developing guidelines for e-commerce and consumer protection. We should be recognising that this is just a novel, very popular form of e-commerce and we should be tapping into those international developments. Thank you.

CHAIR—Thank you, Professor McMillen. What elements do you consider any federal legislation could encompass?

Prof. McMillen—New legislation is something that I guess all governments would be reluctant to introduce in this area at the federal level, but there have been a number of amendments to existing legislation in e-commerce that I think show promise if we are able to utilise those and adapt them for Internet and interactive gambling.

With regard to the Broadcasting Services Act and the amendments to it that have been suggested from, I think, this Senate committee, certainly the proposed complaints mechanism, for instance, allows for the community's voice to be heard. One of the things that concerns me with this industry is that it is being negotiated with government and industry, and the community has been left out of the equation. We do need a complaints

mechanism that has the capacity to act on those complaints. This does not exist with other forms of gambling, I should say, and I have been advocating it at the state level through various inquiries.

The amendments that have been made to the Broadcasting Services Act are trying to grapple with both the consumer protection issues and the technological changes that are occurring. The Trade Practices Act is the key linchpin legislation and amendments that have been made there to empower the ACCC to take consumer protection issues more seriously are well worth looking at. The development of codes of practice is something I have been advocating at a state level, and this is again where federal legislation provides an avenue to strengthen accountability and the enforcement of the standards when they are developed. I personally would like to see a mandatory code of practice rather than a voluntary code, but I know that that is probably not going to be well received by some members of the industry. But I think we have a lot to lose here as a nation. Australia has established an enviable record as a gambling regulator.

I know several people at various inquiries have made the point that, when you talk about Victoria or the Northern Territory, people overseas do not have a clue where they are unless you put the word 'Australia' alongside them. In fact, I was at an international conference a year or so ago when one of America's experts in the field stood up and said, 'We have Internet gambling in Canada. It is this place called "Territories" and they have the "Territories Lottery".' I am sure the Northern Territory would not be pleased to know that they have been relocated to Canada. It is Australia that is the brand in terms of regulatory reputation and standards.

CHAIR—That is perhaps why a couple of illegal sites in the Caribbean have koala bears and an Australian flag.

Prof. McMillen—Or the Sydney Harbour Bridge.

CHAIR—Have you had an opportunity to look at the Northern Territory legislation which is working with Lasseter's?

Prof. McMillen—Yes. I have seen the Lasseter's model.

CHAIR—Do you have any comments to make on that?

Prof. McMillen—Can I say the Northern Territory has done us a national service by actually pushing this issue forward because it has mobilised people to think about what the issues are.

Without criticising the Northern Territory legislation—I think they have made a very good start, but I think we can improve things—I would like to see us put our collective heads together and utilise resources like national legislation, the Trade Practices Act and the Broadcasting Services Act. I think another act at the federal level that would be useful is the Privacy Act with changes. Privacy is a very critical issue with all e-commerce and Internet gambling. The proposed amendments to the Privacy Act which shift the focus to the private sector will strengthen a national approach, and it is proposed that those legislations are going

to meet European Union international standards. We should be aiming to at least conform with international standards on issues like telecommunications, e-commerce and privacy, but also making sure that there is a common approach. What concerns me with the fragmentation that is occurring in Australia is what I call predatory federalism.

The states are trying to raid each other's markets and they are quite feral in other forms of gambling. I make no bones about that and I think that the tendency, as happens with a lot of other market forces, is to drive to the lowest common denominator. The Productivity Commission report has shown that this is happening. Fundamentally, it is market failure in other forms of gambling and I fear that the same thing will happen with interactive gambling. We should be driving and striving to improve the Northern Territory model and to establish national standards that set a benchmark for the rest of the world. We should be taking a leading role. We are taking a leading role in the commercialisation of interactive gambling. We should be taking a leading role in regulation and consumer protection as well.

CHAIR—You might like to take on notice how you, particularly, would like to see the Northern Territory model being improved. Also, would you consider whether you think it feasible or logical to try to ban illegal sites? Take both matters on notice. I will now move to Senator Bishop.

Senator MARK BISHOP—Yesterday we had an in-camera briefing from witnesses from the Productivity Commission who outlined their work to date. They told us there essentially were three options in this area: first was an absolute ban on online gambling; second was what they called managed liberalisation, which essentially was a regulatory approach covering licensing, auditing, probity, consumer protection and controls; and third was to do nothing and let the market develop. I take it from your comments that you would be strongly in favour of that middle path, managed liberalisation with a significant degree of Commonwealth involvement?

Prof. McMillen—Yes, I would. I have made a submission to the Productivity Commission which recommends exactly that approach. Australia has taken this path with other forms of gambling. We have always had a liberal approach to gambling. Governments have accepted their social responsibilities and taken them seriously and have been very concerned about minimising crime, so we have had a very well-regulated gambling industry. With this industry we have difficulty with both words 'managed' and 'liberalisation'. It is very difficult to locate illegal sites. We had difficulty with SP betting, for example, and that was site specific. It was landed territorial gambling. With interactive gambling it is global. It is out there in cyberspace and it is eminently mobile. It can move from one country to another, let alone from one venue to another. The management issues are very contentious. We are never going to be able to regulate this form of gambling in the way that we regulate site specific gambling.

One of the things that very few people have picked up on is that legal sports betting is already available. In New South Wales, you can bet on between 20 and 30 different forms of sports. Sports betting has always been very contentious in Australia. In fact, it was prohibited, except for racing, for very good reasons. You could not control the sport. We had bribery, match fixing, race fixing and doping. Racing is the sport that has been exemplary. It took them decades to develop a very coherent and relatively effective regulatory regime.

Other forms of sports do not have those standards or regulations in place. That worries me. It seems to me there are all sorts of inconsistencies in the product. With other forms of gambling we do have some guarantee of product integrity. We have worked very hard to make sure that gaming machines, for instance, perform to acceptable government standards. With sports betting, we do not have those standards in place. We do not have the regulations or the control over the various sports that people are betting on.

The FBI has established a specific agency to monitor and investigate college football in the United States because of the crime and corruption that is associated with college football. What we have got with this industry is that if someone has an interactive gaming licence in Australia, owns a media network that is licensed in another country and owns a football team in Europe, who has jurisdiction over that? Cross-media ownership issues really become very important.

When I first started to talk about this, it was hypothetical. We now have exactly that situation where there is at least one person with that congruence of ownership. This is where we need international cooperation and standards and some sort of understanding that national and state boundaries do not mean a thing with this industry. Those technological developments and the convergence of those elements of this gambling form are certainly well ahead of policy development, legislation and the courts.

Senator MARK BISHOP—You are talking here of sports betting, aren't you?

Prof. McMillen—Yes, I am. What concerns me is that the focus has only been on interactive gaming. That is relatively controllable because the games are designed to have to go through integrity tests. Who is going to control the sports? We have seen some recent examples with the soccer match in England where a group from Asia bribed technicians at a sports match to turn the lights off so that they could make a big killing on their betting scam. There was the Pakistani cricket issue. We really have problems with sports betting.

Don't let me give you the impression that I think that you should have prohibition because of this, but we need a national approach that brings the AFL, the Australian racing clubs and the sports into the picture as well. It is not just legislation. It is not just the commercial gaming provider. It must be the telecommunications provider and the product and, in this case, sport as well. They could develop a self-regulatory model to set standards.

Senator MARK BISHOP—You say there is a whole range of subsets in this issue of accessing the various forms of gambling via the Internet. Some of them are going to require a national approach. It may be a model based on cooperative regulation. Another facet of that is going to be international regulation—

Prof. McMillen—International agreements and treaties.

Senator MARK BISHOP—International protocols and whatever—that sort of approach. But you do not come before us arguing for either total prohibition or the other end of the spectrum which is a laissez-faire approach and government completely butting out of regulation or taking the community interest in this debate.

Prof. McMillen—No, I certainly am going for what the Productivity Commission calls managed liberalisation. I think we have to use all our resources to grapple with the issues, complex as they are, and do it very quickly. The market is growing. If we do not do it, Australians are going to be betting with operators located in other countries that have lower standards. Australia has an opportunity to set regulatory standards and consumer protection standards that become a national benchmark.

The Internet and the new digital technology are changing the nature of power relations at a global level. In the past, America has led the way in so many areas. They still do with a lot of computer technology. One of the unsung achievements of Australia, whether we are proud of it or not, is that we have led the way in gambling regulation and gambling liberalisation. This is the new element in the economy. It is growing around the world and Australia has an opportunity to take a leadership role here.

Prohibition is not a realistic option because, if we do not do it, there are already sites around the world that are doing it. Enforcement of illegal operators is impossible. Nobody is putting resources into that. There have been some cases in recent weeks in the United States and Canada where there have been police raids against people who have been operating illegal sites. It is because of the nature of American legislation that they are able to do that. Their current stance is trying to set up some cases that get the message out there that it is not on at the moment. My political judgment is that America will also legalise this form of gambling. It is just that the climate is not right in America because of the moral backlash against gambling and the national commission.

We have had a similar inquiry that has not taken the stance that the American commission has taken. I think that is something that Australia should be proud of, but we have to grapple with the issues. I do not think we are grappling with the full range of the issues and we are not understanding the political and regulatory tools that are at our disposal.

I would like to see a task force set up based on cooperative federalism that brings state and federal governments together to realise that we have an opportunity and need to work together to achieve the best possible regime that we can. That includes community representatives, who have been left out of the equation, the Australian Consumers Association and ACOSS. Bodies like that need to be represented and so do industry, government and the community—the key stakeholders—working together to develop a model that conforms with Australian values and expectations for a fair deal. That has always been a driving force in Australian gambling. It also recognises that we are dealing with a totally different product and mode of delivery. This is beyond the capacity of any state government to grapple with. They do not have the resources or the constitutional power.

Senator MARK BISHOP—Thank you for that, Professor. I just want to raise two other issues with you. Your paper and a number of other papers have advised that the growth in gambling is supply driven, particularly the development of machines in most of the states. A table in the Productivity Commission report identified the huge growth of revenue to state governments, particularly Victoria and New South Wales, as opposed to Western Australia where there is very restricted access to gambling machines. You do have the one variable there, so there does not seem to be any argument about the conclusion. Moving to interactive TV or digital TV accessing the Internet through our TV systems opens up a presumably

whole new supply chain which every adult man and woman in Australia will be able to access. Could you comment on any social consequences arising from that?

Secondly, I also noted in a Productivity Commission report that there was a huge bias in gambling losses towards less well-off working class welfare dependent areas. There were hugely disproportionate losses in those areas as opposed to better off areas or upper income areas. There was effectively a subsidy; there was a disproportionate tax on low income workers and consumers to government. Could you comment on that issue as well?

Prof. McMillen—Let us take the distribution and the density of gambling issue first. I endorse the Productivity Commission's general finding on that. It certainly is confirmed in our research and has occurred because of the legalisation of gaming machines in the 1990s. Until 1991-92, gaming machines were only available in clubs and pubs in New South Wales.

Clubs and pubs are working class social venues. One of the concerns that I have always had with the licensing model that is used for gaming machines is that gaming machines have been put into those venues, piggy-backing off a particular classification in most states of liquor laws. It is the synergy and nexus between liquor licensing and gaming. Not enough work has been done on looking at alternative models for that. Gaming machines have gone into working class areas, so it is no surprise that people in those areas are spending a larger proportion of their income on gaming and gaming machines. That is where they meet. That is where they have meals. That is where they barrack for their football team. It is their social venue.

The thing the Productivity Commission did not do—and I certainly have suggested they go back and revisit the data—was to look at the relationship of the policy framework between the states, because not all the states have distributed gaming machines in the same way. The Northern Territory, for instance, has a maximum of 600 gaming machines. They also have a venue cap. The distribution of gaming machines in the Northern Territory is very limited. Through the policy framework, Victoria has gone a fifty-fifty split into community clubs and hotels.

Victoria has also had a dry belt in the middle-class areas where there are no liquor outlets. In the 1960s there was a revision of the liquor laws so that local areas were able to hold a referendum, or a plebiscite, to say whether they wanted a hotel in their area. The middle-class areas like Toorak and Kew and places like that said that they did not want any hotels. The location of hotels is in working-class areas. So the policy framework is really important.

Senator MARK BISHOP—I do not know my Victorian geography. I thought hotels were everywhere.

Prof. McMillen—There has been a liberalisation of liquor laws in Victoria in recent years, but if you look at the distribution pattern in Victoria, gaming machines are in low socioeconomic areas because that is where the pubs and clubs are. In New South Wales, they are much more diffused, or scattered. Queensland had a deliberate policy that gaming machines were going to go into clubs, so they put a very tight venue cap on hotels of only 10 machines. They have not had the same problems as Victoria has had in terms of that

distribution. It is not a uniform pattern. We are not a united nation. On gaming, we really operate as separate nations with separate and quite disparate policy frameworks on gaming.

Senator MARK BISHOP—Professor McMillen, you have not answered the first question about the shift into homes.

Prof. McMillen—The social impact in terms of interactive gaming is that that capacity for policy control over the distribution, access and availability of gaming is gone. It will be in everybody's home. At the moment the Internet is not in everybody's home but, as I said, I think that is just the thin edge of the wedge. Within five years we will have digital TV in just about every Australian home. We have a very quick take-up rate on technology. Once the price comes down and the advantages of that product are obvious, it will be in everybody's home and that issue of caps and policy control will disappear. It will be eminently available to everybody and we will use it. I will be using it.

Senator TIERNEY—Did you see the comments from Oracle yesterday in relation to what they are proposing with Telstra?

Prof. McMillen—No, I did not, I am sorry.

Senator TIERNEY—They are saying that next year they might get it into every home via—

Prof. McMillen—Mobile phones.

Senator TIERNEY—No, via conventional TV that exists now. The Internet could come on to your TV next year. It is that far away.

Prof. McMillen—Yes, 2001 has been mentioned.

Senator TIERNEY—You mentioned that we lead the world in regulation in this area. We also seem to be leading the world in gambling, particularly in the state of New South Wales, with 10 per cent of the world's poker machines being in New South Wales.

Prof. McMillen—That is actually an incorrect figure.

Senator TIERNEY—Can you give us the correct figure, because we have been quoted that figure at Senate hearings. If it is less than that, we would be very comforted.

Prof. McMillen—It is one of those myths—

Senator TIERNEY—Do you have the figure?

Prof. McMillen—No, I do not, because I do not know the number of machines overseas. We do have the luxury of reliable information about the distribution of machines in Australia. We do not know what machines are distributed in other countries. It was a figure that was touted in 1996 that has been set in concrete and perpetuated as fact. I think it was an informed guess.

Senator TIERNEY—So it cannot be proved or disproved?

Prof. McMillen—No.

Senator TIERNEY—My first question relates to the increasing opportunities for gambling, particularly with this technology. In your submission you say that the more opportunities there are for gambling the more people will gamble. If we put across that statement the template of the more recent movement from clubs to hotels of gaming machines such as poker machines and the resultant dramatic increase in that form of gambling, could you provide us with your view of what happens if access to those sorts of gaming machines then moves into the home, particularly with the Oracle statement that we might actually have that next year? What would you see as a broad projection of the increase in gambling and the implications of that for problem gambling? I do not want an exact figure, obviously; I just want your general view on what is likely to happen.

Prof. McMillen—What is likely to happen is that Australians will embrace it with enthusiasm. We are a gambling nation. We will bet on anything. The reason I pointed to sports betting is that it is so much a part of our culture. We cannot watch two people playing any sport without saying, 'I bet he misses.' Now we will be able to sit there with the remote in our hand and, knowing that our account has been established, we will be able to bet on those interactive events. It is going to make sports much more interesting. If you are going to calculate consumer surplus, as the Productivity Commission is trying to do with other forms of gambling, I think the level of entertainment and interest in sports betting is certainly going to be well received. I would think there would be rapid expansion.

From our studies of Internet use and Internet gambling, it is obvious that young people with reasonably high incomes are going to form a new market. They are not always the ones who gamble on poker machines, so I think we will generate a new market with new interests.

I recently did an interview for the ABC on a program called *Background Briefing*. I do not know if the senators heard that broadcast about three weeks ago, but it was well worth listening to. Stan Correy located a futures trader in London where the futures traders were spread-betting to keep themselves entertained during the day. We do it anyway, and this proposes to legalise and commercialise it. I would not hazard a guess at the potential market growth, but it is going to be very large, not only in Australia. The Asians love sports. With golf, the question will be: will Norman sink this putt? It will not be who wins the Masters; it will be round by round, hole by hole.

Senator TIERNEY—You seem to be indicating that growth will be in this new group of people, but surely if the Oracle plan comes into place—it is on your TV and it is very simple to access—those who would normally go down to the pubs and the clubs would also pick this up pretty quickly. They are not picking it up at the moment, because they do not have a PC.

Prof. McMillen—I am not so sure. I think there certainly will be that element. The other advantage is that you can drink unlimited amounts at home and not worry about being picked up for drink driving.

Senator TIERNEY—Even more incentive to do it?

Prof. McMillen—Also not worrying about the way it affects your betting. It is going to have some attraction, particularly if you can sit with your home delivered pizza and watch the sport at 2 o'clock in the morning. There would have been huge bets if we had been able to take bets on the football last night. It is going to grow.

Gambling is fundamentally a social activity. I remember when television was introduced in 1956 it was thought that that was going to be the end of social interaction as we knew it, that families were never going to talk to each other, and that just did not happen. It was thought that cinemas were going to be killed off. Cinemas have never done so well. Cinemas just repackaged their product, and I think that is what will happen with other forms of gambling.

Sports books will be established. You will see sports books set up in hotels and clubs so that people can go out, meet their mates, interact, have their outing and gamble. It will just be a new form of gambling. It may hurt some forms of gambling—there will be some form of substitution, I think; we have always seen that—but I do not think it will devastate the other forms of gambling. They will be astute to the market change and get into the market if they want to survive. The TAB has already shown that that is what they are doing. They are into Internet betting, and that is a growing market.

Senator TIERNEY—You mentioned mandatory codes of practice in this area. We have a situation of converging technologies, and we are already about to put in place voluntary codes of practice for online services in areas unrelated to gambling. How do you see those things marrying up—that is, if we have a voluntary code of practice across the Internet but a mandatory code for gambling?

Prof. McMillen—I was being optimistic; I am always an optimist. I would like to see a mandatory code, because it would allow greater enforcement and a capacity for the community to register complaints and to have something done about them. Voluntary codes have been shown to be difficult to enforce. The franchising code is a good case in point. And there is a lot of similarity between this industry and the retail industry in establishing fair markets and fair trading practices.

I would urge a mandatory code, but I am realistic enough to know that the most you would get from the industry is the acceptance of a voluntary code. But let us see if the voluntary code works. There should be a monitoring and reporting process on the effectiveness of the voluntary code. If it does not work, as the franchising code did not, then we need to move to a mandatory code.

Senator TIERNEY—In your submission you referred to countries that are competing for this market and others that have banned it. Do you have a list of countries that have banned Internet gambling?

Prof. McMillen—No, I do not. The Productivity Commission gives some representative examples. I know Singapore is trying to ban it. I do not know whether they have actually done it but certainly they were going to try to ban it through their service providers. The

United States is the one that everybody is looking at, the proposed attempt at prohibition in the United States.

It really is difficult because unless we get global enforcement on this issue we are never going to ban Internet gambling. The providers will just move to a nice little liberal island somewhere, and Australians will bet there. If that happens we are going to lose those markets and regulatory opportunities that I talked about. We are going to lose control over consumer protection policies. I think what we have is a chance to actually exercise some policy initiative, and we should be taking advantage of that.

Senator TIERNEY—The use of this sort of mechanism in the home came up in earlier comments from other groups. An angle that I had not actually thought about that was raised—and I would like your comment on it—is the subliminal training of children for gambling via what they see their parents doing in the home. Children are barred from clubs and bars, so they do not see it there. However, if it comes into the home—and particularly if it is on the television screen as Oracle is indicating it could be—they can watch mum and dad gambling. That is subliminal training of the next generation of gamblers. Do you have any comment on that? Do you know of anyone who is thinking about doing any work on this aspect, as a social problem?

Prof. McMillen—Psychologists have been doing some work on youth gambling. I have certainly been well trained. I was playing poker at the age of six, and in between the poker games I was running down to the SP bookie. If the committee thinks that kids do not gamble, they are deluding themselves. I am not sure that this is a bad thing. People do not transform or metamorphise into different creatures the day they turn 18. We should be educating children about gambling, as we educate them about sex, driving, eating properly, and a whole range of things.

This is part of life in this country and we should be educating people, not shielding them and protecting them from it. All you have to do is stand outside any newsagent and watch mum buying a scratchie ticket for the kids. Kids are gambling. Kids turn on television and they are going to see it every night of the week. They cannot go down to the supermarket without walking past the TAB and the lottery outlet. This is part of life in Australia. We should be grappling with community education programs and programs in skills, teaching kids that this is learning to live with life. This is one of the decisions they are going to make, and they are gambling in their homes now.

One of the things that the Productivity Commission did not pick up was the extent of informal gambling that goes on in this country within different cultural groups, with informal betting between people, that is not processed through commercial or government outlets.

Senator TIERNEY—What we could be facing here is a quantum leap through increased accessibility, dramatically.

Prof. McMillen—Absolutely, and the Productivity Commission made that point, and I think they are accurate. But any estimates about how large this is going to be or any quantification or clear identification of the social impacts would just be guesswork at this stage.

Senator TIERNEY—I note that you are the Aristocrat Chair of Gaming at the University of Western Sydney. Of course, Aristocrat is an organisation that makes poker machines. Can you explain to me how that occurred? In terms of academic freedom and objectivity, what does that do?

Prof. McMillen—Thank you for the opportunity to clarify this. As I said, I am also a regulator, and before I even applied for that position I contacted the regulatory agencies around Australia and contacted the university and asked them what types of structural distances had been put in place between the appointment of the chair and the sponsorship. Thankfully, the university has done everything they possibly could. There is no relationship between my activities as a researcher and as an executive director of the institute and the sponsorship. The sponsorship goes to the university and the university then decide what they will do with it. Aristocrat have respected that independence. Immediately I was appointed, I established a code of practice, which some people think is pretty Stalinist, but if we have a cup of coffee with anybody—and that is any of my staff—we declare it. We fall over backwards to err on the side of caution. And it is not just industry—governments can also influence research. We make sure that we declare any hospitality from industry as well.

Senator TIERNEY—We would be very disturbed if we saw a Phillip Morris chair in health, for example.

Prof. McMillen—Yes I know. Come on, there is a Westpac chair in banking and finance. There is—

Senator TIERNEY—Well, that is a worry too—that is a very big worry.

Senator STOTT DESPOJA—On a slightly different tack, Professor, I am curious and quite pleased to see that you note privacy and liability issues in your papers. Did you want to elaborate on any of the privacy issues? I have got a particular concern. One of the possible ways of regulation that has been identified is access to people's financial information. I am curious about those issues. I also note your comments about the changes or proposed changes to the Privacy Act to extend it to the private sector. I am not quite sure if it does quite emulate the EU standards—

Prof. McMillen—I hope it does.

Senator STOTT DESPOJA—I am not quite sure if it is enforceable either. Certainly a bit of emphasis is on self-regulation. If you could comment on some of those issues it would be appreciated.

Prof. McMillen—One of the things that concerns me is that a lot of the development that has occurred at the policy level for interactive gambling has not involved people like the privacy commissioners and the police agencies, for that matter. What has happened—and I think Steve Toneguzzo has made this point in several of his papers—is that governments have concentrated on regulating the gaming rather than the technology and all the aspects that are associated with that. That is where I see the privacy and the liability issues coming up. I am not a lawyer, but when I am talking about that cooperative approach I would like to see brought into that loop and into those discussions people like the privacy commissioners,

the police forces and enforcement agencies at the federal and state level. At the moment that is not happening. Legislation is not worth the paper it is written on if we do not have proper enforcement procedures.

On the privacy issues, I think governments have done the best they can to protect the privacy of players who register through Internet providers, but, as I said, I am not qualified to comment on that area. It really needs the best expertise we have got in the country to be brought into the process, and that has not happened yet. I ran a conference last year with the Institute of Criminology and that was the first time any privacy commissioner had been asked to speak at a gambling conference, and that was the New South Wales Privacy Commission.

Senator STOTT DESPOJA—In your paper you questioned the issue of third-party exclusions. I am just wondering what your thoughts are on self-exclusion and third-party exclusion.

Prof. McMillen—I think the technology does provide new and creative opportunities for players to regulate their own betting and even to get anonymous and very constructive advice on their gambling. I have been working with a group called ReachOut that, for instance, on suicide for kids has developed an Internet site which is wonderful. It really is attractive and it is a great site. We should be capitalising on the technology to produce the same sort of service on gambling so that people can impose their own limits, they can monitor their own gambling patterns, they can get feedback on their account and how much they are gambling—those types of things. But I have grave reservations about third-party exclusions.

We must remember what happened with the mental health acts in various states where all it took was a couple of signatures from a family to put mum or dad or granny into a home. It is open to abuse. I think we know so little about gambling problems and about what is problem gambling that we really should leave that out of the equation. I think it is potentially dangerous, and it opens up the industry and the supplier to litigation as well. Given the tenuous and ambiguous nature of the research and understanding of problem gambling, it does leave them open to litigation.

Senator LUNDY—Just referring to your comments in your submission about the way forward—

Prof. McMillen—Yes, I made the point earlier about community consultation being very important. This is supposed to be for community benefit. The industry will say it is for community benefit, government has a responsibility to see it is for community benefit, and yet the community is not being consulted. I have seen your list of submissions and the silence from community groups really worries me. I understand and respect that silence—they are just so overloaded at the moment, and getting the time and resources together to make an informed submission is very difficult.

Senator LUNDY—You also refer to—and you have spoken briefly on this; I apologise for my late arrival this morning—the role of the federal government in effective enforcement strategies on the back of national standards which you nominate as a mechanism to proceed.

Can you talk a bit about what you envisage there, particularly in the context of the current debate surrounding the enforcement or feasibility of online legislation that is currently in place?

Prof. McMillen—There are several ways you could approach the development of national standards. Ultimately, if you try to impose this on the industry you are going to meet resistance, and enforcement immediately becomes a problem. I think any initiative by the industry to establish a national standards body, some voice for the industry where they are prepared to design standards and make a commitment to them—basically a self-regulatory model—is to be encouraged. I know OLGAA is working towards that objective. I believe there are other industry players who are also forming alliances to establish gaming standards. We need to pull those together and to work with government.

I do not think the industry should call the shots, if you like. Again, there are ways of developing national standards so that they conform to the Trade Practices Act. The ACCC or some sort of code administration body, either by industry or under the ACCC, might be an option. I think we need to look at all the possibilities before we plunge off and make a commitment to any particular model, and I go back to an earlier suggestion I made that we need some national working party or task force to consider the issues.

Senator LUNDY—What are your views on the issue of the consumer protection standards that are currently being canvassed generally in the realm of electronic commerce and their application to online gambling?

Prof. McMillen—In Australia they are to be commended, but I think we can do better. As I said earlier, the Northern Territory model has set the ball rolling. I have been given notice to look at the Northern Territory approach to make specific recommendations about where I think it can be improved. But, again, that is where bringing a group of experts around the table, with the time and the resources to thrash out arguments, to hear the arguments for and against different approaches, is needed. Just coming out from left field and providing prescriptive advice is not the way to go. We need a consultative process so that all the arguments are on the table.

Senator LUNDY—This question may be a reflection of the fact that I was not here earlier. Do you have a list of the international fora that are actively debating these issues at the moment where you would see it as critical for Australia to has a presence?

Prof. McMillen—You are probably better informed than I am. It is in the e-commerce fora that we should be moving, to have gambling accepted as part of that debate. So the OECD debate on guidelines, those types of things, is what we should be tapping into. The difficulty we have got there is that America has made a strategic and probably moral decision not to treat gambling as e-commerce. So at the moment they are outside the circle and, until America comes into the circle at the international level, we are going to be fighting an uphill battle. That does not mean Australia should sit on its hands. We should be pushing for leadership. South Africa has a proposal to legalise Internet gambling. They have the fortunate constitutional framework with some federal control. In setting the policy framework, we are unfortunately stymied by our federal structure and by the fact that gaming is one of the residual bowels of the states. Because we have moved into this new

domain with financial transactions and telecommunications, it does give the Commonwealth government some responsibility to participate.

Senator STOTT DESPOJA—You identify a number of concerns with the Productivity Commission's draft report. You say that there are some contradictions and inconsistencies: on the one hand, they recognise it is different from any other type of gambling, yet it is seen to be like e-commerce. Would you identify that as a deficiency in the Productivity Commission's draft report?

Prof. McMillen—Having re-read their chapter, without grappling with that contradiction, they have recognised that, unlike other forms of e-commerce, we do need extra effort with gambling. The social and economic impacts of this form of e-commerce are likely to be much more devastating for some people. It is not like buying vegetables or books on-line and having a faulty product delivered. This can actually destroy lives. We need to put a concentrated effort on community education, on consumer protection issues and the responsible gambling issues. That is why I would argue for a mandatory code.

CHAIR—Your evidence this morning has been extremely valuable. We look forward to the answers to the questions you have generously agreed to take on notice. Thank you very much for making yourself available today.

Prof. McMillen—Thank you.

[10.19 a.m.]

PEDLEY, Mr Alan, Director, World Wide Wagering and Gaming Consultants Pty Ltd

CHAIR—Welcome, Mr Pedley. As you heard me say to our previous witness, we do prefer all evidence to be given in public, but if at any time any of the committee ask a question which you would prefer to answer in private, please tell us and we will consider that request. We have received your submission, which we have labelled No. 31; it has already been published. Are there any alterations or additions that you would like to make at this stage?

Mr Pedley—I would like to refer to the draft Productivity Commission's report, particularly the area where the draft Productivity Commission believes that there is a direct correlation between problem gambling and the availability of gambling. That could be expanded to say that the problem gambling is caused merely by the availability of players and providers. This is akin to saying that fire is caused by heat and fuel. Of course, with fire there is a third element and that is oxygen. In problem gambling, there is also the element of lack of controls. So there can be players and there can be availability with providers, but it is only when there is a lack of control that it can turn into a problem gambling environment. I would like to emphasise that centralised control is available via e-commerce gambling, and that control can be put in place with computer systems and in fact is in place at a casino like Lasseters.

CHAIR—The committee would appreciate, I am sure, a description of the work that your company does. You have clearly had a number of clients who are well known in the industry. Can you tell me what services you provide to those companies and how you provide those services?

Mr Pedley—Certainly. It is probably best that I give a slight background on myself and hence the services that I am able to do—

CHAIR—We would appreciate that.

Mr Pedley—It is a new company; it has been going since December. Since 1990, I was in charge of all technology based gambling regulation in the Northern Territory, which included from 1995 consideration of interactive gambling regulation—the technology, the functionality and security that would be required. In 1995, we were principally viewing the enabling mechanism as interactive television with the big fibre optic roll-out of Telstra and Optus. It consequently slowed down and was overrun by the Internet, certainly in the short term.

From December, I started my own company where I consult to provide people with compliance advice, with the type of functionality that they would need to satisfy government's needs for security, for player privacy et cetera. Casino applicants in Queensland have been requiring this type of advice. I offer advice to government regulators where it is clearly a jurisdiction where I am not offering advice to would-be operators. I provide advice through Stephen Toneguzzo's company Global Gaming Services to Tab Ltd on internal controls and operating procedures and things for their state wide poker machine

systems. I think it is reasonable to say that I am a jack-of-all trades in technology gambling type of areas.

CHAIR—And very well placed, I would have thought, to comment on some of the questions that my colleague Senator Bishop asked previously about the degree to which Australia should engage in regulatory control of this developing technology. Do you have some comments to make there? In particular, could you focus on Lasseters, given that you have not only been a consultant to Lasseters but also worked in the regulatory area.

Mr Pedley—My only work with Lasseters was as a regulator in the Northern Territory. I have not subsequently consulted to the company because, in the Northern Territory, I intend to continue to give advice to the government regulator as opposed to any operators in that jurisdiction, and there would be a clear conflict of interest if I were to consult with the casino there.

I think it is very important, and Professor McMillen stressed the point, that online gambling is merely a subset of trade and commerce and the federal government certainly has a role with trade and commerce, as we know, in international fora to ensure that providers of Australia's trade and commerce get a fair go in the international market. I would strenuously argue that Australian gambling providers are just participants in a commerce, and I would see that as the federal government role.

Professor McMillen, I believe correctly, said that Australia has an enviable record of gaming integrity which has been derived from regulation, and that integrity is still available. That has happened under the state and territory gaming regulation, or gambling regulation. I do not believe there is any evidence to suggest that effective regulation of the integrity—now moving more into privacy issues—is faltering on the Internet with e-commerce gambling. In fact, regulators are showing much more interest in player privacy because, in a casino, it is in the public domain: we can spy on our neighbours, or whoever might be sitting down at the table, and just view how much people are losing.

That certainly is not available on the Internet even to government regulators. It is my experience that the regulatory authority cannot, ad hoc, gain access to people's gambling activities. Gamblers would be identified as a code. It would only be on a case-by-case basis in the event of a dispute that they would be able to draw a link between a player's code and a natural person if a natural person comes forward with a complaint against the gambling operator. Lots of data et cetera on the technology is encrypted to ensure that employees of the gambling provider cannot drive their own blackmail type of databases of patrons' gambling problems. Whereas in the casino environment, croupiers could be in a position where, at the tea table, they chat openly about particular people's gambling habits.

It certainly is my experience that privacy is being looked after under the current state and territory regulation of e-commerce gambling. I believe that there is a window of opportunity for Australia to carry on with this high integrity perception that we have around the world. It is just a small window of opportunity. The offshore gaming providers in places like the Caribbean, if they do not cheat people—and it is certainly a big enough market to suspect that they may not need to cheat people to make a lot of money—in time will gain some market acceptance, but not all of them will.

Senator MARK BISHOP—Fair enough.

Mr Pedley—It is a big market and I think in time some of those operators would be able to—

Senator MARK BISHOP—Incidentally, there was extensive evidence in the Productivity Commission report that there are already illegal activities going on in casinos out of the Caribbean online. Let us not deny the reality and the extensive evidence.

Mr Pedley—I am not aware of any extensive evidence.

Senator MARK BISHOP—We were discussing it yesterday.

Mr Pedley—I believe that some of the offshore casinos have the ability to gain player acceptance and a large market share in time. If the Australian interactive and e-commerce providers were to stall because of a confused regulatory regime, or if there was just a delay in some federal regulation, that would stall what appears to be a growth and start-up of e-commerce gaming from Australia. That would provide impetus for offshore operators to jump ahead and possibly gain some credibility in the marketplace. I am sure they are lacking that at the moment.

CHAIR—Do you have a view on the technical feasibility of trying to ban illegal sites, or even the banning of the whole prospect of Internet gambling, which has been raised here? I am particularly interested in the technical feasibility of illegal sites.

Mr Pedley—I do not think it is particularly technically feasible. I refer to the CSIRO report reported in the draft Productivity Commission report which discussed blocking of the content of Internet providers. It said that, while it is possible, it is not always effective at this stage, and I would be in that school.

Senator MARK BISHOP—Mr Pedley, we have had a range of evidence so far. It has been remarkably uniform to date and it has argued a number of conclusions. Firstly, there needs to be effective regulation in this area of Internet gambling. Secondly, almost without exception industry groups have been supportive of that approach. Thirdly, there appears to be a coordinating role for the Commonwealth in that; the states should not be left to do their own thing. Fourthly, the reason for that coordinated Commonwealth national approach to online gambling for probity reasons is one which gives a commercial advantage to industry players operating out of this country. You appear to suggest that it would be inappropriate for the Commonwealth to take that sort of lead role. If that is the case, could you please give the committee your reasons for having that attitude.

Mr Pedley—I am of the view that, with casino operators, state and territory governments have an enviable record on casino regulations, as Professor McMillen states. That is with the larger operators and not down to the hoteliers and that kind of gaming provider with the gaming machines. Probity is the first matter to be considered when people apply for casino licences. There would certainly be scales of economy of central probity assessments. However, I do not believe there is evidence to suggest that a change is needed. I believe that if the Australian industry, which is collectively different with state and territory industries,

were to stall, then potential Australian providers of e-commerce gaming could lose the momentum that they are gathering in the international marketplace.

Senator MARK BISHOP—So, essentially, you argue that the development of regulation at a state and territory level to date is adequate?

Mr Pedley—No. I think that considerably more work needs to be done. I would share Professor McMillen's views that there are particular concerns if sports betting were to become totally automated. My current experience is that sports betting uses the Internet as a portal to traditional paper based bookmaking activities off-line. As computers are introduced, the existing regulations would need to be improved. I believe that state and territory governments are aware of that. To my knowledge there has not been any automated online sports betting in Australia bar Darwin All Sports, which had very a low bet threshold on world cup soccer. I understand that the automated betting there was only up to $50 bets, so it was low risk compared to your existing paper based bookmaking, which uses the Internet just for pure communications before making off-line decisions, and takes fifties and hundreds and thousands of dollars bets.

Senator McGAURAN—Do you agree with the previous witness that new gamblers are recruited according to the ease of access of gambling?

Mr Pedley—Yes.

Senator McGAURAN—So you could be a non-gambler and, if a pub and pokies opened up next door to you, you would be seduced into it?

Mr Pedley—No. I think it would be a different environment. For example, I would not class myself as a gambler now, but if I had interactive television and could have got a couple of dollars on the Wallabies last night without going through the hassle of setting up a Centrebet account, I might have had a couple of bucks on the Wallabies.

Senator McGAURAN—So online gambling will recruit a whole new set of non-gamblers?

Mr Pedley—I believe that would be the case.

Senator McGAURAN—Senator Bishop touched on the socioeconomic aspect of gamblers. From your experience in the Northern Territory, what is the socioeconomic grouping?

Mr Pedley—There are a couple of different types of gaming in the Northern Territory. There is a small quantity of very large transactions with sports bookmakers. I am not particularly aware of who those people are because I have not had a need to know their identity, but I would understand that it was fairly informed money as opposed to the lower socioeconomic groups. We have very tight restrictions in the Northern Territory on poker machine distribution. Nevertheless, the type of money of the higher profitability machines came from lower socioeconomic areas.

Senator McGAURAN—Just as the cable TV proprietors were so attracted to the sports arenas that we ended up with sports wars, is sports betting going to be a similar aspect of gaining a licence for online betting? I think I know the answer to that, but we will get it in the *Hansard*. Is that because the margins are greater than a roulette game?

Mr Pedley—The margins with sports betting are very small. It is because they have very large wagers of very smart money. Typically people will bet on a two-outcome possibility—that is, team A will beat team B with a certain point spread. When the new types of interactive gambling come on, a lot of it might be bet facilitation, where I facilitate people to bet against each other and I take a commission.

We have people betting with passion and not their head. We get a high quantity of 'dumb money', you would have to call it—people betting on their favourite team as opposed to mathematically analysing their likelihood of wining. That would build in large profit margins to build the industry. There are certainly problems with point shaving and all of the sports problems that Professor McMillen spoke of. It would only be through properly regulated sports betting that you could look at suspicious betting patterns, and it would need to be non-anonymous players making those suspicious transactions if we would ever hope to be able to get to the source of corruption in the sports. Quite rightly there needs to be a global approach, because the outcome is very regularly determined in international countries. It would take cooperation from the betting regulators or providers in this country to ensure the integrity of sports events on the other side of the world.

Senator McGAURAN—Is there any reason to believe that there is a pattern of a gambler who is at home being drawn into frittering away the whole afternoon, just being drawn into gambling more and more, bigger and bigger amounts, rather than the gambler who would go out socially and gamble? Is there a difference or no pattern?

Mr Pedley—I am not aware either way.

Senator McGAURAN—Gambling is psychological, I think you would agree. It depends on how you feel, the dumb bet, the smart bet. Would you be more stimulated or less at home to gamble more?

Mr Pedley—I could only speak personally—

Senator McGAURAN—To be entrapped into gambling?

Mr Pedley—The thing that you may be overlooking is that, whilst new people will be drawn to gambling and people will be betting, and I would probably fall into that category for an occasional bet, because it would be centralised control there could be restrictions and there are restrictions. Players can place restrictions on how much they are allowed to gamble, how much they are allowed to lose, how much they are allowed to lose in a seven-day period or a monthly period and so on. So I could control my own gambling. The gambling regulator can enforce maximum loss limits on players. While the market would grow through new participants, it would not necessarily introduce problem gamblers. In fact, it allows control of problem gamblers.

Senator McGAURAN—I guess that was really what I was trying to say.

Mr Pedley—Okay. It allows control of problem gambling, in contrast with the gambling that we have previously experienced. I think New South Wales is a jurisdiction with particular problems with regard to gambling. I do not often go to clubs but I have walked into clubs and seen the EFTPOS machines beside gaming machines, and I was astonished. In the Northern Territory, where I learned about gambling, they are simply not allowed to be in those types of areas. That is where I think there is the third element of problem gambling. Yes, there is availability with players and providers, but to have problem gambling means a lack of control, and through centralised e-commerce gambling we can introduce control.

Senator McGAURAN—What about the high rollers? At Lasseters, for example, do you get the high rollers online? Is there any restriction?

Mr Pedley—These considerations will have been made after I left government, but there was the facility to amend on a case-by-case basis the gambling quantity amounts. I understand they were talking about a mechanism for the casino that the casino would need to justify on a case-by-case basis. I am not clear as to what did happen since December.

Senator McGAURAN—What do you exactly mean by that?

Mr Pedley—A person would make a case to the casino that they have the wherewithal to be considered to be a high roller and that losing more than $600 per month simply was not an impact upon them and it was quite a reasonable loss for them. I recall that the generic threshold was $400 per month.

Senator MARK BISHOP—I wanted to go back to one of the issues I was pursuing. Yesterday the Productivity Commission suggested to us that an appropriate role would be some sort of managed liberalisation role: a role for regulation, a role for government, for probity, auditing, consumer protection, access, child protection. For all of those reasons, they on balance thought that there was a role for government and regulation.

They also said it would be appropriate in terms of online gambling to license companies or sites as a subset of regulation. They then said that, if you go down that path of licensing, it would be appropriate also to have strict enforcement mechanisms because a brand name is created, it is based on probity, and people get access to that site because they know it is safe, it is regulated by government and they are not going to be ripped off. So they argue for strong enforcement measures as well.

They then said that there are something in the order of, I think, 300 to 500 sites out of the Caribbean, most of which had dubious authenticity. That is, you paid X amount of dollars to someone in Venezuela, they gave you a licence and you are a licensed site. So they argued strongly for some sort of take-down provision or restriction of access provision if this country is going to go down the path of licensed gambling on the Internet and use our good name in the probity sense. Alternative suppliers of different products do not have that strict system and there is nothing wrong with us protecting our industry by allowing for, effectively, take-down or whatever. Do you have a comment or a view on that?

Mr Pedley—I believe that that type of control is available now, and I would suggest that state and territory governments are going one step further in that take-down provisions are punitive actions that are occurring after something bad has occurred. I believe that the current regulation of e-commerce gambling is more active throughout the evaluation periods, the assessment of the software, the functionality and the probity of the providers to provide maximum assurance that a bad situation does not occur. While there are punitive measures that may be taken against an operator for doing the wrong thing, the current regulatory environment is leading towards the wrong thing not being able to happen.

Senator MARK BISHOP—If we set up a regulated system, with licences based on probity and the like, and we decide there is commercial advantage for this country to go down that path, why would we want to allow or tolerate sites that do not have the same high standards as ours or, frankly, are engaged in substantially illegal activity, or ripping off consumers? Why would we want to tolerate that?

Mr Pedley—We would not want to tolerate that. I think that the mechanisms for not tolerating it, though, are extremely costly and would not be cost beneficial. I think we have a unique opportunity at the moment by allowing the continued growth of what is the evolving Australian e-commerce gambling industry, allowing its continued growth in what is, in my view, a properly regulated environment now within Australia. Those casinos then would continue with their good name.

They have player acceptance now because of the good reputation that has been developed by state and territory governments and gaming regulation. In a global sense, that will attract players. With the players' money there will be better profits and those organisations will be able to grow and offer much better products, particularly when the bandwidth of communications picks up and much more complex and expensive technology is required. Then the shady operators out of the Caribbean will be marginalised. They will become backyard operators. They will have simply unattractive, old technology that is not in the game of the good providers that are given the opportunity as of now in Australia.

I think there is a very real danger that, if Australia starts to send mixed regulatory signals to the industry, the potential growth of the current properly regulated gaming industry could stall and then the impetus could swing back and some of those operators in the Caribbean—excuse me if before you thought I was suggesting lots of them; it would only take a few to not rip players off—will start to gain player acceptance and then they will start to have the money to offer the bigger and better sites. It is a market forces issue, because technically it will be very hard to stop them globally, or even to protect Australian citizens.

Senator MARK BISHOP—I do not understand why it would be so hard to close them down in Australia. It is not as though there are thousands of sites—there are only three or four hundred.

Mr Pedley—In relation to technical methods that we would use to identify a player sitting in the suburbs of Sydney who is using an illegal casino in the Caribbean, the mechanism that the federal government would use is monitoring the telecommunications conduit. The provider could use encryption and there are various technical methods to get by somebody sniffing to try and stop that communication or then to go and take punitive action

against the player. I do not think it is really the player that the government would be interested in—trying to regulate the activities of 19 million people when we are worried about 300 casinos.

Senator MARK BISHOP—Thank you, Mr Pedley.

Senator LUNDY—To what degree would the introduction of digital signatures legislation play a role in the participation in the gambling site by an individual?

Mr Pedley—Digital signature technology has been promised for a long time; it seems to be forever coming. It will be very, very good, but we will just need the playing community to catch up. As a regulator I had to be mindful of the realities of the market. While it would have been nice to insist on players having digital certificates, that would have limited the global market from millions down to hundreds in the world, because of questions about the acceptance of players to go and get digital certificates and then to install them, be it on an interactive television or the home computer. I think the Internet is still a realm of technical people. I am the only person that I know of that uses a digital certificate on my own email, and I send email to lots of technical people all the time. It is simply very immature—it is not in the marketplace. It will be great, but I think it may be four years before it will have the acceptance and the transparency for non-computer literate people just to be using them as a matter of course.

Senator LUNDY—And do you think the use of digital signatures in that way will actual change the online gambling sector in terms of providers of those services perhaps insisting on a digital certificate before people can participate, or indeed establishing an industry code of practice with that being a prerequisite? Also, what are your views on the subsequent implications of that on privacy and consumer protection issues?

Mr Pedley—It allows for player identification, which is critical on the online industry because you are holding on behalf of a player some funds, so you would want only the player to be able to play with those funds or to instruct for a withdrawal of those funds. It will also help in enabling a cooperative approach between operators. One of the problems with the privacy legislation from a regulatory perspective is that casinos need to share information about problem gamblers if we are to stop problem gambling, and of course privacy legislation would not allow that. There are methodologies where players could be identified with digital certificates and the information shared between casinos while the player remains anonymous, so there would be a pool of these people who have problems with gambling and they have been banned from Australian sites, and it could be a cooperative approach between the Australian casinos and certainly mandated by the regulators in each state. This is the sort of thing that they do talk about.

In terms of privacy, people could not just go and review a list to find out all the problem gamblers. The casinos would be able, through encrypted means, when a player registers for their computers to say, ‘No, you can’t register here, you are a problem gambler.’ So there are benefits.

Senator LUNDY—And do you see a role for federal legislation in that regard?

Mr Pedley—There certainly could be, but the only federal legislation that I believe is appropriate is as you would legislate for commerce or e-commerce generally. I do not believe gaming needs any—

Senator LUNDY—Digital signatures and privacy federal legislation would traverse that. We know it is proposed at this stage to look specifically at electronic commerce, so you see the impact of those issues contained within that legislation. You do not see something new?

Mr Pedley—It is my experience that gambling regulators have been considering privacy and security issues of e-commerce since 1995 in the Northern Territory. The controls that are currently in place are a model for e-commerce generally. They are not ideal because they do not encompass digital signatures yet, but that is simply because digital signatures are not readily available yet. Gambling legislation will probably remain tougher, or at least as tough as e-commerce legislation generally, because e-commerce legislation would be enabling legislation and gambling legislation is restricting club legislation. Yes, there would be some synergies and I think that the gambling regulation is sufficient—well, heading in a sufficient direction.

Senator LUNDY—You made some comments before about the location of EFTPOS machines within clubs where there are poker machines. What are your views on the availability of the mechanisms to transfer funds online and direct transfers perhaps into an online gambling site from an Internet banking service?

Mr Pedley—There is almost a very important benefit from credit cards—it does not quite sound right. Credit cards are a contract between a financial provider and a person for credit. The credit providers would not enter into those contracts with persons under the age of 18.

Senator LUNDY—It is not necessarily credit though. Your bank account is available as well.

Mr Pedley—Certainly at the moment players can transfer funds from bank accounts but they have player loss restrictions on their gambling activity. I am not sure why they would transfer a lot of funds to a casino where they do not earn interest when they can lose only a few hundred dollars a month. It would only be for money laundering purposes and the AUSTRAC money laundering considerations would then fall back onto the banks making those transactions between accounts. It would not achieve anything for money laundering purposes to move funds into a casino account. It is not like saying to the publican behind the bar, 'Come on, mate, I am always here. Do me a favour. Let me gamble a bit more on that poker machine.' It is a computer. It has been thoroughly audited by the government regulator to ensure that when a player has lost the limit for the month that is it.

CHAIR—When the limit for the month is reached he or she is predetermined—

Mr Pedley—There is a default and a player may lower that limit.

Senator LUNDY—Can you just go to the point about the ability to transfer funds completely online. Putting aside the availability to do that on credit accounts, I am thinking

of normal savings accounts: what checks and balances are available there in terms of eligibility to gamble on the basis of age?

Mr Pedley—Age is certainly a problem at the moment. It is certainly an area where digital certificates could potentially help, although the digital certificate technology coming from the United States specifically will not include age provisions. That is a major flaw of gambling type industries which are interested in protecting or restricting those under 18, or 21 in some jurisdictions. The age provisions are currently offline considerations in that people have to provide proof after registration. It is based on the philosophy that people will not gamble unless there is opportunity to win. People can register and immediately transfer funds, but they have a very short period to do it in.

For demonstration purposes, I started an account with Lasseters for points, and within a week I had to provide them with some evidence as to being over 18. I did not and my account was suspended. There are off-line mechanisms at the moment, and there are things like certified copies of passports and so on. A very important component though is that at registration a player provides name and address and it is a non-trivial matter to change the address. It is to that address and in that name, which matches up with the identification, that a non-negotiable cheque would be sent for any winnings, the philosophy being that you do not gamble unless you can win. I understand that Australian banking legislation requires the equivalent of a 100-point check to redeem a non-negotiable cheque.

I will get back to the credit card transactions which would be right at the beginning of the identification leap, if you like. Credit cards all have a name associated with them. Unfortunately, financial institutions are not interested in the name on the credit card transaction when they authorise the credit transfer. For very simple legislation I would imagine, if financial institutions required that name, then we would have a credit card which cannot be to a minor; we would have a name being tied to the identification of the player's address and to a non-negotiable cheque which requires 100 points at the other end.

Senator LUNDY—So what you are trying to do is build a relationship between name, a physical address, and an account number, be it a credit or a bank account number?

Mr Pedley—Credit would be better because a minor could have a bank account, whereas a minor, unless under strict parental supervision, would not have a credit card, and it would be a non-minor with a 100-point credit check at the start of the transaction getting the credit card, and then the same person with a 100-point identification check redeeming the cheque at the end. So there would be a 100-point identity check at both ends of the identification, so it would include money laundering considerations and stopping minors from gambling.

Senator LUNDY—In terms of definitions of gambling and what constitutes gambling, do you have any views on or have you ever had cause to inquire into the relative status and methodology in some of the stock trading sites that are now proliferating?

Mr Pedley—No, I have not. There is no doubt in my mind that it is gambling. There is a potential for this type of thing for people to be trading on outcomes in sporting events and possibly circumventing gambling legislation at the moment and facilitating outcomes, which is the stock market. People are not actually providing the gambling service; they are

facilitating other people who are predicting what will happen in an outcome, which is pretty much the stock market as I would understand it. If the federal government is interested in tighter regulation then it may not be gambling that it should be looking at.

Senator LUNDY—It crossed my mind that looking at the regulatory framework of stock trading online could prove a good place to start in looking at the regulatory models with online gambling.

Mr Pedley—I would be absolutely stunned if the same model of control is in online stock trading.

Senator LUNDY—Yes, I suspect that would be the case.

CHAIR—Thank you very much, Mr Pedley, for your evidence this morning. It has been very useful, particularly against the background of your experience in the industry.

[11.08 a.m.]

TONEGUZZO, Mr Stephen, Managing Director and Principal Consultant, Global Gaming Services Pty Ltd

CHAIR—Welcome, and thank you for your patience. The committee does prefer all evidence to be given in public, as you would have heard me explain to previous witnesses. If we ask you a question that you would like to answer in camera, that is, in private, please tell us and we will consider that request. If you choose to follow that path, the answer that you give could be made an order of the Senate and therefore be made public. However, that is quite unusual. We have before us your submission, which we have designated No. 18. We have published that submission. Are there any alternations or additions that you want to make to it?

Mr Toneguzzo—No, I stand by my recommendations and comments.

CHAIR—Thank you very much. I now invite you to make an opening statement and then we will move to questions.

Mr Toneguzzo—My company does auditing, evaluation and testing of gambling equipment, that is, all forms of equipment from poker machines to Internet gambling systems. At the moment we are conducting the majority of audits of e-commerce gaming sites in Australia.

I have been in the industry for 10 years and since 1995 I have been pushing for some form of Internet regulation and federal involvement. I believe that there are fundamentally three approaches—and I concur with Senator Bishop—and they are to ban it, do nothing or to regulate it. I strongly believe that regulation is necessary. It is necessary to protect the public good and to protect government revenue.

This inquiry should be balanced. I have made submissions to several inquiries or investigations into gambling that focus on gaming. I believe that wagering, lotteries and the stock exchange, specifically day trading, are all forms of gambling by definition and that certain issues such as player protection, et cetera should apply equally to all of them.

Perhaps we could explore this later, but I would just like to make the comment now that gambling is not IT. Installing an office network in computers is very different from the politics, the trade issues and the sensitivities of gambling. And, more and more, gambling is becoming technology driven. Technology is driving policy. Gambling has evolved from the two-up rings at the turn of the century, where it was a very social activity, into a more and more isolated activity. Technology assists us to grow gambling. It also assists us to control gambling, and the issue is finding a balance between those two.

Essentially, Internet gambling is global, and with a global economy it is all about player choice. The players will choose to gamble where they have trust. The issue with gambling is that the games are fair, that the gamblers have a right of appeal and that they know they are not getting ripped off.

Australian regulators have taken the view that in a democratic society we cannot necessarily ban it. They realise the operators have a choice as to where they establish, whether it be Antigua, Australia, South Africa, et cetera. So our regulators have decided to capitalise on our credibility in the global market and offer the operators that credibility. The Australian regulators are saying, 'We will offer you credibility. In return, you establish in our jurisdictions and you will pay us tax.' That credibility is worth something to them. How much it is worth is up to them to decide. There will come a point where, if the barriers to entry are too high, those operators will go overseas. What that point is, I have no idea.

Unfortunately, the states and territories have long been competing against each other for the tax dollar. Indeed, the driving force for introducing poker machines into Queensland, for example, was the fact that New South Wales clubs were stealing a lot of Queensland tax dollars. The states and territories have traditionally taken different tacks, although the core values have been very similar—probity, et cetera. One could suggest that in part they were trying to outdo each other. With Internet gambling we now have a situation where the government is in partnership with industry.

One concern that I have is the potential for the various states and territories, in competing with each other, to lower the barriers to entry to attract those dollars. That is one of the reasons why I believe the federal government should get involved. Internet gambling is commerce. The federal government regulates communications, banking legislation, law enforcement, et cetera. Everything to do with the media, which is the Internet, is federal. But gambling is a state matter. State regulators do regulate gambling very well, and they have put Australia on the map globally as a world leader in this area. However, they do not have a great deal of expertise in Internet matters.

I believe it is in the national interest that we get it right, that we cooperate nationally and compete internationally. As I said in my paper, I believe that the federal government should at least get involved to ensure there is consistency and clarity in regulation to counter the prospect of a state government creating some embarrassing trade situations internationally for the federal government. I do not believe that complete control is the way to go because the states do regulate gambling well,

I believe that, if Australia does cooperate nationally and compete internationally, we are now and we can continue to be in the position where we will be seen as world leaders in this field. Should the United Nations, OECD, APEC or whatever take an interest in this, and I believe that they will, Australia has the opportunity to lead that forum in standards and in establishing international trade relations.

I feel that the window of opportunity is quite small. We have a chance to get it right. I believe that South Africa have taken a correct approach. I will read three sentences from their policy document and then I will close. They say:

This means that Internet gaming is a dollar-earning export business. Almost all sound strategy relating to its regulation follows from this fact.

. . . an even more important benefit for South Africa to be derived from the rapid introduction of a sound regulatory environment for Internet gaming. This is that it would act as a spearhead for the development of South Africa as a thriving centre for e-commerce business generally.

The South African government needs to think of itself—

and I think this is significant—

as acting on behalf of 'South Africa Incorporated' in an enterprise which will be internationally competitive and successful.

This means essentially Australia competing with the rest of the world in trade. There is the export dollar that needs to be considered and there are certainly the social issues that need to be considered.

CHAIR—Thank you very much, Mr Toneguzzo. That was a very interesting introduction. I did not catch you mention the word 'consumer' in your introduction and I am wondering how you feel about the current regulatory laws, for example, in the Northern Territory related to Lasseter's. I see that you have audited Lasseter's particularly in relation to issues such as privacy and consumer protection. Could I ask you to canvass that issue, please?

Mr Toneguzzo—I believe that Lasseter's and the way they operate their casino—the regulation in force there—is probably the best in the country at this point in time in that, for instance, the betting limit that Alan Pedley mentioned does not necessarily apply to other jurisdictions. The privacy issue has been very big. When we went into audit, there was not any technological requirements that we could audit against, so it was world breaking stuff. In conjunction with the government, we sat down and identified the risks to the government, to the operator, to the players and to the consumers and we asked, 'How do we mitigate those risks?' We looked at existing legislation requirements in terms of gaming machines, gaming systems and the broader e-commerce. We also looked at the Department of Defence and some of their IT security policies. We collectively applied those to the Lasseter's site.

In terms of player privacy, we have insisted that player information, credit card details, et cetera be encrypted in a database, that the database be securely stored in an operating environment, that the operating environment be behind various levels of firewalls and security and that the defence is in depth. Many different strategies are applied to that site. The people that are involved in that site undergo probity checks and the Northern Territory itself has legislation in place to ensure the protection of players.

In relation to fairness to the players, some of the things that we have investigated are that the random number generator is truly random, that the games are fair, that there are no misleading or deceptive comments on that site and that there are no techniques of psychological manipulation. This is one of the dangers with an unregulated site. For example, some years ago in Nevada there was what was called a 'near miss' concept, which some of the poker machine manufacturers put forward, that gave the punters the perception that they had just missed out on the jackpot and would induce them to continue playing. Those sorts of psychological manipulation techniques are something that we look for; it is something that we just do not allow.

We also ensured that the accounting is accurate and that the players are credited the right amount. The players also have the ability, not available in traditional forms of gambling, to get a statement online so that they can look at how much they have bet, how much they

have won, how much they have lost and what games they have played. You do not have that in a club, hotel or casino. The players have their limits. The players set their limits and, once they have exceeded that limit, that is it. They can self-exclude. So, if they feel they have a problem, they can choose to self-exclude and there are cooling off periods.

One could suggest the downside perhaps is that technology has enabled the proliferation of gambling. The upside is it has enabled us to better put in place social mechanisms and auditability of the site. Indeed, as Alan said, you would be foolish to even attempt to launder money on that site. I cannot make the same comment about some of the Caribbean sites or offshore sites. Money laundering can take place either by playing at the casino or owning the casino.

CHAIR—What about the evidence that you would have heard from Professor McMillen about the number of people who will become gamblers as a result of the proliferation of this technology? Do you have any views on the consumer education program that perhaps could be electronically built into, say, the opening pathway to your account before you gamble? Clearly the technology would be there. It seems to me that what you have presented this morning is very good evidence about the way in which the regulations are currently working, but I do have a concern that new gamblers—new entrants into this form of gambling—at the moment may not have any form of consumer education before they in fact register, are accepted and then begin gambling. Do you have a view on that?

Mr Toneguzzo—I completely agree with you and I feel that we have to start right back at the basic levels of wagering, poker machines, table games, et cetera. I think that there is a general lack of community awareness in this country of gambling—full stop. You should learn probability and statistics in the schools and be taught the odds. We have drink-driving campaigns, we have responsible provision of alcohol and we have a national awareness of that. We do not have a national awareness of gambling. I think perhaps the states or, indeed, the federal government could take a more proactive role in promoting campaigns such as Star City's 'Bet with your head and not over it' and things like that to get the message out that this in moderation is a national pastime and it is fun but you can have problems.

Another thing that comes out of education is a book by Daryl Huff called *How to Lie with Statistics*. One of the points he makes is that maybe people do not necessarily know that they have a problem with gambling. That might skew our statistics. To educate the players and help them become aware of when they might have a problem, that broader community education is essential. It certainly applies to the Internet. On Lasseter's you have a link to a problem gambling site, you have links to rules, how to play the game, et cetera and that is all made available online. I would question how many people would actually seriously go and look into that. If I am driving in the car and I hear an advert on the radio, I am getting that reinforcement, so when I sit down and click on the site maybe I will now look at those social pages.

CHAIR—Yes. Previous witnesses this morning and in previous hearings have made the point that we currently have gambling operations that have not only EFTPOS machines but also very convenient pawnbrokers sited nearby, so this does give an opportunity for some quite groundbreaking work in this area. I will pass to the Deputy Chair, Senator Bishop.

Senator MARK BISHOP—Good morning, Mr Toneguzzo. You made a fairly strong plea for a role for the Commonwealth in this area of online gambling. What do you see as the critical areas in which the Commonwealth should become involved and why? In the context particularly of the previous witness's comments which essentially argued that existing regulation at a state or territory level was adequate, was carrying out the task and there was no need or justification for the Commonwealth to become involved, why do you take a different position?

Mr Toneguzzo—By way of a scenario: I may be operating an Australian Internet gambling site, and any down time for me is a loss of revenue. If I detect that somebody is trying to hack into my site either to take me off-line and deny me service or to try to steal my player database and use it for privacy-blackmail issues—whatever it may be—what do I do? Do I contact my local police and ask for help? Do I contact the Federal Police and ask for help? What can they do?

So what are my options? Maybe the only way I can continue my business, if I detect that this attack is coming from offshore, is to counterattack and take out that site. Maybe that creates some international trade issues, depending on the company or who that may be. And, because of IP spoofing and things like that, maybe I think it is a company trying to take me out but it is not, and I accidentally take somebody out, if I can use that term, or I take out the ISP because the attack is coming through the router.

I suppose in the past, if somebody broke into my shop and stole my cash register, I could go to the police station and say, 'Help me out, guys.' Here I cannot. That is one issue, and I suppose that leads to another issue. For example, if America continues with the ban and Australia continues to accept bets from Americans, is a state government aiding and abetting a citizen of the United States to break its laws? What are the international trade issues there?

I will not go into all the issues today, but there are many areas in international trade and international relations that apply to e-commerce generally and probably more so to Internet gambling. It is a sensitive subject because America regards gambling as a public health issue, despite a turnover of $550 billion a year and 30 million tourists a year going to Las Vegas. Australia regards gambling as commerce. So the policies of the two different governments are diametrically opposed.

I suppose there is also the issue of extradition. If somebody in Victoria breaks the law in Queensland, how would those sorts of issues work? The issue of telecommunications—the Internet, full stop—is a federal issue, and that is the medium on which the gambling activity takes place.

Also I think a very strong area for federal government involvement is ensuring consistency between the states. If I could paint the scenario, just to summarise what I have put in my paper, one might argue that the lower the barriers to entry drop the greater the potential for criminal involvement.

Should we have a major scandal in this country, not only would it damage Australia's reputation internationally as a good gaming regulator but also I feel it would damage Australia's reputation in domestic markets. At this point in time, gambling is a very topical

issue—South Australia, Nick Xenophon, et cetera—and to damage domestic markets could damage a $3 billion revenue to the states and territories that the federal government does not necessarily have to pay them. I think there are broader issues in ensuring that the states and territories cooperate. Largely, they have cooperated on the regulatory model, but to varying degrees with regard to player responsibility and the social aspects. The core is there across the different jurisdictions but with varying degrees—for example, in security.

And it depends on the regulator. In some cases one could suggest that the regulator has very little knowledge of the technology and therefore the controls reflect that. In other jurisdictions such as the Northern Territory there are very tight security controls. Queensland has a technical laboratory within the government, and it has a team of technical experts that can advise the director of gaming on these issues. In my opinion the Queensland requirements are quite good because they are coming from an informed position. So what is important is ensuring that the different states and territories cooperate and that there is consistency in dealing with areas of international trade.

Senator MARK BISHOP—Bringing that together, would you favour some sort of national commission on gaming or would you favour an existing agency being given the responsibility for regulation; and, if so, which one?

Mr Toneguzzo—I believe there should be a federal body responsible for overseeing issues relating to gaming where the matters are largely outside state control. However, the caveat on that is that it should not hold things up. This is moving so quickly. Considering the way that governments work—a commission of inquiry, recommendations, bodies established and research and investigations undertaken—if we put a moratorium on this while a federal body were established, I think the window of opportunity would be lost. However, I do believe the federal government should be acting quite quickly to ensure that the players are protected and this potentially significant export market is not eroded by petty competitiveness between the states.

Senator STOTT DESPOJA—Following on from Senator Bishop's comments, can you tell us about the task force that you have advocated since 1995 and perhaps why you do not believe you have had the desired response to the proposition? What are you suggesting should be the composition of the task force?

Mr Toneguzzo—I think it should be along the lines of what Jan suggested. I think we agree in that area. It should comprise the federal government, state regulators and industry and community representatives. Clearly, that is quite a diametrically opposed group, but first of all the task force needs to identify the issues. At this point in time, not wanting to delay the processes, the fundamental issue in terms of a regulatory model is that there is disagreement on player identification and on tax rates. If the states and territories cannot work it out, then that is where the federal government should step in.

Had this task force been established in 1995, we would have been well ahead of the ball game; now we are being reactive. Even so, there are many questions yet to be answered and we do not even know what all those questions are. This is bleeding-edge stuff, this is pioneering, and I do not think there are any answers anywhere in the world. It is a case of having the right people in that forum to identify those questions, to deal with the answers

and to be proactive as opposed to reactive. They certainly need to be able to identify the major risks to the community at this point in time, to identify the major risks to governance and to ensure those risks are being addressed. It may very well be that this federal task force will say, 'Yes, we consider that the states and territories are adequately addressing the risks,' or it may be that they feel there is an issue on the tax dollar and a step in.

Let us take a step back: when I say 'step in', constitutionally I am aware that the federal government cannot step in unless there is an area of international agreement on trade, and certainly e-commerce is one of those areas.

Senator STOTT DESPOJA—Why do you think governments, in particular the federal government, have been so tardy in responding to such a suggestion? I take on board your comments about how reactive this process is. Even if we were to make that recommendation—and it has certainly come from a number of witnesses—we are still looking months down the track, at least, so I find it extraordinary. Do you have any analysis?

Mr Toneguzzo—A lack of understanding. In January 1998 I initially approached Senator Alston. I went to Parliament House in Canberra and spoke to some people. I made a presentation and said, 'This is happening, it is real; it is going to impact on your guys. Get across it.' The response I received was that at that time the federal government felt that the states and territories were dealing with the issues adequately. I think it has just been one of education, that it has perhaps been all too hard.

Senator STOTT DESPOJA—So perhaps it has been a lack of understanding on the technological side as opposed to it being a gambling issue.

Mr Toneguzzo—Gambling as well. One of the things I find, having been in this industry for 10 years, is that new players come into it all the time, and Jan and Alan may very well support me when I say that you can really spot the new beast—if I can use that term.

One of the things I tell my staff is that it is one thing to be technically very good, but you are only a third of the way there. You need to understand this industry and you need to understand the politics of it. Both those hurdles are not ones that are easily overcome. It is not IT.

Senator STOTT DESPOJA—Have you made further representations to the minister since that time?

Mr Toneguzzo—No.

Senator STOTT DESPOJA—I am interested in your comments about education. Are you aware of any education campaigns specifically at a school level—presumably, high school level—that operate either in New South Wales or more generally?

Mr Toneguzzo—No, I am not. I am aware of Jan McMillen's group and another group called Bet Safe that have been promoting responsible gambling—stickers on gaming

machines, brochures in casinos, et cetera—but I am not aware of any concerted national effort at all to educate the players.

Senator STOTT DESPOJA—Would that be a recommendation you make?

Mr Toneguzzo—Absolutely.

Senator STOTT DESPOJA—You have talked about it.

Mr Toneguzzo—Most certainly.

Senator STOTT DESPOJA—In relation to online gambling, what are some of the security threats or issues for online gambling with which the committee should be familiar, and specifically in relation to e-commerce transactions being adequately protected?

Mr Toneguzzo—I have mentioned gambling, stock market, wagering, et cetera. You may hear representations that, 'It does not need to apply to us because we have never had a problem.' Quite often that is because they do not know they have ever had a problem. With large organisations, either (a) they do not know they have been hacked or (b) they know they have been hacked but it would affect their share value if they were to announce it to the market so they do not necessarily do that, one could suggest.

Essentially, what we are looking at in terms of security is wanting to protect the privacy of the players—we are wanting to protect who those players are, how much they are gambling. That player database is a substantial asset of any operator. It is also a potential source of blackmail. And, as this industry gets more competitive, I would expect that offshore operators or offshore groups may very well attempt to steal that player database to identify who the players are and then try to market to them. So there is that issue, and with that comes not only a loss of consumer confidence but also significant political embarrassment because the regulator has let that happen. The other issue is one of denial of service, and that is that every second you are off line is a second that you are losing money. So there is that aspect, and a loss of income equals a loss of tax, fundamentally. There is also hacking a site, changing a web page, as has happened to governments here and to different corporations.

With regard to security, I would suggest that fundamentally it is about maintaining consumer confidence and continuity of business. If you lose consumer confidence that has a significant political backlash on the regulators and the politicians. It also has the potential, I would suggest, to damage trade relations, especially if, hypothetically, a database with many Americans in it was suddenly bandied around the Internet. And, make no mistake, we will be a significant target—I know we are, from the sites that are up and running now—of people of other governments, of other corporations and of just the kid at school wanting to hack in and try to prove a point. Again, this is where the federal government comes in. If another government tries to take my site out, what do I do? Do I counterattack—knock out their banking system?

Senator MARK BISHOP—Another government taking a site out in this country?

Mr Toneguzzo—Yes. A hypothetical scenario: a particular government has said, 'We will not allow our citizens to play. You are breaking our laws and we will not allow you to continue to do that.'

CHAIR—Given that Lasseter's have already disclosed that one of the countries that attracts most revenue is in fact the United States, the point you make is very valid.

Mr Toneguzzo—E-commerce, as I am sure most of us are aware, has the potential to shift the balance of power. If I can use one of Alan's quotes, the Northern Territory is to Australia what Australia is to the rest of the world: small, isolated. It is a very good analogy. I am sure there will be countries out there that will be looking to do whatever they can to protect that balance of power. With e-commerce you start to lose control of fiscal policy. I could get an interest loan from a Swiss bank online, et cetera. How are you going to keep control of interest rates? There are a lot of other issues associated with this. It has also been suggested that the US's approach is largely an economic smokescreen—I will probably leave that at that.

Senator STOTT DESPOJA—There are so many things to pursue here. In relation to those people who would want regulation to the point of prohibition or banning, it is all very well if we want to try and stop the creation of gambling sites or hosts in Australia, but how do we prevent Australians using overseas hosts and sites? I can see that there are not only trade but broader international implications. We might put on notice a question in relation to the legal issues, the liability. We had one witness who was quite convinced of his legal rights to take bets from another country—it depended on who placed it and who was responsible for it. Have you got anything that you would like to share with us as to how you operate if you are taking a bet from someone in an American state, for example, where gambling is illegal? What is your understanding of the liabilities in that circumstance?

Mr Toneguzzo—America have their laws and we have ours. I do not know that they have issued a warrant for Peter Bridge, but the Justice Department has made a clear statement that he is not welcome in America; they have certainly made that very clear. I am not an expert on this—colleagues of mine such as Jamie Nettleton are far more versed in it—but I know that the issue of where the contract is placed is significant. I understand there was a recent ruling in the Californian or Idaho courts that the activity actually takes place at the computer. There are other rulings that say the activity takes place at the server and then there are other rulings that say the activity takes place at both places. I vaguely recall that there is case law in Australia where somebody was in a fishing boat on the Murray River and shot someone and was acquitted because of the different laws in different states. There is also similar case law in the States with respect to an Indian tribe, where someone was standing in the reservation and shot someone outside the reservation.

So there is case law but I feel that the Idaho or Californian case might have been the first time it was tested, and they have said, 'You are gambling at your computer.' I will give you an analogy. I give you $10 and say, 'Senator, will you please put this on the blackjack table at the casino and this is how I want to bet,' and you take it in and place the bet and you hand the money over. Analogous to that would be me going to a bank or a credit card company and saying, 'I wish to place this much money on this Internet casino,' so the credit card company is actually a party to the transaction—I am not actually putting the money

down myself, they are putting it down on my behalf. It has been suggested that maybe one of the ways the US regulators will look at things is that without money there is no gambling, so perhaps they are looking at Visa or Mastercard or whatever as one approach. Despite that, we have digital currencies being established. Digi-cash is one that comes to mind, or e-cash or something. This is outside of the realm of traditional banking.

CHAIR—The evidence that we had previously suggested that this particular witness did not believe that the transaction was illegal if it originated in the United States because it was received in Australia. But I am aware of one operator of a sports betting agency who will not go into the United States, so there is clearly a difference of opinion there.

Senator McGAURAN—I wonder what is going to happen to the high roller with this new technology, whether this is a technology not so much for the high roller but more for the small roller who likes to have sports bets. With the casinos—Star casino, Crown casino—if there was one thing we heard in relation to the fights over the high rollers, the tax incentives that were called for, it was that they were an essential part of the profitability, if not—the way they spoke—the profitability of Crown Casino, and no doubt of Star also.

So there are two questions. Is the high rollers' use of this directly proportional to the regulation we are going to put on it, and when we come to write the regulation is that going to then become the big factor from those that would be seeking licences, like Tattersalls or TAB or something, saying, 'But hang on a second: you are capping our high rollers which is our high margin area'? So are we going to have that high-roller effect when we come to write the regulation?

Mr Toneguzzo—I believe that the Lasseter's approach where your bet is limited to, say, $500 a month or a week excludes high rollers. You are not going to attract the high-roller market the way it is currently structured. I would suggest that your high rollers, to coin that phrase, at this point in time are probably going to be your day traders. They are going to be playing the short-term stock markets, and the fluctuations in those short-term stock markets over a period of time are essentially random.

I think that perhaps longer term, with the high rollers, the casinos may very well seriously look at, 'Well, we fly them over here and we do the junkets, et cetera. Maybe we will supply them with the latest and greatest computer, a satellite dish and allow them to gamble that way.'

But the question is—and this is where I am not a marketing expert, just an engineer—what attracts these high rollers? Is it that they like to be seen? Is it that they like to be seen spending their money? Maybe you can easily address that because in a casino they are seen by people and in the casino on the Internet they can be seen by the world—'So and so bet this and won this.' Is it that they like coming and being spoilt? That is not going to happen to them if they have a computer, the three-D gloves or whatever and a satellite dish. I just do not know the psyche of the high roller in that sense.

I think as technology evolves, as we get towards a Star Trek type holodeck—and already you have your virtual reality, the gloves, the goggles; the technology exists now, although it might be fairly crude—there is no reason why you could not walk into a virtual casino. For

all intents and purposes you are there. You are empowered and it is your casino. You look next to you and there is somebody from Switzerland or from America playing and you strike up a conversation and you are in your little virtual world. We are talking social interaction that you get at the clubs, and maybe that would attract the high-roller type. I do not know.

Senator McGAURAN—I have even heard that the Lasseter's capping will mean that the high-roller effect will be the less regulation the better for them. They do not want regulations at all—nothing to restrict them. Is that an effect when you come to write the regulations—

Mr Toneguzzo—If I might take some liberty, if one was going to look at ways in which to launder money, with that sort of money, for $100,000 you can buy an Internet gambling licence offshore and you would be better off setting your own casino up and doing it that way. I suppose the only other way I might answer that, and I apologise if I am not fully understanding your question, is that on an online Internet gambling site every single transaction is recorded. It is fully auditable. I am sorry if I am not answering—

Senator McGAURAN—That's enough to put them off.

Senator LUNDY—I would be interested in your comments about the situation with the US ban and the proliferation of day trading and sites over there and some of your thoughts about the relative inconsistency in their treatment of both of those gambling environments.

Mr Toneguzzo—I think it is a global problem, though. Even here in Australia we do not treat wagering the same as we do gaming. Yes, the Stock Exchange is regulated, but day trading is completely unregulated in that sense. And I also think there is a psychological issue in that I talk to people that are very anti gambling, but when you ask, 'Do you have shares?' they answer, 'Well, yes, but that is okay.' So I think there is a psychological barrier, that people are not prepared to accept that maybe they are gambling. Certainly day trading is the constant bang, bang, bang. It is the positive reinforcement—it is gambling.

Senator MARK BISHOP—Day traders would say it is not pure chance.

Senator LUNDY—Neither is horse racing.

Mr Toneguzzo—Yes, exactly. It is more analogous perhaps to wagering. With the gaming the operator controls—and I use 'controls' loosely—the outcome because it is based on a random number generator. It is within the operator's control. It is random and it is a game of chance but it is within the operator's control. With day trading, with horse racing, with the lotteries, you can independently confirm the events, so it is different in that sense. But where are the controls to stop a 12-year-old using the mother's credit card or something to do day trading? Where are the controls in place, where is the security, where are the privacy controls and the databases in terms of online wagering? What legal requirements are there for the sites to be secure and so on and so forth?

I think it is just a loophole over in the States—how they close it, whether they will or not—but certainly the term 'casino' is referred to and the term 'gambling' is referred to. It is essentially a big room full of PCs and people are sitting down there gambling away. I am sure that you are probably aware of that incident where that fellow lost everything and went

in with a machine gun or whatever and killed his family and several of the employees in the operation.

Senator LUNDY—You spoke about the international fora that contemplate electronic commerce framework conditions. I have been following the OECD debate about taxation framework conditions and jurisdictional issues—that is, where is the point of consumption for the purposes of electronic commerce laws. You mentioned a case, either in Idaho or California. If you can find that reference and get that to the committee, I think that would certainly be useful.

Mr Toneguzzo—Sure.

Senator LUNDY—But, on that issue of jurisdiction with gambling, can you refer me to the international fora that are looking specifically at those issues, in your view? I look at the OECD work, I look at the World Trade Organisation deliberations in their electronic commerce working group, but I guess I am looking for guidance about other fora where we could be actively participating from this perspective.

Mr Toneguzzo—I plead a little ignorance in that regard insofar as, to the best of my knowledge, there is no global forum or international forum looking at the issue of Internet gambling.

Senator LUNDY—So it is still back to this point made by Professor McMillen about e-commerce considerations being the primary forum for looking for clues for the treatment of Internet gambling.

Mr Toneguzzo—Interesting. Yes, given that gambling is e-commerce—it is pure e-commerce; the commodity is money and the product is gambling—I think so, and I also think perhaps of the many debates and arguments that are being kicked around at the moment. Indeed, I was at an e-commerce conference not too long ago where questions that were being asked were questions that state regulators, Jan and Alan and I had answered 12 months ago. So it seems that Internet gambling, being pure e-commerce, being so political, being regulatory as opposed to open market—a lot of these issues that you may be facing in e-commerce—have already been dealt with.

Senator LUNDY—Going further on that point, the taxation implications of this—that is, the point of taxation within a given jurisdiction—one of the issues in that broader e-commerce debate is how you attribute tax across international borders if that be dealt with in bilateral treaties and so forth. Have you contemplated the taxation implications with Internet gambling transactions internationally, and what are your conclusions?

Mr Toneguzzo—Absolutely. The current Internet gambling systems make a provision for you to register what country you are from, what jurisdiction within that country you are from—so, in Australia, Queensland—and the accounting system is such that you can identify the wages that have been placed from that particular jurisdiction and you can remit the tax. So Queensland can remit the tax back to Victoria, and Victoria can remit the tax back to South Australia.

It gets more complicated than that with gambling as there are exclusivities. For instance, Jupiters has exclusivity over Keno in Queensland. Tattersalls has exclusivity in Victoria. So you need to go to the next level of: what country are you from, what state are you from and what games are you allowed to play?

This point is where the federal government might get involved because there seems to be still, whatever Jan says, this cannibalism. The emphasis is on a very small drop in the ocean here. There is still the competition nationally. Let us compete globally. I fear that, with the establishment of forums like OLGAA, Online Gambling Association of Australia, you have all the operators and service providers cooperating. Even if hypothetically a Queensland operator said, 'We are not going to enforce our exclusivity. If a Victorian operator takes Keno bets from a Queenslander, that market might $10,000. Who cares? We are focusing on a $1 billion worldwide,' who is to say the states are not going to take action on behalf of that operator because the states are going to be losing that tax dollar?

Senator LUNDY—I find that a fascinating point. If I am interpreting you correctly, you are saying that those interstate taxation arrangements are already in place for the purposes of remunerating the appropriate government. Is that occurring or is that what you think conceptually should happen?

Mr Toneguzzo—It is conceptual. That is the draft regulatory model—the remittance. But it is so political. No-one seems to really want to be communicating at a ministerial level between different states. The regulators are, but the ministers seem to be avoiding the subject. I am aware of a recent effort by the Northern Territory minister, Tim Baldwin, to get the other ministers together. I do believe that did not happen. I could be wrong there.

You have a situation where in the Northern Territory they do not take bets from any Australians. In Tasmania, they are not allowed to take bets from Tasmanians, but they are allowed to take bets from other Australians. The policy in Norfolk Island is probably going to be, 'Don't take any bets from Australians.' It is there in principle but not in practice.

Senator LUNDY—Therefore, it is at the point of consumption and identification of the individual. The point at which they reside is the critical jurisdictional issue for purposes of taxation.

Mr Toneguzzo—Yes, exactly.

Senator LUNDY—Extending that further into an international environment, this is at the point where the international debate has stalled. How do you construct these bilateral arrangements for the purposes of remittance of taxation liabilities, particularly in a jurisdiction like the US which is currently in the midst of an e-commerce commission, when the moratorium runs out next October? How well informed do you keep yourself about developments in that area because of the significant implications on our potential?

Mr Toneguzzo—I am aware of an overseas national government which is looking at taking the position with Internet gambling with a view to attracting a wider e-commerce market. We will perhaps have zero tax and, therefore, there is not a question of zero gambling tax. It is not a question of remitting tax to other jurisdictions. All the companies

pay is corporate tax. We are attracting them to our jurisdiction; they will pay the corporate tax. We will not have a gambling tax, so there is no remittance issue to worry about.

Senator LUNDY—Is it your view that we would not have a gambling tax for our international clients to those particular services but we would tax domestic clients?

Mr Toneguzzo—I think that where Australia has the advantage over this other country I am alluding to this other country does not have the international reputation as a regulator. We do and that is worth dollars. We can get away with the tax. But what level is that? Is it 50 per cent? It is probably not. That is what Victoria and Queensland are stating. Northern Territory is under two digits and Norfolk is going to be probably half of that.

Senator LUNDY—But what are your views on discriminatory tax regimes between domestic and international users of these services? I leave that one with you to contemplate because the issue, as you say, pre-empts many of the taxation issues relative to other electronic commerce implications and other taxes such as consumption taxes.

Mr Toneguzzo—I feel that the model that has been applied in Australia in principle but not in practice could equally be applied internationally. The systems identify the revenue derived from a particular group located in a particular jurisdiction. Whatever the international agreement is in terms of tax remittance is paid back to that jurisdiction. It then comes down to a question of the auditability of that system. Are the numbers right? Are they adding up?

Senator LUNDY—Yes, looking at the current systems for those sorts of arrangements brings that to the fore. You mentioned encryption as being necessary or desirable to protect privacy. What are your specific views about the level of encryption employed? Does key escrow have a role in your encryption policies?

Mr Toneguzzo—Yes, I am aware of the level of encryption and the level of security.

Senator LUNDY—It is a leading question in the sense that my next one is. Particularly with regard to key escrow, what is the role of AUSTRAC?

Mr Toneguzzo—In relation to key escrow, I am aware that the National Association of Attorneys-General—or perhaps the US Justice Department—suggested the concept whereby, if you are using encryption, you have a national independent body that holds all of those keys. If state law enforcement feel that you are breaking the law, they can get a warrant to approach that organisation and obtain the key. Herein lies the problem. In order to obtain that warrant they have to be able to prove reasonable suspicion that an illegal activity has taken place. If the traffic is encrypted, they do not know what the heck is going on anyway. It is a catch-22 situation. They are not able to demonstrate that reasonable suspicion to get the key in the first place. That also raises the issue of player privacy. I believe that it was a first amendment issue, as so many are with gambling in the US, that killed it with that issue of player privacy.

Senator LUNDY—Yes. That raises the relative capacity for Australia to compete on issues relating to perceptions of privacy and consumer protection as well.

Mr Toneguzzo—Look at technology. The hardware, the operating systems, most of the security products, the firewalls and the routers are all derived from one country. If one is to attempt to make their site as secure as possible, then you are looking at defence in depth in that you might have your first firewall from one supplier and your next firewall from another supplier from a different country. We have a demilitarised zone. Within that you have encryption between various servers and on your database of sensitive information like credit card information. So there are various levels of protection.

Senator LUNDY—Yes. In terms of the actual level of encryption, is it 40?

Mr Toneguzzo—It is at least 128 at the moment.

Senator LUNDY—How exportable is that? Can I leave a question on notice with you of the international obligations Australia has on our ability to export. Currently, we certainly do. Other jurisdictions such as the US have restrictions on the export of the level of encryption. To what degree does this impact on, firstly, the opportunity that you spoke of for Australia and, secondly, potential complications about the ability for the cross jurisdiction issues?

Mr Toneguzzo—Phil Zimmerman, PGP, and everything that went around with that were a good indication that the US have lost control of that.

Senator LUNDY—Recently there was some shift in the US position on the level of encryption that they were allowed to export. Do you see restrictions on the level of encryption as something that will not be an issue in the near future? I am interested in your view as a professional working in this field.

Mr Toneguzzo—Yes. Bill Clinton made a statement some years ago that he directed to all these heads of governments along the lines of, 'Do not restrict e-commerce.' If they are going to restrict encryption, they are going to restrict e-commerce because security is the e-commerce facilitator. Without security you have nothing. Without security you have no trust and without trust you have nothing.

Senator LUNDY—Thank you.

CHAIR—Mr Toneguzzo, I wish we had longer to explore some of these issues. You raised a number of points, and all of us around the table immediately started thinking about other witnesses such as Mr Zimmerman. I thank you very much for your very interesting and helpful evidence this morning. We have been very fortunate in the evidence that we have received from all witnesses this morning. We look forward in due course to receiving answers to the questions that Senator Lundy has asked you on notice.

Mr Toneguzzo—Thank you.

[12.05 p.m.]

FLETCHER, Mr Peter Campbell, General Manager Public Affairs, TAB Ltd

GULPERS, Mr Jerry Fredrick, Manager Of Account Sales, TAB Ltd

WILSON, Mr Warren Robert, Managing Director, TAB Ltd

CHAIR—Welcome, gentlemen. As you would have heard this morning, the committee prefers that all evidence be given in public, but if we ask you a question which you would prefer to answer in private please draw that to our attention and we will consider it. You should be aware that there have been occasions when these answers have been required to be tabled in the Senate. However, this is unusual and quite rare. We have received your submission and have published it. It is submission No. 24. Are there any alterations or additions that you would like to make to your submission at this stage?

Mr Wilson—No.

CHAIR—I now invite you to make a brief introductory statement and then we will move to questions.

Mr Wilson—Our organisation was privatised recently. We have the licence in New South Wales for off-course wagering and certain other licences in relation to gambling products. TAB Ltd was chosen to appear today to reassure your committee that online gambling can provide benefits to consumers, operators and governments and can be effectively managed and controlled.

Since June 1997, we have conducted Internet betting on horse racing, greyhound racing and sports events without any problems or controversy. These operations have been monitored by the New South Wales government under a tight licensing, probity and regulatory regime. After two full years of netTAB operations, we have over 10,000 netTAB account holders who also form part of a further 150,000 account holders that we have as telephone gamblers.

We have sold over 200 million bets per annum, on that form on the Internet, totalling in excess of $20 million in turnover. For the committee's benefit, this represents about one half of the per cent of our total sales per annum. So Internet betting remains, at the choice of our customers—and I stress 'at the choice of our customers'—a small part of our overall wagering operations.

The committee will also be interested in the security measures which we use to protect our customers and to prevent minors taking part in betting activities. All netTAB transactions are encrypted via use of high level digital encryption certificates. Customers can only transact with TAB Ltd via the use of an account. To establish such an account, the customer must provide identification documentation totalling 100 points, which is the 100-point system under the banking regulations. No account may be opened by a person under the age of 18. Following the establishment of an account, bets may be placed against cleared funds

deposited by the customer. No credit betting is allowed. TAB's netTAB system will only accept bets from an individually certified personal computer and customers must enter account numbers and confidential PIN numbers to activate their account. All winnings are credited to the same account and may only be accessed by the identified account holder.

I think it is important again to stress that TAB has experienced no particular problems with the Internet betting service during the two years of our operation. We have not had a single breach of our security systems nor a single report of underage betting. TAB's philosophy in online betting is therefore, by experience, in accordance with that of the recent Productivity Commission reporting into gambling. That commission has supported the concept of managed liberalisation of online gambling. It has also, correctly in our view, identified its moderating features such as the greater potential for scrutiny by family members and the scope for more effective consumer protection mechanisms and controls.

TAB Ltd has proven that, as a responsible corporate citizen, it can operate under government licence in a manner which protects the interests and wellbeing of its customers. The licensing regime must, however, work in two directions: not only must TAB and similar licensed operators comply with the government's requirements but governments themselves must take proactive measures to protect the licence holder from those unlicensed operators who would seek to exploit the same market.

In our wagering business, we are seeing such exploitation both from interstate and from overseas operators. Despite the best efforts from the government, the exclusion of such competitors who do not contribute to public revenues nor the racing industry has proven to be difficult. TAB therefore believes that it has a strong case for the federal government intervention in the regulation of online gambling to secure legitimate licensees. We remain willing to discuss these measures and their benefits with the appropriate government and regulatory authorities.

I conclude by again stating that TAB has proved that controlled online gambling can work for the participants and the stakeholders. The alternatives, as we know from other forms of gambling, will create a return to illegal or underground operations where the player invariably gets hurt.

CHAIR—Thank you, Mr Wilson. In your submission, you say that you believe concerns about problem gambling have been overplayed by critics of the gambling industry, but we have heard evidence this morning to suggest that the emergence of Internet gambling, gambling online, interactive television gambling, will in fact bring in a large number of new gamblers—people who have not gambled before—and they will be able to gamble more easily. Are you sure that you do not want to revise your view that the dangers of gambling have been overplayed?

Mr Wilson—We are absolutely certain of that. We believe that what will happen is that new players will come into the market and they will shift their entertainment dollar from one form of the market into gaming-wagering and that, statistically, the percentage will still hold, that the amount of problem gamblers in a statistical sense will remain the same. The number of individual problem gamblers will of course rise, no different from the number of people driving on the road where statistically accidents will increase. It is just a mathematical quirk.

CHAIR—What about the profile of the average Net bet account holder? Could you give us a profile of a typical gambler who has got a Net bet account? Are they young males, older women? Have you done any work in that area?

Mr Gulpers—We have. To give you a quick overview, predominantly our customer base in the netTAB area are males between 31 and 50 years and that is not outside the overall TAB scenario. There is evidence to suggest that there is an increased level of younger participation between 18- and 30-year-olds, but not overly so. The fact that customers using netTAB have to have a higher technical knowledge of personal computers as such points towards a more professional type of user rather than blue-collar type of customers that might prevail in some of our cash offices.

CHAIR—When those people open an account for the first time, do you ask them to predetermine their losses? Do you ask them to set up a similar regime to, for example, Lasseter's regime where people gamble from a credit account and they need to predetermine the level of bet, the level of loss? Do you have any public education role in warning people about the dangers of problem gambling and so on when they open their account and when they access their account?

Mr Fletcher—I might be able to help on this issue. TAB's philosophy with its Net bet online system has been that it has been an extension of its pre-existing telephone betting operation. Indeed, the New South Wales government recognised that the key ingredients and elements involved in Net betting were essentially the same as in telephone betting, with account established procedures, betting procedures, same types of people involved. There is a different form of communication between customer and operator, but there are no fundamental differences. The policy surrounding the Net bet operation is very similar to PhoneTAB.

We have not to this point implemented the sorts of limits or controls to which you allude. They have been raised by other operators in potential gaming environments as opposed to wagering. I would say, however, that prior to the Productivity Commission report and the media interest that surrounding the problem gambling debate, we engaged the Australian Institute of Gambling Research, which is Jan McMillen, whom you heard from earlier today, to help us implement a responsible gambling program for the overall organisation.

Part of that program, which we expect to be up and running by the end of this financial year, will be the types of measures specifically designed for our online gambling business that you allude to. There will be things like customer self-exclusion provisions and the provision of information to the player in terms of access to counselling services. That will be overweighed with our general approach to the responsible gambling program, which will have things like code of conduct for TAB, code of practice for advertising and staff training in general. We are led to believe that all those things leave us with a program that will be a world first for a wagering versus a gaming operator.

CHAIR—It sounds very much like a code of practice that you are voluntarily putting into your now privatised company. Are you able to tell us whether this sort of code of

practice has been discussed interstate? Do you take telephone betting accounts from interstate?

Mr Fletcher—Yes, we do.

CHAIR—So there is no residential requirement for telephone banking?

Mr Fletcher—No residential requirement. We also have some overseas accounts.

CHAIR—If you could address this issue of a code of practice perhaps prior to the privatisation of TAB, was it an issue that was ever raised by the national TAB group?

Mr Fletcher—The status of New South Wales TAB has changed significantly in a short period of time. We were privatised a little over a year ago. We have gone from a position of government ownership as a statutory authority to being a publicly owned corporation. In a general sense, lots of matters such as harm minimisation and appropriate legislation involving the TAB in those respects were handled at a state government level. There is now an emphasis shifting towards the organisation to be proactive in those areas.

Mr Wilson—I add that there is no national TAB group. There is no regime that they have to abide by. Pre-privatisation, we had to abide by the New South Wales government rules and regulations.

CHAIR—I probably phrased that very poorly. What I meant was any group that meets as representatives of each state TABs on a formal or informal basis. I did not mean a peak body as such.

Senator STOTT DESPOJA—Thank you, Mr Fletcher, for your response about overseas customers. What about betting on overseas sports? Is that something you do?

Mr Wilson—Yes, we do bet on overseas sports.

Senator STOTT DESPOJA—How are you progressing in relation to the investigations of the encryption techniques in relation to 128 byte?

Mr Wilson—We will continue to move our encryption methodologies to the best available in the market at any time, provided that it is not cost prohibitive.

Senator STOTT DESPOJA—I presume that is the focus of your investigation at the moment, the issue of cost?

Mr Wilson—That's correct.

Senator STOTT DESPOJA—In your opening comments, and in your submission too, you state that you do not believe that you have had gambling on line by minors. How confident are you of that statement?

Mr Wilson—Very confident. First of all, an account has to be established under the 100-point system. A PIN number is established—

Senator STOTT DESPOJA—Can we work through that. In terms of opening the account, you can do that in person or by mail. Then, when you provide the requisite ID, that can be done by photocopies through the mail, not necessarily in person. I understand it necessitates a fairly cunning move to get the requisite ID when it is not yours, if it is a parent or an older brother or sister, but I am assuming that there is a risk, a possibility, that that can happen.

Mr Wilson—As there is with most things in life.

Senator STOTT DESPOJA—Absolutely. In any debate it is hard to be categoric. Certainly, other witnesses have given us similar assurances. I guess the counteract to the claim that someone could get their mum's or dad's credit card is to say that when mum or dad get their credit card bill they are in for a bit of a shock. Can you envisage any other risks? You have said that risks exist in any part of life, but in this process are there any other risks that perhaps make this system not impenetrable?

Mr Fletcher—I might draw the committee's attention to the Productivity Commission's finding on betting by minors. They summed it up by concluding that there was less of a risk with children accessing online gambling than there was of children accessing other forms of place type gambling. As Warren has already said, there is evidence of the transactions. The parent ultimately controls the credit card. As I understand it, children can only have a secondary card, if at all, and that that has to be authorised in some way by the parent. There are all these sorts of trails involved.

Even if the child got through to place a bet, there is no reason to suggest that the child, under our security measures, can then get access to the money. The winnings are credited to the same account. It can only then be paid by cheque and so on and so forth. What is the benefit for the child in taking part?

Senator STOTT DESPOJA—Indeed. Thank you.

Senator TIERNEY—Mr Wilson, you mentioned that there was a shift in the entertainment dollar. You were saying there was not a net increase. Were you referring to an entertainment dollar or did you mean a gambling dollar?

Mr Wilson—No, an entertainment dollar.

Senator TIERNEY—So people are substituting going to the pictures or getting out videos for gambling?

Mr Wilson—That is exactly right. We have noticed a downturn in trade over the last week or two and we put it down to the fact that the economy has soaked up Telstra money. Money shifts around. Disposable income shifts around at different points of the year. We will see a lift in the gambling, wagering turnover, coming with the Melbourne Cup carnival.

Senator TIERNEY—But surely such a shift in the entertainment dollar would involve an increase if it is moving from something like going to the movies to gambling on the Internet from home?

Mr Wilson—Right.

Senator TIERNEY—You seemed to be saying earlier that there would not be any increase in cost or dollars or money spent, it would shift. There would be a shift, but it would also be a greater proportion spent of household budgets.

Mr Wilson—For that sector?

Senator TIERNEY—Of household budgets if they made that move?

Mr Wilson—No, not if it is substituted. If they have moved it from going to the pictures to now gambling, there is a shift in the market share, but there is no shift in the overall entertainment dollar spend of the family.

Senator TIERNEY—Really? You walk into the pictures and you pay 12 bucks. You start gambling on the Internet, if that is your substitute, and you could end a lot more than 12 bucks down at the end of the day.

Mr Wilson—No, the person only has $12. They only have a certain amount of disposable income.

Senator TIERNEY—They have a credit card, though.

Mr Wilson—But they have limits on that credit card as well. They can only run that to a certain limit.

Senator TIERNEY—Yes, they could run it up to $1,000. My point is that if you are moving from watching movies to gambling online, the extent of money coming out of the household could be considerably higher, couldn't it, particularly if you are working off a $1,000 limit?

Mr Wilson—You just used the word 'could'—absolutely.

Mr Fletcher—To clarify that point, Senator, there is some confusion here with the expenditure of the typical gambler versus the expenditure of the problem gambler. We have had a difference of opinion with the Productivity Commission over that very point. That commission, irrespective of the numbers and the arguments that we have with them about those numbers, confirms that there is a very small percentage of people unable to control their expenditure on gambling. The vast majority budget for it and make it part of their household budget.

Senator TIERNEY—Have you got a figure on that percentage?

Mr Fletcher—The Productivity Commission gives us 2.3 per cent.

Senator TIERNEY—What does that translate to in terms of absolute numbers?

Mr Fletcher—About 330,000 people, Australia-wide.

Senator TIERNEY—That is the size of the city of Newcastle.

Mr Fletcher—Yes.

Senator TIERNEY—You do not think that is a problem, that we have the city of Newcastle in size as problem gamblers in this country?

Mr Fletcher—No, we do not play down the problem at all.

Senator TIERNEY—You seemed to be playing it down a minute ago.

Mr Wilson—No, we did not.

Senator TIERNEY—I go back to what you said—you said a tiny proportion.

Mr Fletcher—We have had discussions with the Productivity Commission about the numbers of people that they claim are problem gamblers. That is a detailed discussion, and I will go into it further if you so desire. But we have always admitted that there is a small number of people that cannot control their gambling expenditures.

Senator TIERNEY—A small number of people that is almost equal to—

Mr Fletcher—A small percentage of people.

Senator TIERNEY—Which is almost equal to the state of Tasmania in population terms.

Mr Fletcher—Put in perspective: as there is a small percentage of people who cannot control their credit card expenditure; as there is a small percentage of people who consume alcohol and drugs to a level that is not good for them; as there is a small number of people who misuse all sorts of products, eat too much junk food, and so on and so forth.

Mr Wilson—Drive too fast.

Senator TIERNEY—You have now shifted from a small percentage to a small number. I would contend 330,000 is not a small number and it is a major social problem for the country.

Mr Wilson—Do you contend that 2.3 per cent is a problem?

Senator TIERNEY—I contend that 330,000 people, almost Tasmania—

Mr Wilson—It is mathematics. Do you want to express it in percentage terms or do you want to express it in real terms, in terms of absolute numbers?

Senator TIERNEY—Well, to you, Mr Wilson, it might be a percentage problem. But I tell you that out there, to the families that are affected, it is a major social problem, and a family and personal disaster to many of them. It is a pity you are downplaying what is a major problem.

Mr Wilson—We are not downplaying it.

Senator TIERNEY—We will move on. When we moved from venues such as clubs being the predominant way of gambling for things like poker machines, to pubs, particularly in the state of New South Wales, there was a significant increase, one, in people gambling and, two, in social problems. My question is about if we increase access to a much greater extent by moving to the home where it is completely accessible—we are told by Oracle that Internet services, including gambling, might be accessible on your television set next year. You seemed to be indicating earlier that there would not be an increase in total numbers. Surely, given the history of what happened with pubs and now a quantum increase in access via the home, that is a nonsense, isn't it?

Mr Wilson—I said that there will not be an increase in terms of percentage. In terms of numbers, yes, there is a likelihood that the number of people accessing that as an entertainment form would increase. I believe that it will, and we would probably seek to increase our numbers of wagerers on that form or methodology. However, again I point out that we have been using that as a format for the last two years, yet we still have less than one per cent of our total turnover in that format.

Senator TIERNEY—So when we went from clubs to pubs there was an absolute and a percentage increase, but you seem to be claiming there will not be an absolute and a percentage increase when we have the highly accessible, in the home form of online services. Is that what you are saying?

Mr Wilson—No, I am saying that it is an unknown. What we are saying is that there is a very high likelihood that the number of people who participate in that as a form of entertainment will increase.

Senator TIERNEY—As a form of entertainment?

Mr Wilson—As a form of entertainment.

Senator TIERNEY—And an absolute increase and percentage increase in the number gambling by online service and the percentage gambling.

Mr Wilson—Quite likely.

Senator TIERNEY—That was the point that we were trying to establish.

Mr Wilson—Quite likely.

Senator TIERNEY—Thank you. With what you are doing with betting through the Internet, what are the advantages for TAB of doing that as opposed to the telephone type system that you would normally work from?

Mr Wilson—Faster, more consumer friendly, and now a socially accepted means of communication. It is just a replacement for the telephone.

Senator TIERNEY—Are there any disadvantages in that, do you think?

Mr Wilson—From our point of view or from the consumers' point of view?

Senator TIERNEY—With both. Let's start from TAB's point of view.

Mr Wilson—From our point of view, no. Of course it increases your risk of a breakdown in your trading systems. Every time you connect another piece of something into your system you run the risk of course of a breakdown in the system. So that is a risk from our point of view and that is a business risk we take. Is there any risk from the consumers' point of view? None that are not well known—that is, that the level of encryption may not be sufficient enough. However, it is the best that is available today.

Senator TIERNEY—What of a problem gambler, though? Normally they would have to get in the car, go down to the TAB, but then they can just get it all online.

Mr Wilson—They can only bet to the limit that they have established with us, and that is all pre-deposited dollars. That is not credit betting, that is pre-deposited dollars.

Senator TIERNEY—Obviously you are working on a certain range of products with your gambling. In the future could you see online betting moving to, say, football, tennis and things like a football player kicking a goal, a tennis player serving an ace—those sorts of bets?

Mr Wilson—Yes.

Senator TIERNEY—We had evidence earlier from Professor McMillen that with racing it took an incredible amount of time to actually build up the protocols and procedures so that the sport was a lot safer for the punter, I suppose, and that has happened. Isn't there a danger with moving into these other sports that the consumer or the punter is more likely to be taken down? I suppose I am asking this: what sort of confidence would we have in the protocols, the ones you start expanding from betting on horses out to a range of other products?

Mr Wilson—Peter, how long have we been operating on rugby league—13 years?

Mr Fletcher—Something like that, in terms of FootyTAB.

Mr Wilson—Yes, FootyTAB has been operating with rugby league for 13 or 14 years. I have not seen one piece of evidence where a team has pulled up, where a team has fallen over, where a team has done anything deliberately to disadvantage a consumer.

Senator TIERNEY—We did hear an example this morning of the lights being turned off, didn't we? I think it might have been in another country.

Mr Wilson—It might have been another code as well.

Senator TIERNEY—It did have a slight effect on the outcome. You have FootyTAB, et cetera. Do you have immediate plans to move into other sports?

Mr Wilson—We already operate in excess of 20 sports now.

Senator TIERNEY—How long have you had that expansion?

Mr Wilson—Since July last year, put it that way.

Senator TIERNEY—How many extras have you added, therefore, in a year, of the different sports?

Mr Fletcher—We are constricted in what we can bet on by government legislation. There are a nominated number of sports that the government approves for us.

Senator TIERNEY—How many?

Mr Fletcher—Off the top of my head, 19.

Senator TIERNEY—Could you provide on notice how many and what sports they are?

Mr Fletcher—They are the mainstream sports—cricket, rugby league, soccer, rugby union, tennis, golf.

Mr Wilson—Lawn bowls.

Mr Fletcher—Netball.

Senator TIERNEY—If you could give us on notice the definitive list. Just send it in.

Mr Wilson—No problem at all.

Senator LUNDY—I would like to explore what arrangements you have in place for deriving taxation revenue from transactions that occur within your Internet site.

Mr Wilson—We pay the New South Wales taxes for wagering-gaming, which are 21.2 per cent of revenue on wagering, and we also, as a company, pay federal taxes at 36 cents in the dollar.

Senator LUNDY—Rather than explore it in detail now, could you provide the committee with a description of those taxes and also the methodologies for deriving it in the electronic, sort of back end of your Internet site?

Mr Wilson—There is no difference. Remove the electronic and it is simply whatever revenue we receive is treated the same way. There is a state tax as part of our licence, and then there is a federal tax as part of being a corporation.

Senator LUNDY—So, in terms of the state tax derived from the turnover from gambling operations, you pay tax on the basis of the place of production of that service, and the location of your consumers or clients is not an issue as to how you pay that tax?

Mr Wilson—No, and the consumer from an outside jurisdiction from New South Wales is paying taxes to the New South Wales government.

Senator LUNDY—That is a critical point that I was looking for.

Mr Wilson—If I can just put on the record, we paid $184 million in the financial year just concluded to the New South Wales government.

CHAIR—On that point, how much of that is set aside to deal with problem gamblers in your particular area of this industry?

Mr Fletcher—There is no—

Mr Wilson—By the state government? You would have to discuss that with state governments.

CHAIR—I would have thought you would know that. You would have to be concerned that some of those 8,000 people may have a problem. I would have thought that as a responsible company you would be concerned to make sure that there was some way that they could have counselling at least.

Mr Fletcher—We have taken proactive measures I have outlined before to implement this responsible gambling program. The state government has different programs itself and has a community benefit fund, for example, which provides a number of million dollars per year to counselling services and problem gambling studies.

CHAIR—Are you proposing as a now privatised company to undertake any other philanthropic measures in that particular area?

Mr Wilson—They are already under way.

CHAIR—Can you tell us what they are?

Mr Wilson—The employment of Jan McMillen and her group to develop our policies and proposals. We have, as a responsible organisation, displayed problem gambling numbers, et cetera to our consumers for a significant length of time, and we are intending, with the work of Jan McMillen and her group, to actually look at where we can be a better corporate citizen. That is one of the underlying philosophies of the organisation. We intend to be as good a corporate citizen as we possibly can.

Senator TIERNEY—How much do you spend on helping problem gamblers out of TAB revenue a year?

Mr Wilson—Depending on whether you want to argue that we do in terms of the $184 million we pay in state taxes, as to whether that should be directed—

Senator TIERNEY—I am not talking about taxes. Everyone has got to pay taxes.

Mr Wilson—We pay two lots of taxes. There is a debate, there is a differentiation there as well.

Senator TIERNEY—Okay, so you pay a higher tax rate. There is no guarantee any of that is going to go to problem gamblers, particularly as we find with the state fund it is spent on a whole range of other things apart from problem gambling. That is another thing that has to be tightened up. How much do you as an organisation contribute to problem gamblers out of TAB Ltd's revenue?

Mr Wilson—I would have to take that on notice.

Senator TIERNEY—You have a turnover of, I believe, about $4 billion a year?

Mr Wilson—That is correct.

Senator TIERNEY—And you do not know how much money you spend in this area? Do you spend any money?

Mr Wilson—Yes, we do.

Senator TIERNEY—But you do not happen to know what it is?

Mr Wilson—No, I do not.

CHAIR—If, as this inquiry progresses, some information does come to hand for your company from Professor McMillen in this particular area, we would be very interested to have it.

Mr Wilson—Only too pleased to cooperate.

Senator TIERNEY—Also, if we could have the breakdown on how that money is spent—not only the total amount, how it is spent.

CHAIR—Thank you very much, Mr Wilson, Mr Gulpers and Mr Fletcher for your evidence this morning. It is very much appreciated. Thank you.

Proceedings suspended from 12.40 p.m. to 1.35 p.m.

MAGEE, Reverend Wayne Francis, Public Affairs Director, NSW Council of Churches

MIDDLETON, Major Lynette, Chairman, Public Questions Board, Salvation Army

NILE, Reverend Hon. Frederick John, MLC, Honorary National President, Christian Democratic Party

CHAIR—The committee prefers all its evidence to be given in public, but if at any time we ask you a question the answer to which you would like to give in camera—that is, in private—please indicate and we will take that into account. We have before us submissions Nos 17, 54 and 30 respectively which have already been published. Are there any additions or alterations you would like to make to those submissions?

Rev. Magee—No.

CHAIR—I would now like to invite each of you to make an opening statement and, at the conclusion of all of those statements, we shall proceed to questions. I understand, Major Middleton, that you wish to table a document.

Major Middleton—Yes, I do. It is entitled *Gambling: The Salvation Army—Australian Territories positional statement.*

CHAIR—Are you happy for it to be received, Senator Bishop?

Senator MARK BISHOP—Yes.

CHAIR—Please proceed, Reverend Nile.

Rev. Nile—Thank you, Madam Chair, for the opportunity to appear before the committee. All I would like to do is to refer the committee to the section in the report of the Productivity Commission, *Australia's Gambling Industries*, particularly pages 17.9 through to 17.14 and 17.15, which lists some of the dangers of this form of gambling, Internet gambling, and speaks about the possibilities of new technology—for example, that instant keno and continuous lotteries could be available on the Internet; that virtual reality could be used to create a situation with a person who is made to feel that they are actually in a casino; and, thirdly, that new technologies may create a more manipulative environment for gamblers. It is possible that virtual intelligence will be used to manipulate the behaviour of the individual gambler in ways that are far more subtle than exist in gaming machines.

At the end of that section I just quoted, there are about 10 or 12 reasons why Internet gambling is far more dangerous than, say, casino gambling and so on because of things such as access being 24 hours a day; impulsive gambling—when you feel like doing it you can do it; multilingual; ease of use is high; the similarity with using an ATM machine; that people working on a computer may not realise how much money they are actually spending and so on. So, for all those reasons, I know it is difficult, but I would urge the committee to look at a prohibition on Internet gambling in Australia.

CHAIR—Thank you. Reverend Magee.

Rev. Magee—The New South Wales Council of Churches is gravely concerned with the proliferation of gambling in all forms across this nation and, particularly with the advent of the Internet, this concern is exacerbated because of the availability to people of accessing gambling from the privacy of their home. If there are problems associated with a person with gambling, of course there is no staff handy to be able to offer them or direct them to counselling services. The social and economic impact alone is of grave concern to us.

Churches, as you are aware, are at the forefront of welfare throughout this nation. Indeed, in recent times, even in this state, since gambling has increased to an incredible extent, particularly the last five years, welfare demands have increased dramatically, we are told by welfare agencies. That is basically where our concern is, for the people who have a problem with gambling and also the demands that are being placed on welfare agencies. I do also thank the committee for being able to appear and give these comments. Thank you.

CHAIR—Thank you, Reverend Magee. Major Middleton.

Major Middleton—Thank you for the opportunity to speak today and to address the committee. The potential for the hidden addictive behaviour which is inherent in gambling sets it aside from other activities and we believe calls for community and government action. In addiction counselling, gambling addiction is known as the hidden agenda. Clients presenting at our welfare centres and our hostels for the homeless mostly do not indicate gambling as their primary issue in presenting, claiming instead financial hardship. For instance, an older resident at one of our facilities regularly spends all of his pension, after rent and smokes, on lottery tickets, yet insists he does not gamble.

The existence of a gambling problem most often emerges during the process of case management, yet in spite of this 15 per cent of those presenting at our hostel for the homeless in Surry Hills last month did indicate gambling as their primary issue. Counsellors concur that when the hidden agenda aspect is factored in this percentage can easily be doubled. This statistic is even higher at our centres dispensing welfare relief. The data collected at our Parramatta office reveals that, in the 12 months from September 1997 to August 1998, 21 per cent of clients presenting for emergency welfare relief had a gambling problem, and the early indications from the statistics for this past 12 months, which are currently being collated, are that this percentage has nearly doubled.

An Australian Bureau of Statistics press release in April of this year indicated a 41 per cent increase in gambling net takings in the three years from 1995 to 1998, and the most significant change was in the pubs, taverns and bar industry where there was a 20 per cent increase in businesses with gambling facilities and a 118 per cent increase in net takings from gambling. This increase in both gambling opportunities and the incidence of problem gambling affirms the research that demonstrates that, where accessibility of gambling is increased, there is also an increase in the number of regular gamblers and the number of problem gamblers.

We feel that to encourage the further proliferation of gambling opportunities by the introduction of yet another gambling medium, namely, Internet gambling, is a failure by

anyone who endorses this move to truly petition the interests of society. Researchers conclude that the factors that impact most on the development and maintenance of gambling practices appear to be the accessibility of the activity and the event frequency—that is, the frequency of opportunities to gamble. When these two characteristics combine, the greatest problems can occur.

Online gambling is a classic combination of these two factors, providing 24-hour accessibility in the home with rapid replay availability. Earlier this year, a man, haggard, hungry and, may I say, with purse impecunious, was dropped at the door of our inner city community services centre here in Sydney. He had been chauffer driven there in a sleek limousine from the establishment where he had been gambling for three days and had spent everything—thousands of dollars. Obviously, motivated from some awakened sense of duty of care, the establishment had brought him to our doorstep for food and money to return home.

When the regulation of the visible social gambling industry has not proved effective in controlling the associated societal problems, what possibilities exist to effectively regulate a closeted, asocial gambling industry located in the home or workplace, which online gambling has the potential to become? How will service providers extend duty of care to the intoxicated or mentally ill online gambler?

The Salvation Army is acutely aware of the suffering and deprivation experienced by many people as a result of gambling and supports legislation that contains and minimises personal and social harm. The social cost of gambling has the potential to become so great that it will counter any perceived revenue benefits. The moral high ground that needs to be sought is not one that pertains to the securing of revenue but one that takes full cognisance of the pain of consequences being experienced and legislates accordingly. Thank you.

CHAIR—Thank you, Major Middleton. Perhaps I should just say at the outset that the terms of reference for this inquiry are specifically directed towards online gambling and, whilst I appreciate the comments that each of you have made in relation to the difficulties in the community as a result of the broader forms of gambling, our inquiry today is specifically looking at the implications of online gambling.

Are you aware of the current regulations that pertain in particular to Lasseter's, a Northern Territory online casino as well as a gambling casino? The regulations which Lasseter's have to agree to, as part of the licence that they receive from the Northern Territory government, are a good deal stricter than the regulations that apply in the wider community forms of gambling. Are you aware of those restrictions?

Rev. Nile—Not in detail.

Rev. Magee—Not in detail. I know there are restrictions.

CHAIR—I might just very quickly outline a couple of the main ones because I would be interested in any comments that you could make in relation to that. First of all, there is a points system to establish a credit betting account. That is similar to opening a bank account. The gamblers are not able to directly gamble off a credit card. They gamble from the credit

account and they receive their winnings in a non-negotiable cheque, not as cash. Only people who live in the Northern Territory are able to gamble at that online casino. For most of their clients, a lot of their revenue comes from the United States where gambling online is largely banned.

We had evidence this morning from the Institute of Gambling Research which suggested that, whilst these regulations were a start, they perhaps did not go as far as they could. They conceded it would be extremely difficult now to try to ban online gambling in Australia since it is very well established and people around the world are gambling out of Australia. Do you have any comments to make on those comments of mine?

Rev. Nile—I do not think that the steps that the Northern Territory government took are very substantial at all. It is just like regulating Internet gambling. I am not very impressed with that. I also would not want to be defeatist in saying that Australia cannot devise a scheme to prohibit Internet gambling. The United States is doing it. As you have just admitted, people are gambling from America into the Northern Territory, so we are assisting people to break the law in the United States by providing that facility.

It could be that this is an issue where there needs to be an international effort in the same way perhaps as with drug control and there could be some convention where all nations join together. It seems to be ridiculous to have a strong policy in the United States and then a laissez-faire policy in Australia. I believe there should be an international policy.

CHAIR—Would you see that coming through a United Nations convention or some such thing?

Rev. Nile—Yes, Australia could initiate that or even draft a document to start the discussion or get the United States material which may be very simple. Perhaps a UN convention like that would have to cover a whole lot of features, so it could be quite a large document in the long term. I would urge the government, as you are a federal body, to make that kind of recommendation through our United Nations representatives in New York.

CHAIR—What aspects of online gambling concern you the most? Major Middleton outlined a couple of points. I thought they may also relate to gambling in a wider sense. Is it consumer protection? Is it privacy? Is it ease of access? What is it? Given that it is possible to walk into a casino anywhere in Australia and see a porn shop and EFTPOS right beside the poker machines or the blackjack tables or the keno or whatever, what would you particularly like to see in any regulation of online gambling, accepting that it may be very difficult to ban it?

Rev. Nile—You have made some good points. The New South Wales government has introduced a responsible gambling bill which we are currently debating. It will prohibit ATM machines not only within the building but also access to people in the building coming out onto the street. For the first time a state government has recognised a lot of these problems. The cat is out of the bag, so to speak. It is not too late to try to bring in these types of controls that would assist particularly the problem gamblers. The Productivity Commission showed that there were 330,000. That was an estimate. I know it has been challenged by the hotel association, but the authorities have still upheld that as a reliable figure.

Therefore, state governments, which have been the main regulator of gambling, are now trying to bring in these controls. They would include a lot of warning signs in the casinos and on poker machines indicating that gambling counsellors are available. People who are unable to control themselves would be prohibited from entering the casino. You cannot do any of that on the Internet. That is the whole problem.

CHAIR—I neglected to add a couple of very important principles that also operate within Lasseter's licensing arrangements. Gamblers must predetermine the amount of money they want to gamble and what their maximum loss should be before they self-exclude. I neglected to add that before. I am sorry that I did not because it does pick up that point that you made.

I think all of us have seen the tragedy of problem gamblers in casinos. What we are trying to do with this online inquiry is to look at the possibility of being able to set some regulations through a federal licensing arrangement that could deliver quite world breaking legislation in relation to consumer interests with online gambling. I am interested in comments any of you could make on that.

Rev. Magee—I do not believe that the precedent set in the Northern Territory means that one cannot change that situation. It has already been alluded to that America has seen fit to ban online gambling. It is in one territory at this stage. It is only a matter of time perhaps before it would be widened, depending on how the states look at this whole situation. I think we realise that if there is a dollar to be made in it then the states and other territories would certainly be looking at it to supplement their income for their budgets.

CHAIR—They certainly are.

Rev. Magee—Once it has been given, it is hard to take away. One could refer to the euthanasia debate, which is now history, where that situation developed. The ease of access is certainly of grave concern to us. If someone does have a problem with gambling and with that ease of access, we understand it is difficult to police international sites, particularly those located in the Caribbean and other areas. We would propose that, even through those providing services through server companies in this nation, once sites are recognised and identified, if a national index was derived, there are powers under the Telecommunications Act to provide services for this to operate with telephone lines.

Surely something could be done if it is going to exacerbate the problems that do already exist. I appreciate that it is online gambling we are talking about, but I cannot in my mind separate the socioeconomic problems that already exist because of the multiplicity of gambling forms that we have in this nation. Australia, historically, is the nation of the largest gambler.

We have those grave concerns, particularly about ease of access. I believe gambling in this state is at saturation point. There have been many turnarounds by our state legislators where they have given undertakings and it has changed. With more coming online through the Internet, I have grave fears for those people that do have problems. We are not talking small numbers either because, invariably, it touches the wider family and not just the one person. It touches the spouse and/or the children.

If you see the other side of it, that is the difficulty. So if there is to be a licensing program federally, then I would certainly like to see it with strict, clearly defined guidelines. The point that you raise about Lasseter's, where they have to indicate how much they are going to bet, is admirable. But, again, it is still taking more money out of that housekeeping bill every week. When a person has a problem, they do not think of the repercussions, that the children may need shoes or clothing or food. Hence, as we have already heard from one of my colleagues, people are presenting in greater numbers with what we already have. Do we need more? That would be my question.

CHAIR—Certainly Major Middleton's submission talks about one gambler affecting between 10 and 20 members of an extended family.

Senator MARK BISHOP—The problem that I am facing is that your comments are essentially directed—I have read your submissions—to the problems that are apparent now arising from the proliferation of gambling in most states of Australia, particularly in New South Wales and Victoria, where in every pub, club, whatever, there are facilities to gamble. You make reference to the huge growth in social welfare problems, Major Middleton. Firstly, could you put some figures to that: the size of the growth, the increasing level of demand, some idea of the size of the problem that you are experiencing that you did not experience five or 10 years ago?

Secondly, notwithstanding all the protestations to the contrary, there is not going to be much likelihood that the state governments are going to go back on their approach to gambling in any significant way. They might dress it up around the edges, or put caps on the number of machines and things of that nature, but they are not going to significantly change their position because their revenue from it is now 12 and 15 per cent of GSP in Victoria and New South Wales, for example. That is the real world. In terms of the welfare problems you rightly identify, are you receiving a fair subsidy or grants or assistance or help from the respective state governments to assist you to carry out your work, or are you simply left on your own and reliant on traditional goodwill or donations or whatever? Can you answer those two points, Major Middleton?

Major Middleton—We do receive some government funding for emergency welfare relief. Most of our community services centres are funded in that way, but it is supplemented by our own funding as well. So it is a combination of government funding and Salvation Army funding.

With regard to the increase, as I mentioned in my opening statement, our office at Parramatta, which does take a survey of statistics, has indicated that in the past 12 months those presenting as problem gamblers will have doubled. It was 21 per cent in the year September 1997 to August 1998. The person doing the survey is anticipating it has almost doubled—he is currently working on it and has not come out with the final figure. But the early indications are that that percentage will have almost doubled.

Senator MARK BISHOP—From 21 to 42?

Major Middleton—Almost doubled—it will probably be in the 30s somewhere.

Senator MARK BISHOP—So a percentage in the 30s of all your clients, all the people you assist, is related to problem gambling—is that what you are telling us?

Major Middleton—That is what I am telling you. Every other welfare centre I contacted says that it is a quarter, that 25 per cent of those who present are problem gamblers or are presenting with a gambling problem. The other point made by our person in Parramatta is that there is an increase in the number of females presenting with problem gambling. There also seems to be some correlation between the increase in those presenting as problem gamblers and the introduction of slot machines into hotels.

Senator MARK BISHOP—So somewhere between 25 per cent and a percentage in the high 30s of the people that welfare agencies assist have problems related to gambling. Can we give some numbers in New South Wales to those percentages?

Major Middleton—I do not have that statistic with me now. I can tell you this: at our William Booth Institute, which has primarily been for the rehabilitation of drug and alcohol addicts, of the 600 we had presenting to outpatients in the last three months, 51 presented with their primary issue being problem gambling. So that is about 12 per cent.

CHAIR—Senator Bishop, Senator McGauran needs to go and he has just one question. Could he ask that and then we will come back to you, if you would not mind?

Senator MARK BISHOP—I am here to help, Madam Chair.

CHAIR—Thank you very much, Senator Bishop. We appreciate your assistance.

Senator McGAURAN—Actually I have two questions, but very quick ones. For my own information with regard to the question of what is a problem gambler, I am sure there are degrees and levels, and they get worse, but when does a gambler cross the threshold to become a problem gambler? Do they declare themselves a problem gambler or does someone else?

Major Middleton—I am not a social worker, but as a lay person in this field I will endeavour to answer your question from information that has been given to me. They become a problem gambler when they are no longer responsible for their actions, when they begin to cover up the activity, when they lie about the activity, when they steal to fund the activity. As I said in my opening statement, most do not declare themselves as problem gamblers. When coming for assistance they declare they have financial hardship. The problem gambling emerges during case management, when they are doing budgeting interviews at our welfare centres, the figures just do not add up, and suddenly the question is: where is the money going? The bills are presented and put side by side with the income and it is not adding up, and then you begin to see that there is a problem here. That is mostly where the problem of gambling is identified—through case management and financial counselling.

Rev. Nile—There was a large section on the definition of problem gamblers in that Productivity Commission report, from 2.2 to 6.3.

Senator McGAURAN—This question is again for my own indulgence: do you know whether the problem gambler has gone off to the casino or to the horseracing? My point is that horseracing has always been there for a particular socioeconomic group that has ended up in welfare. Or is it a new problem gambler?

Major Middleton—It is more of the same. As you said, horseracing has always been there, there have always been those people who have gambled and there have always been problem gamblers. There are more opportunities now to gamble and a variety of activities. The problem gambling seems to align with the gambling that provides the rapid replay and quick rewards because the interval between receiving the reward and gambling that reward is very brief, so sometimes they are not even aware that they have lost and they are gambling again, and so it goes on and on.

Senator McGAURAN—So they have not gone on to the new technology?

Major Middleton—Often, yes.

Senator McGAURAN—They have gone from the horses to the new ones; they have not necessarily sprung up with the new technology?

Rev. Nile—I think they have. I would say poker machines and gaming machines have been the acceleration of problem gamblers in Australia—

Major Middleton—Yes, it has introduced a new breed.

Rev. Nile—to 330,000. On the point that you were asking about earlier about the social damage and the state governments looking at their tax revenue, what they do not realise—and there is a lot of authoritative material on this now—is that the cost to society far exceeds that tax revenue. It could be, from your point of view, that the Commonwealth government is picking up a lot of those costs in social security and so on.

There is a cost. It may be a factor of one to seven or one to five. For every dollar in tax $5 is going out through the door in servicing all these people—the problem gamblers, the broken families—and even a divorce may result from the problem gambling of the husband, et cetera. That is a factor and it is a big job to convince state governments of that, but it could be that, because federal governments are carrying perhaps the largest proportion of the social cost, the state governments are not prepared to face up to it.

CHAIR—I have some questions I wanted to ask you, but I will go back to Senator Bishop and come to those at the end perhaps.

Senator MARK BISHOP—No, I have concluded.

CHAIR—Perhaps I can explore that point a little more. We have had some evidence this morning from the newly privatised TABCORP. I was interested to hear from them the proposals that they have to develop a means by which problem gambling can be addressed and some of the consumer priorities in this whole area.

I am wondering whether you think state governments are putting enough money aside to deal with this problem gambling issue. You are at the front of it, and we had some evidence this morning which confirmed that when any new form of gambling is introduced new entrants come into the market and there will be people who have not gambled before who will gamble online for one reason or another. I am interested to know, because each of you represent various dimensions of these new online problem gamblers, whether they gamble within Australia or whether they gamble internationally. How should those people be cared for if they do seem to be developing indications of problem gambling?

One of the issues that we raised this morning was the possibility that before you can open your online gambling account you would need to go through a pathway which would have consumer education messages on your screen. To get access to the actual point at which you could gamble, you would have to absorb these community interest messages.

My general question is whether you think that governments, who arguably are benefiting enormously from this cash cow called gambling, are putting enough into agencies such as yours to deal with these sorts of issues. I am particularly picking up Major Middleton's suspected likely increase in the numbers that you are dealing with now with gambling related issues.

Rev. Nile—Just from a government point of view, I would say the answer is a big no, because the only real income that they are allocating is a small levy on the casino. When we raised perhaps a levy on other forms of gambling from the hotel industry, they hit the roof and said they would not contribute. The amount is small, but then recently the state government broadened the name of the community fund to actually take money from that for other purposes that are not even related to counselling of problem gamblers. So the percentage of money being spent is actually decreasing while the problem increases.

I know the argument is often used in this debate that people are going to gamble, they have that problem and we just have to cater for it. But now there is a lot of publicity to actually attract people into gambling who have not gambled. I have visited the casinos and inspected casinos all over the world in Las Vegas and so on, and those in Australia and New Zealand actually have training sessions. There is a section set up in the casino for new gamblers to teach them how to play the card tables and so on. Obviously, they could pull a machine handle or operate a poker machine, but with the more sophisticated forms of gambling the casinos actually teach the novice how to do it. So that is why there is an expansion in the number of people who are gambling, and obviously the larger the number of people gambling there would be a percentage increase in the problem gamblers.

I note with the Internet gambling figures already—which is something that is alarming—that the highest percentage of people engaged in Internet gambling are in the 18- to 24-year-old bracket. You are actually starting off with a very young person who could become virtually for the rest of their lives involved with gambling. They will bet all of their money or whatever surplus they have got. Instead of investing it, starting a small business or providing for their family, it is going to go into gambling. So Internet gambling is going to increase that risk tremendously, in my opinion.

Senator STOTT DESPOJA—More generally on that point, if gambling is legal in a society, is it appropriate for governments to tax those gambling activities and derive some financial benefit from those activities? Something both Reverends touched on is the idea that there may be an incentive or a vested interest for state or territory governments to encourage gambling for the purposes of revenue.

Rev. Magee—I think it is like a lot of things that are legal and we have excise and/or tax on them. The morality of that is—and I think this is what you are saying—should we do that? I think our economy probably from a governmental point of view would go through the floor if we did not have some of those things on what are considered part of the acceptable societal trend, be it on tobacco, alcohol or whatever, and similarly with gambling.

The concern I have with the two per cent community benefit levy that we have on our casino gross takings, which has been raised here just now, is that originally it was for the rehabilitation of gamblers, for organisations to provide research, conduct seminars and conferences for people who have problems with gambling, and also to assist community welfare groups. Some of that does happen but, as has just been said—and I highlight the fact again—a lot of that money is going elsewhere now. Yes, it may help community organisations build a community hall somewhere or something like that which has a multipurpose use. That is great, but initially that two per cent was to have been specifically for the gambling industry, to be channelled back into that industry which is not happening.

Senator MARK BISHOP—Is it two per cent of gross revenue?

Rev. Magee—Gross profits.

Senator MARK BISHOP—Two per cent of gross profits?

Rev. Magee—I believe that is right.

Major Middleton—Two per cent of the government tax, is it not?

Senator MARK BISHOP—That goes into a particular fund in New South Wales?

Rev. Magee—No, I think it is profit.

Senator TIERNEY—We seem to have confusion whether it is a percentage of tax or percentage of revenue. Is there any way of clarifying that?

CHAIR—We can clarify that.

Rev. Nile—It was part of the procedure when they introduced the casino to have that built in. The casinos obviously did not campaign for it. It was something the government forced on them.

Rev. Magee—The New South Wales Council of Churches did campaign for that when this was first floated back in the days of Premier Wran, and subsequently with Premier

Greiner. They really pushed at that level that there be some allocation of funds back to the community from the revenue that was derived.

Senator STOTT DESPOJA—Would you make the recommendation that we either review that or that that particular percentage should be directed specifically to those activities for which it was originally considered?

Rev. Magee—That is a state matter. Online gambling would come under the federal jurisdiction as such, although the individual states could determine to do something, particularly the territories that we are looking at, or for communications whereby they use communication which is under federal control. Certainly, if there is any area of revenue derived from gambling, we would certainly like to see funds allocated, because it seems an anomaly that we take with one hand and we give back with the other in that sense. I think there needs to be funds allocated particularly.

The problem that I do have with Internet gambling is that it is a younger clientele that have been drawn to it. That is No. 1. Even with all sorts, all kinds and all forms of gambling in each state, it is attractively dressed and marketed by glitzy, young successful people in advertising. I understand that works in advertising and the way it is presented to the public. Training at casinos, et cetera has been talked about and, with Internet online gambling, some international sites also have tutorials so people can be trained as to how to gamble. It is a similar vein to get people in.

There is no monitoring in a home. I raise that point again. There are problems; people can gamble on credit cards internationally. I understand the incredible difficulty in policing and monitoring international sites. But I believe that can be brought back to a local base through the local server—the company here that provides that Internet service to the community. I amplify the point that we would like to see sites, once they are identified—and this has been done with pornography and paedophilia sites—closed down. Obviously, with the way gambling has progressed alarmingly in the United States, they have totally put the ban on online gambling there. They would not have done that without a lot of research.

CHAIR—If I can just make a point there, the largest number of one country gamblers in the Lasseter's online casino in Alice Springs is America. They may have banned it in their own country, but such is the global power of the Internet that thousands of Americans are gambling online around the world. You could argue that the United States is missing out on the revenue and, to some extent anyway, Australia is the beneficiary of that black market. I am sorry to interrupt you. It was just a point I wanted to make.

Rev. Magee—I appreciate what you say. Also it is from the Caribbean and Bermuda where other sites are located, and I heard recently one from Africa. I hear what you are saying, but because Australia may be benefiting financially because of overseas interests I do not know whether that is something that we wish to fly the flag with particularly here. As a nation, they tell us—and I have not got those figures—that more people in Australia gamble than in any other nation in the world.

CHAIR—I was not saying it was right; I was just making the point.

Rev. Magee—What I am saying is that I have a difficulty, because should we appease the masses outside of our own borders to provide a service?

CHAIR—Can we stop them?

Rev. Nile—Just answering an earlier question, Senator Bishop was asking what sort of changes there have been. I know that the committee is focusing on the Internet. You may have these figures already, but the money lost in gambling now is $11 billion per year. That is an increase of $4 million in just four years. I do not think your committee can avoid looking at this issue in the context of what is happening. That is $800 for every adult in Australia. In America it is $400 per adult. So we have a massive social problem.

Senator STOTT DESPOJA—Reverend Magee, can I just pick up a point. I do not know if you will be able to answer it, but have a go. You said you recognised the distinction between gambling and online gambling for the purposes of this inquiry's investigation. We have had a lot of discussion today and previously about gambling being a part of our culture in Australia—the history of gambling and the psyche of gambling—but also suggestions that the definition of gambling is quite broad ranging. I would like to hear what you would consider a definition of gambling. Does it include shares on the stock market? Does it include scratchie tickets at your local newsagent, as well as online gambling and a whole range of other activities that we have come to be familiar with?

Rev. Magee—One could say perhaps that negotiating George Street at peak hour is a gamble. I tend to feel that we have to differentiate between that which we consider an investment, as the stock market would be, and that which is putting money forth in the hope there and then, that day or perhaps a couple of days ensuing, of making a profit as such from that investment of gambling money. The stock market could be considered. I do not have the funds to be involved with the stock market, so I am not au fait with all of the workings of that. I would suggest that there are many natural things that are a gamble in life, but if it is going to create a problem then we assess the depth of that problem or the ensuing result of that investment and/or that gambling dollar.

I said earlier that the other side of this is the part that I really have a concern about, and that is the aspect of where it becomes a problem. If we have such a saturation now in most states of this nation—although I believe WA is a little bit behind as far as the number of poker machines and things like that are concerned, apart from the casino—do we need more locally? That is the point I would raise, if we already have so much. We have for many years called for a moratorium in this state on all forms of gambling. I do not know if I have answered your question. It is a difficult one.

Rev. Nile—It is the element of chance. I know you may argue that is the stock market, but people who buy shares would say that it is not chancy. They buy shares in the Commonwealth Bank or something, and it is not chance, but gambling simply has an element of chance in it; you may or may not win. One of the things that has been distressing me has been the amount of advertising. That is why I also have a bill before parliament at the moment called the Gambling (Anti-Greed) Advertising Prohibition Bill. This could happen to online gambling if introduced in all the states.

The advertising is so professional and so attractive. It shows a young couple in front of a house, a nice home, and you think the advertisement is to do with saving money, et cetera, and being a prudent person. Instead it will say, 'Buy a ticket,' or do this and that, 'and then you will get this house.' That is a very dangerous sort of message that is going out to our community as part of the culture saying, 'Don't work, don't save, just spend your money in gambling, and hope you are going to win.' I know that kind of mentality has always been in the back of a lot of Australian's minds, but it is becoming so up-front now and such a major factor I believe it is affecting our whole culture and our whole society.

CHAIR—On that point, Reverend Nile—and perhaps either of the other two witnesses might like to comment—what do you say to the range of children's electronic toys where there is an element of chance in those toys? You see five and six year olds often with an electronic game that has been bought for them by their grandparents. Actually it has built into it many elements of chance, whether it is one of the little hand held ones or a computer CD-ROM.

Rev. Nile—I meant chance with the return of money. That is gambling.

CHAIR—I realise that, but what you are actually doing is conditioning a child to make decisions based on win or lose, kill the baddie or kiss the princess, or whatever it is, depending on the game you are playing. So that whole culture starts very young these days.

Rev. Nile—And that is where Internet is more dangerous, because that is almost now the adult toy. You have been playing with a children's toy and now you go on to play. Apparently there are some online facilities which are not gambling as such for money, where you just play. Again, that could be introducing a whole generation of young people into this form of gambling.

Rev. Magee—I think the statistics clearly indicate with the Internet that the majority of users of the Internet are 24 years and below. Even if we looked at 20 years and below, there probably would be a greater percentage of people who use the net for one form or whatever. It is a natural progression for young people to move into that area because it is part of the culture they have grown up with. One could consider snakes and ladders a game of chance, which is probably all I could look at, but there is no money involved in it. So, again, there has always been something there in the form of games for children and younger people. It is a conditioning, and it is a well-known fact, 'Get them young and you have got them.'

Senator STOTT DESPOJA—I have one final question to Major Middleton. I am curious about the demographics to which you refer, the idea of more problem gamblers, or more females who are problem gamblers. I am just wondering about that demographic. I am curious. I have to put on record that I find the way the media portrays women who are gamblers very distressing. It perpetuates a stereotype of a bad mother, and not being responsible. We hear stories about the kids being in the car while the woman is gambling. Those stories distress me, because I am curious as to why some of these women are gambling, for what purposes and what makes them problem gamblers. I am curious—and this is obviously a hypothesis—that perhaps some of those women are gambling because they think that is one of the best ways to get money for, presumably, assisting their families

as well, which I think probably says more about our society than anything else. But can you tell me a bit about those women?

Major Middleton—Our counsellors and our welfare agencies indicate that the greatest factors that lead to problem gambling are loneliness, isolation and boredom, and many women find themselves in one or all of those categories, increasingly it would seem these days. Relationships have failed. Often they are left with a small family and they are finding it difficult to make ends meet. They are also lonely often and often feel very isolated, and they place their hope in a game of chance. I think they are contributing factors to why we have seen an increase in women becoming problem gamblers.

Senator STOTT DESPOJA—Are they particular age groups?

Major Middleton—I do not have that statistic.

Senator STOTT DESPOJA—I am quite happy for you to say anecdotally. I would not expect you to have it—

Major Middleton—I do not have it anecdotally even. I think probably it is across the range. I do not think it is a specific age group.

Senator STOTT DESPOJA—That is interesting. Thank you very much for that.

Major Middleton—If I could say on the other point that we were discussing and pick up on what we were saying about defining gambling, the statement that I have tabled puts the Salvation Army's definition of gambling as seeking gain at the expense of others, and I think that is probably a basic factor defining gambling—seeking gain at the expense of others.

Senator STOTT DESPOJA—I suspect that there would be a few other professions and activities that might actually fall into that definition.

Major Middleton—That is possible.

Senator STOTT DESPOJA—Equally, I think I have seen running for the upper house in a whole new light. I think that might be considered a gamble as well these days.

Senator TIERNEY—I will just ask the Reverend Fred Nile a question. The last big expansion of gambling in this state seemed to be a result of the 1996 hotel poker machine bill which I believe you opposed, so I assume you have been tracking what has been happening to gambling in this state since that. Could you just outline what the effects of that bill have been in terms of access to and expansion of gambling in New South Wales?

Rev. Nile—There was a dramatic increase in the number of poker machines in New South Wales—something like about 38,000. Fifteen were made available to each hotel that wanted them and the flow-on from that was that once the hotel had a licence for the 15 poker machines the actual value of the hotel doubled. A $1 million hotel became a $2 million hotel, so the owner actually made a million dollar profit by that government action. In other words, that is how much revenue was coming in from those poker machines, and it

appears that the revenue is actually at a higher level in the hotels than even in the registered clubs. One of the reasons for that, I believe, is the accessibility of alcohol and the poker machines being virtually in the same venue. I know there is liquor in registered clubs, but the poker machine sections are usually separate from the bar and so on—there is a poker machine room or hall where they operate.

So for a whole lot of reasons it has been an absolute disaster to put the poker machines into hotels. They then put more pressure on the government to increase the number up to 30. Because of public reaction, the government restricted the number of hotels to about 2,500, I think it was. For a higher price, hotels could actually get extra poker machines, and they are actually doing that as well.

It is an example, I suppose, where governments are blinded by the revenue they get in tax revenue and the hotel industry itself is blinded by the huge potential for profit. There is now a reaction, particularly by young people. The nature of the hotels has now changed from the point of view of drinking and chatting and socialising. They are turning into, sort of, mini casinos and are no longer providing the same kind of social life or companionship they did before. So again it has had a very damaging effect on our culture.

Senator TIERNEY—There was a claim made by an earlier witness that what we see with this sort of thing is a substitution in entertainment—that, instead of perhaps gambling in one way, people gamble in another way. With the movement into pubs, has there really been a substitution of people going to the pub nearby instead of the club? Or is there evidence that there is an actual increase in the number of people getting involved in gambling because it is more accessible on the local corner rather than it is in a club that is further away?

Rev. Nile—There is no doubt there is an increase in numbers. As I said a moment ago, there was a different clientele in the hotels, perhaps more in that younger age group, say, the 18- to 24-year-olds, the office workers and so on. If that clientele are using the poker machines when they were not going to the registered clubs, it is a new market. So it has actually created a new and additional market and increased the turnover.

Senator TIERNEY—And this would have accounted for a movement from $7 billion to $11 billion in turnover?

Rev. Nile—That is right.

Senator TIERNEY—Over what period was that?

Rev. Nile—Four years.

Senator TIERNEY—From 1996—roughly, that bill.

Rev. Nile—The last four years. The figure was for 1998, so it would be 1994 to 1998. The actual graphs—and I can send you some graphs—are just skyrocketing. You mentioned horseracing and so on before—those problems almost do not change. The turnover, the income, remains parallel, so to speak, on a graph—the line does not move for about the last 20 years. But the gaming machine line is going up like that.

Senator TIERNEY—Have you put that graph in the submission?

Rev. Nile—No. I could send it to you.

Senator TIERNEY—Could you send it to the committee?

Rev. Nile—Right.

Senator TIERNEY—Thank you. So now we move to the next quantum leap from that which is bringing gambling directly into the home via the Internet. I know it is very difficult to get baseline data on this because it is just happening, but we have that example of the movement from the clubs to the local corner, and now we are moving from the local corner to the living room. I do not know whether you have caught up on Oracle, an overseas company tied up with Telstra, which claims it will be possible to actually bring online services via the current television technology as soon as next year, so it does actually bring it into the living room.

Rev. Nile—That is right, and without having to buy a computer.

Senator TIERNEY—That is actually right.

Rev. Nile—They are using a television set.

Senator TIERNEY—So instead of, say, 80 per cent not having access because they do not have a computer, I think the coverage of television is 99 per cent. It is actually everywhere, and once we increase accessibility to that level what are your views on the effect of the introduction of that new technology, on-line gambling, in the living room?

Rev. Nile—As I said a moment ago, the graph is going up dramatically with the increase of the additional poker machines. I think we would have a situation of virtually a rocket going up in the sky. We would actually almost have a vertical increase, a dramatic increase, of gambling in the home. I know people would say that we could put restrictions on it from the point of view of children and so on, but if we are talking about television sets, even with PIN numbers and other checks, smart children—and often children are more able to use this equipment than their own parents because of the teaching they get in the schools—are very computer friendly, so to speak, and they would certainly be able to get past any locks or prohibitions that try to stop children using Internet gambling in the home as well. That would be the other disastrous feature: to actually having children using it while their parents were not at home. We have had this happen with people using those 005 numbers, where children get on to those lines and ring up thousands of dollars onto a telephone account.

Senator TIERNEY—There is another angle in the home that I had not thought about until we received the evidence recently on this, and that is the subliminal effect on children and the likelihood that you could get children conditioned to gambling just by the fact that it is in the living room and parents are gambling on it. They watch that and they see it daily. They do not see it in the club—or they do, but overall in a very rare sort of way.

Rev. Nile—I agree with you. As we all know, the mother and the father are role models for the children and in this case it could be that a mother is playing the Internet gambling. Or just assume it is the father; that is a very powerful role model for the children, particularly for the boys who follow in their father's footsteps and to take up this particular habit, even if there are restrictions on trying to prevent children doing it.

Senator TIERNEY—In your introductory statement you mentioned the cost to revenue ratio as being one to five. Do you have any statistics which are more comprehensive than that?

Rev. Nile—Yes, I can send that information to you. For the first time there are now very detailed studies being done—nothing to do with churches or moral groups—by economists in the United States and other places. The figure could be even higher—up to one to seven—but there is certainly no doubt it is one to three. It could be even higher when you take into account, as I mentioned earlier, the state area where you could just be looking at the cost to the state through community services but not looking at the cost to the federal government in social security and so on and all the costs you are paying out through the federal budget. I am happy to do that because, as you are more or less hinting, the only thing that treasurers take notice of in the long run is if you can convince them that for every tax dollar they are losing. If we can convince governments of that, then I think there will be a winding back of the accessibility of gambling.

Senator TIERNEY—We had evidence from TABCORP this morning that problem gambling is not such a big problem in this country, and I think they gave a percentage of 1½ per cent of the population affected by this. I asked them to translate that into actual numbers and they said 330,000, which is the size of greater Newcastle and almost the size of Tasmania. I assume that does not include families related to the problem gambler—

Rev. Nile—No.

Senator TIERNEY—which would then take it up to one million at least.

Rev. Nile—That is another factor of how many people are affected.

Senator TIERNEY—We are now up to the size of Adelaide. Would you like to comment on TABCORP's evidence that it is not such a social problem?

Rev. Nile—It is a social problem. Obviously one of the pressures now is that it is building up through the privatisation of gambling. It is interesting that originally governments prohibited gambling, and organised crime was running the various types of gambling, whether it was two-up, poker machines or illegal casinos. The government then took it over and the government took the place of organised crime. Now the government is, in turn, selling off the gambling agencies like TAB and so on and privatising gambling. It is a more dangerous situation where legal bodies have a vested interest in providing the maximum profit for their shareholders. That makes the job of all members of parliament more difficult now to assess their self-interest.

These companies actually have a direct interest in expanding their operations and also in getting governments to reduce controls on their operations so they can maximise their profits. That is the latest development in New South Wales and in Victoria. I am very concerned about that. Obviously, online gambling would be, again, private companies using every skill they have to expand their online profits.

Senator TIERNEY—We are short of time but, in relation to that 330,000, any case studies on the effects of problem gambling on families that you can provide in writing in a general way to the committee we would be grateful for. I have a final question relating to the funds that state governments have set aside. I think it came out of the hotel poker machine bill in 1996. I have heard anecdotal evidence that this fund, apart from being inadequate, has not always been spent on those matters but has been siphoned off by the government onto other things. You might take that question on notice and perhaps provide us with any evidence you have on what it has been spent on, rather than the proper purpose of helping people with the problem of gambling.

Rev. Nile—Yes.

CHAIR—Thank you very much for your evidence. We look forward to those pieces of information being supplied. Major Middleton, I do sympathise with you on the number of people that you are now trying to deal with on this issue. It is certainly an issue that in my home state of South Australia people feel very strongly about, to the extent that they actually elected a member of parliament who stood on the platform of no pokies, and we expect to take evidence from him at a subsequent hearing. I certainly sympathise with the task you have in front of you.

Rev. Nile—That is one of the problems, I think, when both major parties have similar policies in gambling. It is very hard for the public to actually express their reaction. I think the figures are that 72 per cent of the people believe that we have more than enough gambling and it should not be expanded.

Some of those may also be gamblers, but where do you go to when both major parties have similar policies? That is the dilemma facing the voter today. It is very hard to prove by parties being elected that people are endorsing that gambling policy.

CHAIR—I do agree that there is a sense of frustration about the problem of some gamblers in the community. Thank you very much indeed for your evidence. We have appreciated very much the time that you have set aside to come and talk to us, and we thank you for it.

[2.42 p.m.]

GRIMSHAW, Mr Peter Colin, Media and Government Relations Director, Star City

HOGGETT, Mr James Alfred, Member, Australian Casino Association

CHAIR—As you may have heard when I introduced the previous witnesses, we do prefer all our evidence to be given in public, but if you are asked a question to which you wish to respond in private please ask us and we will consider that request. We have before us submission No. 21, which has already been published. Are there any changes that you want to make to that submission?

Mr Hoggett—No.

CHAIR—I now invite you to make an opening statement and then we will ask you some questions.

Mr Hoggett—I will make the opening statement and Peter may want to supplement it as we go along. As you are aware, we are here as representatives of the Australian Casino Association—rather than Star City per se—of which I am General Manager, Corporate Affairs. If the committee would indulge me, I would like to draw a little background about the casino industry in the broad, just to give you an idea of the context within which we are working.

It is an industry now that is well established in Australia after starting some 25 years ago. We think it does bring economic benefits in its train. It provides, of course, a gambling facility but also entertainment, accommodation and various other benefits to the communities in which it is established. We represent about 20 per cent of Australia's total gambling revenue and something less than 10 per cent of total gaming machines because part of the revenue of casinos derives from table games in which they normally have some exclusivity.

Australia's casinos in 1997-98 employed 20,000 people. They paid $650 million in wages and salaries, they spent $7 million on training, they purchased $1.4 billion in goods and services and paid, perhaps contentiously, $425 million in taxes in that year. We believe there is a substantial positive impact on the Australian economy of something like $1.3 billion in net terms. Perhaps more strongly than some other segments of this industry, the casino industry is extremely tightly regulated. There are historical reasons for this, of which the committee is perhaps aware. The industry originated in the USA where it gave rise to a lot of concern in its early years. As a result of that, we have an enormously detailed set of regulations.

Principally, casino operators are licensed to ensure probity—that is very important. A large number of our employees—something over 1,000 of Star City's employees—are licensed and there are probity checks on associates and suppliers.

We have a fairly strong interest in protecting our brand names, in protecting our reputation and in observing the rules which are applied to us. Online gambling is a matter which we have considered very closely as it has developed in the past few years. It does

have the potential to have a large impact on the casino industry as it stands. Casinos are single site entities without strong local connections quite often. We think that the interest in online gambling at the moment is actually fairly low.

The Productivity Commission produced a draft report recently that took some surveys of why people wanted Internet, and only four per cent of the people involved were interested in online gambling. Thirty per cent or so were shopping and all the various other things that people tap the Internet for. That may be because the Internet demographic, at the moment, does not overlap the gambling demographic very significantly. On the other hand, we think it will grow. It is growing quite rapidly from a very low base. Of course, online wagering, as TAB this morning has probably told you, has been running for two years. There is nothing new about using the Internet for gambling. It has been going for some time.

The debate here has tended to focus on the problems of gambling and crime and the protection of the interests of people in the home. I have heard a bit about that in the last little while as we listened to the Reverend Nile and others. We think these issues are addressed in the model code. As I say, it is a small interest in the Internet at the moment, but it will grow fast. In a sense, it is a very small subset of the whole development of the Net and the Net is a very exciting development. It has huge implications in other areas—I think much bigger implications in other areas than in this one. I hear you have already started to discuss television betting, so that is next down the track.

We think that applying bans in this area will not be very effective. Obviously, if we took the same line as the American Gaming Association and the American casinos, we would go for a ban. That is what they have done and that is why the President's commission on gambling in the USA has favoured what they call a pause, but in this area it really means a ban, and the industry was behind that. We do not think that would work. In fact, we think it would be perverse because it would simply leave the field to illegal and foreign operators. So we do not think that would work. This is partly because blocking technology, although it is quite good—and you can develop technology very rapidly to block and stop things—is always behind the technologies that allow you to get around things. If a person can devise methods to stop you doing something, another person can devise something that will get you round it, usually these days within a couple of weeks.

Also, the entry costs are low. It cost us about $850 million to build Star City and, of course, it is an array of things. It had to be because that was in our licence. It costs you half a million dollars to set up an Internet site so entry costs are very low. What that means is that lots of people can do it. Prohibition does two things: firstly, it leads to loss of consumer and producer benefits and, secondly, it provides the incentive for criminal activity. We think the sensible approach for Australia is a legal, regulated industry which provides consumers with an alternative and the alternative will be a supervised regulated site.

That is second best, obviously, to blocking it, if you think that is a good thing, which we do not necessarily. It is certainly second best to that, but it is an effective, or partly effective, solution and perhaps the only one available to us.

We do have pretty good technology in this country to effect supervision, given that you cannot block. We do have a lot of regulatory experience and we have, in particular, the

model code. Some of our states have already passed legislation, although only a few of the states and territories are far into this. Queensland is still a bit on the fringes of it; Victoria, too. In this state, of course, online gambling is still banned. It is still illegal both to provide and to play. I am not sure that that is a realistic approach to the whole matter.

The model code, which we support and which the governments of this country have all put together, provides player protection to some degree through the licensing of providers. More importantly, it provides, it seems to us, the same tests that apply to the strictest regimes, which is the casino regime. It also provides for player identification authentication. It applies harm minimisation, technical lockout, which is as good as you can get—it is not perfect but it is as good as you can get—and self-exclusion measures which are now practised in all casinos. You could conceivably place player expenditure limits on bets. You could ban credit betting, which is what the model would have us do and which also applies in casinos, and you can allow for the provision of contact information into problem gambling counselling services. It also provides for audit; it provides for reporting to AUSTRAC; and it provides for sensible tax sharing arrangements. With all its imperfections, we think it is the best way to go.

We have a couple of particular points to make from the point of view of the casino industry. There is a vexed question of taxation throughout the whole of the gambling industry which the Productivity Commission, to some degree, addressed. There is very uneven taxation between lotteries, casinos, clubs and so on. If online gaming enters the field, we need to review levels of taxation, because it will certainly take a chunk out of some people's markets and, in particular, we currently have very high rates.

We also feel that the way in which casinos are being created in this country is such that they are, in a sense, primarily a government creation. They were banned until 25 years ago and, in this state, they were banned until four or five years ago. They were created as an exception. As has been pointed out by Reverend Nile, they were sold as a monopoly, which is a handy way of raising revenue and regarded as a sensible way to go about this. The exclusiveness narrowed the field so that you could only bet on tables in a casino and, at the same time, the government took the economic rent from that proposal by selling the monopoly. Of course, in those circumstances, we think that if table gaming type online betting is allowed, that should be a preserve of the casinos.

That is not strictly a matter for a Commonwealth Senate committee because these are things that are decided at a state level, but it is a point that we felt we should register here. It would also, to some degree, preserve the supervision of that type of gaming. I guess we are saying that we think there should be some sort of level playing field, we think there ought to be rigorous standards applied and we are making an argument for the exclusive arrangements to continue to apply in so far as they apply now to table games. Thank you for the opportunity to make a presentation.

CHAIR—You heard much of the previous evidence that was given. You made the point that nationally your industry contributes $425 million in taxes to governments. It must irritate you that you are the group that is painted as the big bad wolf in this when, as I have argued in the past, the question really is: who is the addict? Is it the individual or is it the governments who benefit from the revenue? Senator Tierney has some questions for you.

Senator TIERNEY—I will ask one on that and then perhaps you would like to comment on Reverend Fred Nile's evidence earlier. Despite the tax revenue, there is a five to one ratio against the government in terms of social costs—gambling generally, we are talking about.

Mr Hoggett—With respect, I think Reverend Nile is measuring apples and oranges there. He has drawn out of the Productivity Commission report the total national costs of the industry including, I believe, non-government costs. Indeed, if he is talking about six or seven times, he must be talking about non-government cost as well as government cost. If you compare apples with oranges, you would compare total economic social benefits with total economic social costs, which the Productivity Commission has tried, we believe inadequately, to do, and they are still doing some work on that. If you were to take a strict measure of the tax revenue take from this industry against the direct costs of providing services for individuals in respect of gambling problems, I think you would find it was a much smaller figure—

Senator TIERNEY—Perhaps because it is inadequately funded it is a much smaller figure.

Mr Hoggett—It could be, and it could be because you are measuring within those costs a whole bunch of other associated problems and addictions that arise in society. Fining it down to the gambling problem is a very difficult measurement and that is something the Productivity Commission is trying to do.

Senator TIERNEY—Would you concede that it is probably costing the government more than it is actually collecting?

Mr Hoggett—No. I think the jury is out on that one. I just do not think that figure is yet known. We are talking about the whole gambling industry here.

Senator TIERNEY—Yes, the total.

Mr Hoggett—Our figure for tax is $400 million and the total figure for tax on the industry is much greater than that.

Senator TIERNEY—Yes, I realise that. Even though a lot of people in the gambling industry today have tried to play down the social impact and the number of people affected, there is general agreement on the figure of about 330,000 problem gamblers. When you add their families, you are over a million and up to a city the size of Adelaide, which is a significant problem for the country. We will probably have to wait for the Productivity Commission to complete its report.

Mr Hoggett—I think it would be a good idea.

Senator TIERNEY—I would be very surprised if the government were making a profit on this. I think socially, as with tobacco and alcohol, we tend to end up making a loss. I turn to the question of the physical on-the-ground casino industry's attitude to online gambling. I believe—I have not seen the hard evidence, and you might like to comment on it because you are probably more aware of the situation than I am—that in the United States, when the

government proposed to ban online gambling the physical on-the-ground casinos did support that. If that is true, you are taking a different approach. Could you explain that difference, if such a difference exists?

Mr Hoggett—Yes. Can I make a brief comment on the 330,000 figure, which is a figure included in the Productivity Commission draft report. It is a figure that a lot of people have contested, and we have, too.

Senator TIERNEY—What is your evidence?

Mr Hoggett—Simply on the interpretation of the figures that they have used.

Senator TIERNEY—You do not have any alternative figures?

Mr Hoggett—Indeed. We disagree with the gambling screen that they have used.

Senator TIERNEY—But you do not have any alternative basis of calculation?

Mr Hoggett—We do not need it; we have theirs.

Senator TIERNEY—It is not exactly the same thing.

Mr Hoggett—No, it is not the same thing.

Senator TIERNEY—The Productivity Commission has a very high reputation having regard to the way in which they go about their business.

Mr Hoggett—I understand that, but they issued a draft report so that people could comment on it. We have done that, and we disagreed very strongly with them, which is our right to do, I think. They are not infallible.

Senator TIERNEY—Of course it is, but I assume you have provided to them the basis on which you disagree.

Mr Hoggett—We have provided them with a submission, and we will happily provide it to the committee—very happily.

Senator TIERNEY—Thank you. We would like to have a look at that. Could we return to that other question.

Mr Hoggett—Yes—as to why we do not favour a ban?

Senator TIERNEY—Why the US casinos do and you do not, which is my understanding.

Mr Hoggett—I do not want to dump on our colleagues in the United States—

Senator TIERNEY—I am just curious as to why you took that approach.

Mr Hoggett—but there is a very sound competitive reason why casinos would argue for a ban.

Senator TIERNEY—Why aren't you arguing for a ban, in that case?

Mr Hoggett—Because we do not think it is practicable. We do not think it is technologically practicable. If we were arguing our book here we would say, 'Go for a ban. It will keep people out, it will make it tougher for our competitors in the gambling industry and it will limit the number of providers to some degree. Law abiding citizens won't do it and, basically, it will leave the field more open for us.' That is what we would argue if we were arguing for the ban.

Senator TIERNEY—Surely, if that were the case, the amount of online gambling would drop dramatically. It would not be stopped totally, but if we are moving to a technology—if it is allowed—where it is in the home and that was illegal a huge amount would disappear. It would be on the margins; it would be illegal; it would be coming from overseas and people would still get access to it as they do with a whole range of other illegal services. But moving to the periphery by banning it would certainly reduce it, surely?

Mr Hoggett—Let me put it more succinctly. In principle we are not in favour of bans. Banning people from doing things is not something that we would normally favour, unless there is some sound reason for it.

Senator TIERNEY—Not even illegal activity?

Mr Hoggett—We are saying here that you cannot make it illegal. We are trying to be practical. It is not in our interests to argue this way.

Senator TIERNEY—The government can make it illegal. They just have to pass a law that says it is illegal and we can do it.

Mr Hoggett—We are arguing that a better solution is to make it legal and supervise it, because bans do not work.

Senator TIERNEY—That is just a statement. We are after some proof or evidence of why you think that is the case.

Mr Hoggett—Look at all the bans in history that we have ever tried to put in place. They tried to ban alcohol in the United States, and they tried to ban gambling in this country. Why does a casino exist? Because they knew they could not ban illegal card games.

Senator TIERNEY—By allowing it to be made legal it was moved from the periphery of occasional use by a small percentage to a much larger percentage.

Mr Hoggett—I do not know. I live in Stanley Street, East Sydney. There were four illegal card schools running in Stanley Street before the casino opened.

Senator TIERNEY—I would not say that was a typical part of suburbia.

Mr Hoggett—Possibly not, but there is a lot of card gaming going on for money around this state.

Senator TIERNEY—You are not seriously trying to argue that the amount of illegal casino activity that used to exist is equal to the legal casino activity that exists now, surely?

Mr Hoggett—I do not know, and you do not know. With respect, Senator Tierney, you do not know.

Senator TIERNEY—It defies credibility, really. There is a lot of legal casino activity now. I am sure they were not all in the back streets of Darlinghurst 20 years ago.

Mr Hoggett—Whatever. The judgment was made that it was better to bring it in-house and supervise it—have an honest game where people would know what they were up for. We think that was a good decision, obviously; otherwise I would not be working for this company.

CHAIR—I am interested in the degree of difference in the calls for regulation for online casino users—I suppose you would say virtual casinos, on-the-ground casinos. It is possible to walk into any casino—and I am not selecting any one in particular—and find one or two pawn shops very close by the front door. In the case of at least one casino that I have been into, a number of EFTPOS machines are within the building. We have had some cause today to either ban, or very heavily regulate, online gambling, which arguably—if you take Lasseter's set of rules for getting access to a betting account—are a good deal stricter even now than casinos where you can gamble now, or even suburban hotels where at half-past 10 in the morning you can see people gambling and they might be there at 2 o'clock in the afternoon but nobody has done anything to deal with what is likely to be a problem gambler. Yet, in many ways, there will be quite different regulations applying to these two sets of gambling opportunities, if you like, in a way that I suppose the online operators could argue favoured your on-the-ground casinos to quite a large extent.

Mr Hoggett—What we have argued here is that they ought to be regulated to the strictest current level, and the strictest current level is us. We are not really arguing for greater restrictions on online gambling than apply to casinos.

CHAIR—I realise that you are not, but the reality is that you cannot go and bet in an online casino without having established a credit account. You can walk into any of your casinos and gamble with what is in your pocket, what is in your EFTPOS and maybe the jewellery on your fingers and hands.

Mr Hoggett—That is true.

CHAIR—In no way can you say that the regulations will be in any way similar. Online will be much more difficult to access.

Mr Hoggett—That is quite possible.

CHAIR—There are pre-choices to be made as well. I am interested in exploring the issue of consumer protection and privacy protection in relation to online gambling. I am interested in any comments you would make on the degree to which you think codes of practice for containment of people's private information will be compromised. If you have people who come into your casinos and say that they want to be classified as high rollers, how much information do you actually extract from them about their personal details? To what extent do you cover that with, say, encryption or personal privacy?

Mr Hoggett—Peter may be able to fill this in a bit. We do not require an enormous amount of information from them. Of course, we need to know who they are and where they live because, as they come into the private gaming room, they become members of that room and they become, in a sense, club members. We are not permitted to extend credit to them, so their financial situation, in a sense, is their own. What determines whether they become high rollers is whether they are a high roller. In other words, whether they play a sufficient amount to justify their entry into that group.

CHAIR—But you would know who those people are.

Mr Hoggett—Yes, we know who they are.

CHAIR—In online, just looking at the arrangements that apply at Lasseter's—because that is the one that is perhaps best known here in Australia at present—all the material on the person that enables them to establish the bidding account is required to be encrypted. In fact, again, I would have thought that your casinos are holding information about people which could be subject to fewer privacy restrictions than online.

Mr Hoggett—On the face of it, I would not see why that would be the case.

CHAIR—If you are not encrypting the information that you are holding—

Mr Hoggett—At the interface between us and the client, or between the online casino and the client, it is still going to be known to the operator, I would suggest, in the online casino. The names will be known to the online casino. It will not be encrypted to that degree. We protect our computer systems as closely as we can; they are very secure. I do not think they would be any less vulnerable than online, but that is a technical question that I am really not competent to answer. We are very careful with that data.

CHAIR—I can imagine, since it would be of some interest.

Mr Hoggett—It is, indeed.

CHAIR—Do you have any views on the extent to which you think online gambling will be a real competitive factor in relation to your own businesses?

Mr Hoggett—We do not have a clear picture. Our initial view on this is that a casino, like a club, is a place for socialising. This whole debate has been bedevilled by statements such as, 'We lose $11 billion a year on gambling,' when really the purpose of people

coming to clubs and casinos is not to come down to lose $11 billion but to come down to meet their mates, play the machines, get as long a run as they can and enjoy themselves.

CHAIR—So there is a lot more social interaction—it is more of an entertainment.

Mr Hoggett—It is entertainment. They meet their friends and have a drink. We believe that that aspect will continue to be quite strong, but we just do not know, just as everybody who is facing up to Internet competition does not know, how far this will reach into the home. We think there is a significant competitive threat there, but we cannot really measure it at the moment.

CHAIR—Does it concern you?

Mr Hoggett—Yes, of course it concerns us as a business.

CHAIR—In terms of market share?

Mr Hoggett—Yes, it concerns us to a degree because it is a competitive threat. In a sense, all businesses at all times face new competitive threats. When I say it is a concern, that does not mean there is a wailing and gnashing of teeth; it is just another thing we have to cope with. As I said before, our concern is not to the degree that we will be seeking a ban on online gambling.

CHAIR—It is probably a very appropriate point at which to conclude your evidence. I found that very interesting and very valuable.

Mr Hoggett—Thank you.

CHAIR—I appreciate very much that you have come and been so forthright. Mr Grimshaw, you have not made any comments. Is there anything that you would like to say?

Mr Grimshaw—I came to clarify the remarks of the people who gave evidence earlier about the community benefit fund. It is different in various states, but in New South Wales we contribute two per cent of gaming revenue to the community benefit fund. In general terms, of that amount about 20 per cent goes to community projects and about 80 per cent goes to problem gambling related issues.

The casino is the only organisation in New South Wales which is taxed with revenue going to the community benefit fund. Hotels and clubs are not levied for that fund. In general terms, it works out at about $10 million a year which goes from the casino to the community benefit fund. In the four years we have been operating it has amounted to about $33 million.

CHAIR—That is a good deal of money, isn't it?

Mr Grimshaw—Yes.

Mr Hoggett—And $20 million has been spent.

Mr Grimshaw—Yes, so there is still a lot of money there which is unspent, which is in line with some of the questioning earlier on about some of the money not being used quickly. There is certainly plenty of money there at the moment for these programs.

CHAIR—Of course, a second question is the degree of transparency in the whole process and the extent to which governments differentiate their revenue from gambling in a way that the wider community can recognise.

Mr Hoggett—In this case it is a straight two per cent of our revenue. The fund itself is very transparent. They publish a list of to whom they provide the grants and the purposes for which those grants are provided. It has not been running long enough for anybody to follow it up, unfortunately, in the way of audit, and we do need that. It is a pretty transparent fund.

CHAIR—Does it bother you that in the search for the villain that the community seems to be undertaking at present in relation to gambling you seem to be the target when figures that you have just given to the committee would indicate that, in a sense, you pay your dues? Leaving aside the argument that the Reverend Nile and Senator Tierney ran before, it would seem to me that the community does receive a fair amount of your revenue.

Mr Hoggett—That refers to your opening comments which I did not really address because I went straight into vigorous questioning. I think there is a bit of a misunderstanding here about what is going on. We are focusing very heavily on problem gambling in this committee and in other places, and that is probably appropriate. Whatever the percentage, whether it is 2.3 per cent or 1.2 per cent or whatever, it is a large number. It is probably going to be upwards of 100,000 people. There are a lot of people involved. The absolute number is large.

However, the relative number is quite small because Australians gamble everywhere. Most of them gamble quite safely. They have a budget and they gamble and 98 per cent to 99 per cent do not have a difficulty. That is where we get into difficulty—we mix up the problem and the solutions. We say, 'Gambling is a problem; therefore, let's put some pressure on the whole of gambling to solve this corner of it, which is problem gambling.'

I think that is a huge mistake. It is a huge mistake because it leads you off in directions of generalised policies that are directed at all gamblers and are ignored by problem gamblers. If you are going to tackle the problem of problem gambling, you have to get to the problem gamblers. That is why the community benefit fund is helpful. It funds research, it funds the Wesley Mission with whom we have an association, it funds other counselling services, it funds the University of Western Sydney and all of that sort of stuff. It is very focused on those people, the problem gamblers.

The search for policy solutions for this needs to go narrowly to the problem. If you act on the whole industry, you are going to have an effect on the industry, but it is going to affect all gamblers. They are going to be a bit irritated by it and it is not going to do what you want it to do. We need to define gambling, which the Productivity Commission has done, stop calling it $11 billion of loss every year because it is not that, focus on the people who are really hurting and find solutions that will go to them.

That is where the online gaming proposals are sensible. They are saying, 'Don't ban this.' Our proposals and others say that. It is going to happen. Therefore, let us regulate it sensibly and get to the people who are hurting. We must try to stop them getting access to it if we can, try to get them to voluntarily come to you. These people are in denial. They are not going to listen to exhortations; they need something more focused. I am sorry, that is a bit of preaching, but we know some of these people and we know how they are motivated.

CHAIR—That was a very useful summary.

Mr Hoggett—Thank you.

CHAIR—I thank you for that. It summarises a number of points that have been raised by my colleagues today and, indeed, by a number of witnesses earlier today. That concludes our hearing today. Thank you, and all the other people who have been here today, for your evidence.

Committee adjourned at 3.19 p.m.