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ARBAC position on proposed Federal Interactive Gambling Ban

The Australian Registered Bookmakers Advisory Council (ARBAC) understands and supports the Federal Government's genuine concern in respect to online gaming, and recognises that the potential for wagering on mini-outcomes blurs the otherwise clear distinction between wagering and gaming. In respect to wagering the concern is best summed up by s4.21 of the Senate Select Committee's Netbets report:

4.21 Currently, the nature of interactive wagering is similar to telephone wagering — both the Internet and telephones are used to facilitate the same types of bets. However in the future, and with the advent of new forms of technology such as digital television, this is likely to change. Consumers will be able to place more bets on different types of events. For example, on whether a tennis player will serve an ace on the next point of a game that he or she is playing.

ARBAC called on the States and Territory bookmaker organisations and their respective Racing Ministers last December to implement a self-imposed moratorium on micro-event wagering (specifically classes of micro-events or bet types that too closely resemble gaming) on a national basis.

This initiative was in addition to the Federal Government addressing its concerns via a claw back of some types of wagering by introducing a blanket prohibition on bets taken after a sporting event commenced.

However the moratorium wagering prohibition does not distinguish between "betting in the run" and "micro-event wagering". ARBAC believes that the restriction imposed is a potential threat to harm minimisation benefits inherent in "betting in the run" as it removes the opportunity for a punter to either lock in a profit, or mitigate a loss, as the probability of various outcomes change. It also hampers risk management on the part of the bookmaker, which necessarily then impacts on the punter's theoretical return.

Ambiguity, and inconsistency across technology platforms, is something that ARBAC seeks to avoid by initiating an industry and State "micro-event wagering" moratorium. This approach will bar ALL such wagering, irrespective of technology platform, while the review is undertaken. We believe that this is the more reasoned approach, and consistent with the industry view of interactive gaming.

This course of action is proposed because ARBAC believes it would be almost impossible to selectively carve-out types of wagering within the Federal legislative framework afforded by the Interactive Gambling Bill 2001, or the Telecommunications or Broadcasting Acts. However, within the States and Territory's legislation such carve-outs could be easily and effectively dealt with, in most cases, by regulation.

Despite the Federal Government having dealt with its concerns via a heavy handed approach for the Moratorium (by clawing back sports wagering after the commencement of a sporting event) and a proposed broad prohibition thereafter, ARBAC still believes that the proper jurisdictional responsibility for wagering is through existing State and Territory legislation and regulation, though on a more structured coordinated national basis.

In the absence of a coordinated national approach by regulators, ARBAC will address the issue immediately via its Code of Practice. All bookmakers, 93% of who are members of State organisations and thereby guaranteed by them, will abide by ARBAC determinations and not offer micro-event propositions.

ARBAC's Internet sub-committee will carry out an investigation of such micro-event wagering activities. This investigation will consider the need for specific regulation, or if warranted of a ban, for specific classes of micro-events or bet types that too closely resemble gaming (viz. where (i) the frequency of the micro-events and (ii) level of judgement and calculation required is so diminished to be considered like an event of chance). This is consistent with ARBAC's view on banning Internet Gaming.

ARBAC believes there is, at least in wagering, a sound regulatory environment that works well on a national basis. ARBAC looks forward to working with the regulators in all states to demonstrate our joint responsibility in the delivery of wagering product to consumers.

ARBAC believes that it is appropriate that Federal Government considers a ban on Interactive Gaming, which is easily defined and within the legislative reach of the Commonwealth's powers.

Interactive Gaming product is entertaining and addictive by design, the features and facilities of multimedia PCs mean that a rich audiovisual product rivalling that provided in specialised gaming venues can be delivered cost efficiently anywhere.

Legislation that overturns decades of control in respect of controlling what legal gaming is permitted, how and where it is promoted, and most importantly where it can take place, (particularly where such services can cross state borders in the absence of uniform agreement) has the potential to cause significant community damage.

The focus on "technology issues" is, in our opinion, a distraction to subject matter at debate, viz. excessive and problem gambling. As ARBAC understands it the public interest and concern that is being addressed is excessive gambling largely brought about by the increased accessibility of gaming product, esp. pokies/EGMs. The Internet per se is not under attack Gaming Product is. The gaming industry is however attempting to use this as a crutch in its defence, allied to its attempts to draw credibility from wagering's independence of technology.

ARBAC is of the view that if a ban on Interactive Gaming is considered appropriate then the consideration of whether it can be circumvented is irrelevant. Whether cars can exceed the speed limit, or freeways permit excessive speed, is not considered an issue in setting limits on our roads or in the prosecutions of individuals that breach those limits.

If excessive gambling is accepted as the raison d'être for legislation then the focus should be what new and damaging interactive gambling product must be controlled:

- For Interactive Wagering, the issue is micro-event wagering;
- For Interactive Gaming, the issue is the dramatically increased accessibility of gaming product (casino games, EGMs, lotteries etc.) outside of the physical location licensing regimes in place by allowing virtual gaming product;
- For Interactive Speculation systems for the finance/stock markets, the issues
 are the dramatically increased accessibility at lower cost and the access to
 credit/leveraged funds for trading which heighten the risk to the consumer.

The common thread through these three categories is that they are enabled by new technologies, and cannot be provided by existing communications products or distribution channels; however we would advocate:

- Interactive Wagering is adequately with by ARBAC's industry initiated moratorium and the existing state-based regulatory regime (in particular the restrictive cross border advertising prohibitions);
- Interactive Speculation systems are adequately dealt with by the regulatory of the financial markets already in place;
- Interactive Gaming however is the subject of much debate and given the
 public interest initiatives in some states attempting to reign in physical gaming
 (esp. pokies/EGMs) it is hard to argue that unfettered access to virtual gaming
 should be permitted.

This approach also addresses the glaring technological inconsistencies in the Interactive Gambling Bill 2001. The attempt to capture wagering (which is a technology neutral transaction) via specified telecommunication technologies (inc. Internet) while permitting (i) telephone betting; (ii) IVR; or (iii) DTMF and trying to avoid breaching the provisions of the Disability Discrimination Act 1992 defies logic.

While ARBAC is of the opinion that some of the research is flawed (particularly in failing to separate wagering from gaming)¹ there still appears to be strong public support for action against interactive gambling², that is gaming via the Internet.

In view of this, ARBAC believes that it should be an offence for an individual, while in Australia, to use an Interactive Gaming system anywhere in the world. This approach is in step with NSW legislation prohibiting people, while in NSW, placing wagers on Australian racing with offshore operators³, and consistent with laws on unlawful gambling⁴.

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¹ Supported by VCGA research, see below; page 5 bullet point 6.

² IRIS Research "Impact of Banning Interactive Gambling Services" - October 2000 for FaCS/NOIE

³ (NSW) Unlawful Gambling Act 1998 s8(3)

⁴ (NSW) Unlawful Gambling Act 1998 s6, s14, s15 Australian Registered Bookmakers' Advisory Council – April 9th, 2001

Further provisions restricting the enforceability of agreements or contracts relating to illegal gambling should be enacted on a national basis; again this is in step with NSW legislation⁵.

The onus should not just be on an interactive gambling service provider (be they Australian or overseas) to conform to public policy – there should be reciprocal responsibility on the consumer not to use those services. This is a broad principle in legislation and the FaCS survey supports this approach on this issue.

While the States have laws that prevent advertising of unlicensed services within their borders, internet protocols potentially provide for circumvention. For example if a NSW website has html code that results in a user (who may or may not be in NSW) being served an advertisement from an offshore ad-server (which may or may not, or only on occasion, be in breach of NSW advertising restrictions) who, if anyone, has committed an offence in NSW? The logical legislative approach in respect to electronic media is through Federal legislation, in keeping with say prohibition on tobacco advertising and internet content laws.

On the issue of a partial ban, being restrictions on provision of service domestically in Australia while offering it offshore, ARBAC is of the view that this is hypocritical. The strength of our regulatory regime is based on protection of Australians, while we would not suggest that officials responsible for administering such a regime would be any less diligent it is arguable that the driving force behind legislation and policy, (the political process and the (domestic) public interest), would be sidelined by such an approach and thereby potentially undermine the credibility of the whole system.

If it is the will of the people that use of the internet for wagering transactions, or internet gaming, or both, be banned within Australia, then Australian operators should similarly be prohibited from 'exporting' such services, and Australian residents should be prohibited from using the services of offshore operators. There is no halfway house.

If however the bill proceeds on this basis (exports permitted), it should have a simple mechanism for the Minister responsible to add jurisdictions, at their request, to a list, which makes the Interactive Gaming provider liable for the same penalties as offering services to Australian residents if they allow access to those jurisdictions.

On more general issues of the debate, the following seeks to summarise, with some explanation, ARBAC's position on various underlying issues.

Wagering and Gaming – not the same thing and not just both gambling

- It is incorrect to make the statement that wagering and gaming are the same, wagering and gaming, along with speculation on the financial markets, all constitute different forms of 'gambling' but are not the same.
- As demonstrated firstly during the Senate hearing, in submissions to the NOIE study, and then in debates in the Senate – the communication or delivery technology plays no part at all in defining a placement or acceptance of a wager. Wagering is technology independent.

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⁵ (NSW) Unlawful Gambling Act 1998 s56(1)

- There have been successful prosecutions in the USA for crimes in respect of wagering relying on the fact that an internet transaction and a telephone transaction are identical (this was in the case of legislation that was not technology neutral but telephone specific). Yet the proposed ban seeks to suggest they are different.
- Interactive Gaming, or Internet Gaming, is a new product it can only be delivered by means of an online medium, in effect the Internet is an enabling technology. It effectively transforms a user's personal computer into a gaming machine – and this is illegal in some States (eq. NSW⁶).
- There is no guarantee that this chameleon effect on a personal computer cannot be used to effectively avoid prohibition or caps on physical gaming machines in an organised way in clubs, hotels or even an Internet café.
- The fact that some States have attempted to address this in their proposed Internet Gaming legislation by proposing restrictions on such activity only serves to highlight the complex issues surrounding Internet interactive gaming. For example, what if an operator (publican or café operator) plays no part in it or the user brings his own notebook or PDA eg. Palm Pilot to a 'regulated' location?
- The real and identifiable target of the public's concern on gambling is related to electronic gaming machines or "pokies" Interactive Gaming is a natural extension of that concern and therefore the catch cry "lose your house without leaving it" does strike accord with the community.
- The Victorian Casino and Gaming Authority's research⁷ supports ARBAC's view that the FaCS survey for NOIE is flawed. In depth qualitative research conducted to "determine how satisfactory the questionnaire was performing in terms of quality and consistency of data collected" resulted in the "replacement of the phrase "Internet Gambling" with "casino games for money on the Internet", due to confusion amongst respondents about the meaning of the original phrase".
- There is no valid argument that gaming and wagering should be captured in the same net (Internet ban) – only the desire to "remedy social evils" by holding the moral high ground is advanced as the just cause for attacking, amongst other vices, all forms of gambling.
- Wagering and Gaming are separate and competitive industries and on this subject are polarised, despite commentary to the contrary. Bookmakers, who are solely in the wagering industry, are very concerned at the attempts by the online gaming industry to cloak their product in credibility by association with legal wagering. Of particular concern is the gaming industry's attempt to leverage off wagering's technology independence, and commonality with online sharetrading.
- Wagering is a skill-based transaction on an event of uncertain but assessable odds – the consumer knows his/her odds. The consumer of wagering services is also a consumer of other services, particularly information that is required to assist the consumer in forming his/her assessments. One element of the skill in

⁶ (NSW) Unlawful Gambling Act 1998 s6, s14, s15

⁷ Seventh Survey of Community Gambling Patterns and Perceptions Roy Morgan Research March 2000 p17 *Australian Registered Bookmakers' Advisory Council – April 9th*, 2001 5/11

wagering is taking propositions where, in the opinion of the wagerer, the probability of the outcome is more likely than the odds being offered ("overs") and avoiding propositions where the converse is true ("unders").

- Wagering is by definition an activity that is ancillary to another independent event, and the act of having a wager serves to intensify the entertainment value of that event, be it a 3-minute horse race, or a 90-minute game of football.
 There is no obligation to wager, it can even just be the expression of opinion.
- A wager is about placing a stake in support of opinion or judgement against another party with an opposite view. It is a practice that is ubiquitous in our lives, particularly in Australia with "I'll bet you!" being quintessentially Australian.
- Gaming is purely chance based on a random event of chance at certain odds. A
 player of a game of chance (including electronic gaming machines viz. poker
 machines) has no control over the event, nor can they gamble only when the
 odds (in their opinion) are in their favour.
- Logically, and technically, the definition of "interactive gambling" applies only to gaming with a device where the player is interacting with the device by gambling on random events of chance generated by the device with no third party involvement. Entering into a wager on a third party independent outcome event is not "interactive gambling".

Issues relating to online share trading and wagering

- The proposal to ban online wagering while permitting online day trading highlights a lack of understanding of either wagering and day trading or both or alternatively suggests that such stockmarket 'speculation' is gambling for the rich and therefore is in some way a more legitimate form of gambling (there is no doubt that it is a form of wagering). Even Rev Tim Costello and Royce Millar "agree that the speculative share trading prevalent in 2000 is gambling, pure and simple the stockmarket can be viewed as being at one end of the vast spectrum of gambling activities" and "the frenzied trading in the modern era is pure speculation it is a form of gambling that may yet prove to be just as socially destructive as problem gambling on poker machines".
- The magnitude of the day trading phenomenon is highlighted in a report by the US Government's General Account Office (GAO) to Congress¹⁰ which stated that "day traders, who represented less than 1/10th of 1 percent (<0.1%) of all individuals who bought or sold securities, accounted for the growing part of trading on NASDAQ, estimated by industry officials to be 10-15% of total NASDAQ volume".
- The nub of that issue is of course how to separate legitimate irregular investment trading using online systems from frenetic 'day trading gamblers' activity on the same systems. Wagering should be treated with the same respect and with the consideration that similarly there is only a very small minority who are problem gamblers.

⁸ Wanna Bet? Tim Costello & Royce Millar; Allen Unwin ©2000 p13

⁹ ibid Tim Costello p116

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¹⁰ GAO/GGD-00-61 February 2000 Security Operations – Day Trading Requires Continued Oversight

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There have been a number of recent announcements by Australian banks trumpeting the arrival of Internet trading systems for foreign exchange. These services use the benefits of new e-commerce systems to dramatically reduce the cost of financial transactions and increase their accessibility and similarly open the door to increased speculative activity.

The benefits of online systems in addressing problem gambling

- During the debate on the Moratorium bill there was little discussion on problem gambling within the wagering industry. While this occurs in wagering, ARBAC would argue that it is to a far lesser extent than gaming.
- What has not been brought out in debates is that the increase in account based wagering (telephone and Internet) has gone some way to reducing problem gambling. Problem gambling is an insidious and secretive habit the last thing an afflicted gambler wants is to be found out or even know themselves the magnitude of their habit so they have no desire to leave a 'paper trail'. There is significant anecdotal support of this from all wagering account operators.
- ARBAC is currently circulating the penultimate draft of its national Code of Practice for bookmakers that, amongst other things, incorporates initiatives on problem gambling.
- One of the main reasons why all the States and Territories supported account based electronic wagering transactions, over both telephone and face-to-face transactions, was the far greater regulatory control and oversight it provided them and for the benefits it provided both operators and punters themselves.
- It is extremely frustrating for professionals in the industry to watch this debate and suffer the obfuscation of the Government, despite its best intentions, and see the access to tools that could address actual community concern being withheld from them.
- Any increase in market share by account based wagering operators, either from cash based wagering, or from cash gaming helps with alleviating problem gambling.

Deleterious effect on 'traditional' wagering operations and the racing industry

- Contrary to the NOIE study by Econtech, ARBAC believes there is overwhelming
 evidence that the banning of wagering on traditional bet types over new
 communications systems will, over the medium and long term, have a damaging
 effect on the traditional activities of bookmakers and TABs, and on the racing
 industry, which is dependent on those licensed wagering operators.
- A major study in the UK by HM Customs & Excise arrived at the conclusion that if betting taxes were not reformed to take into consideration "the challenges of the fast developing e-commerce environment" and to bring back off-shore "UK" operations, then the UK faced up to 12,000 job losses in the bookmaking industry alone, with over 2,000 betting shop closures. The changes recently announced in the UK budget, which dramatically drops the rate of tax, is however expected to eventually see 1,400 betting shops and 10,000 jobs added (a net difference of 3,400 shops and 22,000 jobs) and an increase of almost

£600 million in total tax receipts. These figures relate to the wagering operators alone, and do not include the push through effect into the racing industry.

- The full scope of restrictions of the proposed legislation is unknown, however on one interpretation, the restrictions potentially extend beyond the actual wagering transaction to also include the transmission of wagering information. If this is the case (and the inclusion of unidirectional, non transactional services such as datacasting [s5(1)(b)(v) of the Interactive Gambling Bill 2001] supports that view) it would be extraordinarily damaging to the consumer's prospects (by restricting their access to essential information) irrespective of their ability to make wagers using other technologies, and thereby damaging to the racing industry.
- It is important to note that despite claims of excessive growth in gambling there has been a decline in wagering, and in particular with bookmakers. For example, in NSW for the year to June 30, 2000 alone there was a decline of 10.13% in betting turnover with bookmakers with telephone betting¹¹ down 13.75% over the same period, this fall was despite a 22% growth in telephone sports wagering (from 8.38% to 10.8% of the total). These figures are reflective of the national statistics.
- As highlighted by the Australian Racing Board¹² there is a real threat to Australian Racing if restrictions are placed on wagering over the Internet in Australia. The ARB points to a Vanuatu based bookmaking operation that has higher turnover alone than either all NSW or all Victorian on-course bookmakers, a situation which is largely brought about by restrictions on on-course bookmakers receiving bets from off-course. Precipitous action by the Federal Government has the ability to dramatically impinge on off-course wagering turnover through the TABs and frustrate any attempts by the racing industry and bookmakers to address the threat to revenue posed by off-shore bookmakers operating on Australian Racing.
- It is relevant to note that bookmakers have always had delayed adoption of new technologies, including the telephone, by industry and regulatory constraint.
- In the last 25 years in real terms national wagering turnover (bookmakers, TABs and on-course totalizators) <u>has dropped 10.8%</u> to \$11.717 billion whereas real gaming turnover has grown 900% to \$90.722 billion. Over the same period real wagering expenditure (that which is lost by punters) has risen by only 21.3% to \$1.704 billion whereas real gaming expenditure has risen 600% to \$10.705 billion.
- The differences between wagering and gaming turnover and expenditures is explained by
 - (i) for wagering, by a loss in market share by bookmakers to the totalizators (which operate at a fixed and higher operating margin) and
 - (ii) for gaming, that the growth has predominantly come from casino and machine gaming which operate at lower player loss margin than lotteries.

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¹¹ Telephone Betting includes Electronic Betting (viz. Internet)

¹² ARB Media Release 5th April 2001

- In the last 10 years the number of registered bookmakers has more than halved, since 1990 registered bookmakers have fallen from 1890 to 785.
- The statistical evidence strongly supports the argument that despite the dramatic improvements in technology, relaxation of restrictions on promotion, and greatly improved accessibility (off course TAB agencies, telephone and internet betting) wagering is still fundamentally inhibited by the requirement for consumers to exercise skill and judgement before placing a wager. It similarly supports the argument that gaming, of all forms from the 'innocuous' lottery to the addictive EGMs, has dramatically benefited from these same factors, as there isn't a product 'brake' on consumption.
- ARBAC emphatically disagrees with the statement by the Government "It is unlikely that the inclusion of wagering will dramatically impact on the racing industry" as we believe that inability to use this technology will have a major deleterious effect on bookmakers, resulting in a further concentration of gambling expenditure on gaming, and also on wagering with TABs which can offer large centralised and efficient phone betting operations and widely distributed retail outlets which, as it is largely cash based, restricts the introduction of harm minimisation measures, and is anti-competitive.
- There is no agreement between the States in respect to Internet / Interactive Gaming; in fact it is fair to say that there is a chasm between a number of States on this issue.
- Wagering has a national regulatory model approved by all the Racing Minsters at their annual conference in 1998. There is a national standard implemented by all the states that relates to the regulation and operation of electronic transactions (not just the Internet). Despite a submission to the Senate Committee, Hansard 25th August 2000 ECTA 2:

"The development in 1998 of standards across Australia for Internet wagering services was seen in New South Wales and by all racing ministers as in the public interest as it provided for greater surety, audit, integrity, harm minimisation, etc. than existing technologies allowed. Further it is in the commercial interest of the punter as the market is easily and fully informed and as a result distortions in the market are minimised."

This theme did not appear on record in the Senate debate on the Bill, and there seems to be a perpetuation of the myth that there is no national regulation in respect of wagering. This may be the case with gaming regulation but it is not the case with wagering!

- It should be remembered that wagering takes place within a State, on events within, or outside the State. In the case of wagering there is, at the regulatory level, extraordinary co-operation between the States as, for example in horseracing, each is dependent on the others for controlled operation and management of the product and wagering operators.
- Bookmakers and TABs can only accept wagers on contingencies (be they
 racing, harness, greyhound, or sport) that have been authorised by their
 respective state Minister.

 A bookmaker's submission to the Senate hearing on the Bill included the following applicable statements

"There have been concerns raised by various parties in respect to services that are sometimes called "micro-wagering" products (eg. "Will he kick the goal?"). The major concern has been fear of the unknown – what might be possible on digital TV or by datacast."

"The various restrictions in all states on advertising bookmakers across state borders effectively emasculate any possible commercial opportunity for an existing broadcaster, or aspirant datacaster, offering any such service without firstly agreement and then legislative change by all the states and territories. Further, I might point out that these are not currently allowed bet types."

- The centralised nature of broadcasting programming, particularly for live sport broadcasts, makes it impossible to promote wagering products (esp. to provide the odds offered) in compliance with the different State based legislation.
- Wagering and the industries dependent on it is a large employer, with a bias towards rural and regional Australia, and it is not reasonable that they should be penalised by being caught up in community concern about gaming.

While there is an element of competitiveness in the statements above, ARBAC remains of the view that wagering on racing, sport, etc. is not by its nature addictive. It serves only to improve the entertainment experience of the independent event and provides for significant employment and community return in facilities.

In summary, ARBAC's position is as follows:

- ARBAC supports the Government's call for a ban on Internet Gaming.
- Wagering and Gaming are very different gambling products. Given the need for cognitive process in the consumption of wagering, which is identical to the processes in financial market and stock market speculation, and the independence of the wager from the event being wagered upon, wagering should not be included within the definition of an Interactive Gambling Service.
- Wagering, despite significant advances in technology, relaxation of promotion restrictions, and dramatically improved accessibility has had a 10.8% decline in real turnover over the last 25 years. The inclusion of wagering within a ban on interactive gambling has the potential to do great harm to the racing industry, which is dependent on wagering for its continued existence.
- If the definition of a "gambling service" encompassed the dissemination of wagering information using the technologies defined in the bill then the traditional wagering distribution systems would be emasculated and the racing industry decimated.
- Legislation is about principles society wants to adhere to not whether it can
 prevent some individuals from breaching the law, therefore it is absolutely
 irrelevant if a ban can be technically circumvented.
- The legislative principles should be applied uniformly, there should be a reciprocal responsibility on the consumer, including penalties, as well as the supplier.

- Any legislation should be technology neutral, therefore if wagering is
 permitted by telephone it should be permitted by the Internet. It is illogical to
 claim that bets by digitised voice are any different to digital data.
- The proposed separation of onshore and offshore operations in respect to interactive gambling is hypocritical. If a ban is to be applied it should apply broadly and uniformly. Specifically, it should ban all operators from providing a service in, or into, Australia, and should make it an offence for an Australian resident to use any service, irrespective of its location of operation.
- ARBAC recognises community concern in respect to the spread of gaming and as such has instituted its industry backed moratorium on micro-event wagering and has called on the state Racing Ministers to give that initiative regulatory support (in respect to those elements of the wagering industry not covered by ARBAC's Code of Practice (eg. the TABs)).
- There are significant barriers to the development of "interactive wagering", and ARBAC's Code of Practice Moratorium only serves to support that.
- ARBAC acknowledges that the wagering industry, and thereby the racing industry, faces a competitive threat from interactive gaming, but the evidence to date is that an interactive gaming ban would only stop eroding existing revenue rather than present an opportunity for growth.
- Bookmakers are basically SMEs (Small and Medium Enterprises) and as such are basically representative of 'ordinary Australia'. Bookmakers are gambling professionals and have a genuine desire to provide a responsible service and as such have real concerns about gaming. The driving force for Internet Gaming is big business, which is probably why bookmakers have a more balanced view of the issues involved – and are not constrained by their participation in gaming operations like the TABs.

Authorised by Jack Ashman ARBAC Chairman April 9th, 2001