

# **Gaming Machine Entitlements - Approved Trading System**

Response to consultation paper

**Submission To: Government of South Australia  
Dept of Treasury and Finance**

**From: UnitingCare Wesley Adelaide &  
South Australian Heads of  
Christian Churches  
Gambling Taskforce**

**Date: September 2010**

## **SUBMITTING ORGANISATIONS**

### UnitingCare Wesley Adelaide

UnitingCare Wesley Adelaide is an agency of the Uniting Church and is a South Australian community service organisation with over 100 years experience in providing services to assist low income and disadvantaged people. The organisation works with individuals, families and communities to break the cycle of disadvantage, in a range of settings across South Australia.

UnitingCare Wesley Adelaide's vision is for "a compassionate, respectful and just community in which all people participate and flourish."

Based on Christian ethics their values are:

Respect and compassion for all people  
Belief in the innate worth of all people  
Justice, particularly for those disadvantaged in our society  
Being of service to others  
Restlessness for what could be  
Non-violence and peace

### SA Heads of Christian Churches Gambling Taskforce

The Christian Churches Gambling Taskforce (GTF) was established in 1998 as a result of a resolution of the Anglican Synod of that year which expressed concern within the Anglican community about the growing harm from problem gambling, particularly poker machine gambling. The Heads of Christian Churches, at the request of the Anglican Synod subsequently agreed to establish a Taskforce, with broad denominational reach, to focus on the

pastoral concern of the Christian Church in South Australia on the adverse impacts of gambling. The GTF remains the only standing committee of the South Australian Heads of Christian Churches, reflecting the denomination wide concern about gambling harm.

The GTF recognises the diversity of views about how best to tackle gambling harm and has deliberately taken a harm minimisation approach, meaning that in all circumstances they seek the approach which is most likely to reduce gambling harm.

The GTF has actively engaged with industry, regulators and government to promote a range of legislation, regulation and programs to reduce gaming harm. The Taskforce was instrumental in the establishment of the independent gaming authority in South Australia and the subsequent development of gambling codes of practice, and has actively engaged in the public policy of gambling over the last decade.

### **SUBMISSION OVERVIEW**

This submission responds to the consultation paper about mechanisms to modify the approved trading system for gaming machine entitlement. The submission emphasises the importance of achieving the objective of implementing the decision of the SA parliament in December 2004 to remove 3,000 EGM entitlements from South Australian hotels and clubs, to reduce problem gambling by reducing accessibility to poker machines. The context was a decade of continual and rapid growth in the number of poker machines, from their introduction in July 1994, a decade that saw a ten-fold increase in problem gambling, directly associated with increased EGM accessibility.

The submission also emphasises the importance of setting deadlines for the achievement of the 2004 decision, we propose 30th June 2011.

The submitting agencies, when considering the preferred trading model are weakly supportive of bilateral trade as the model to be applied, but will accept any of the trading models nominated, provided that they are implemented effectively, which we expect to be the situation.

### **KEY PROPOSALS**

The two most important criteria for consideration in implementing a trading model to further remove EGM entitlements as per the 2004 legislation are effectiveness in achieving outcomes and timeliness.

We therefore recommend clarity from the government in public policy process, to specify both the number of gaming machine entitlements that need to be traded out of the system, and a timeline by which the 2004 Parliamentary decision is met.

We also identify the importance of establishing separate classes of gaming machine entitlements: those allocated with no cost to the venue and the new 'class' being those entitlements that have been paid for through trading.

## **Response to Issues Paper**

This brief submission follows the discussion paper and makes comments on topics as raised. Numbers relate to the sections from the discussion paper.

### **3.00 Market Design Objectives**

The major objective that is missing from the set of “over arching objectives” presented in the issues paper is that of “effectiveness”.

While this may be implicit, we believe it is crucial that this objective is made explicit, particularly given the context of this issues paper which is that a decision by the Parliament made in 2004 has not been implemented; specifically, that not all of the 3000 poker machines designed for removal, have been removed.

We opine that two years would have been ample time to implement the full removal of 3000 poker machines. So to be generous, there have been 700 poker machines in operation, since January 2007 (two years from the Parliament’s decision) that should not have been operational. Assuming that no change occurs before December 2010, this means that the industry has accrued a windfall gain of 4 years trading for 700 machines of about \$102 million, based on the average turnover per machine to industry (ie excluding tax), of which 40%, on average (using the Productivity Commission Estimates) has come from problem gamblers. This means that failure to appropriately implement the Parliament’s decision has meant that at least \$40 million extra has been taken from people with gambling problems.

Given the tardiness of implementation of the Parliament’s 2004 decision, and the ineffectiveness of the mechanism intended to affect the Parliament’s decision, it is eminently reasonable that outcome effectiveness is the predominant overarching objective.

Taking the subsequent overarching objectives in turn:

#### **3.1.1 Low-risk**

We reject this as an overarching objective. It is appropriate that industry assesses its own risk, and gaming machines have been a low-risk activity for hotels and clubs since 1994 in South Australia. We observe that there was no licence required to gain a gaming machine entitlement, so this is another windfall gain the Parliament has afforded to the gambling industry – at substantial cost to the community, particularly problem gamblers and their families.

We accept the proposition that “buyers and sellers should be able to confidently participate in the market” and that “the approved trading system should be designed in a way to minimise the risk to South Australian taxpayers, and consequently minimise the risk to the South Australian Government

### 3.1.2 Fair.

We accept that the improved trading system should not be biased towards buyers or sellers, large venues or small venues, towards regional or city venues. However, we believe that there is still some argument, albeit a weakening argument, that some bias towards clubs that have a proven track record in investing in the local community, is appropriate.

The fairness factor missing in the issues paper is that fairness should also apply to people at risk of having a gambling problem currently and in the future, and to existing problem gamblers. Fairness to them means reducing gambling risk, which means reducing accessibility, which means reducing the number of venues with poker machines. This was the primary objective of the initial legislation, amended and passed in December 2004.

### 3.1.3 Simple

We do not regard this as an important objective, in part because simplicity is a subject in judgement. If a market model is to be used, there needs to be some scope for innovation, which may well give better solutions and entail a degree of complexity above a baseline simple approach. Again, we emphasise that the primary object is about meeting the objective of reducing gambling harm.

### 3.1.4 Low-cost

We do not accept low-cost as an important objective in and of itself, and restate earlier observations that the gambling industry has received massive windfall gains from the initial granting of free entitlements for Electronic Gaming Machines (EGM's). The tardiness of implementing the Parliament's decision has also gifted hotels and clubs with at least another \$100 million of windfall gain generated by the machines that should have been removed. Poker machine providers consequently have plenty of money which they should contribute to measures to reduce gambling harm.

This said, we accept that market mechanisms should be efficient, and so transaction costs should be kept to a minimum through efficient market mechanisms. Search costs are rightly worn by the market participants.

### 3.1.5 Transparent Market

It is agreed that the trading system should be transparent in both process and prices paid. Transparency should also be applied to the application of revenues generated from the trade in poker machines.

We also suggest that transparency in public policy is needed which means the establishment of clear information about the trade objective, namely reducing the number of EGM's, to a set number, somewhere near 12,000 for the whole state. There is some conjecture as to what the actual number of operating entitlements should be once the 3000 machine reduction is implemented. This number needs to be determined through negotiation with all stakeholders, and stated clearly as the target entitlement number.

In addition, transparency in public policy also means establishing a clear timeline, specifically nominating a date by which all 3000 entitlements will have been removed from the poker machine industry. We suggest that date should be 30th June 2011. If the full number of gaming machine entitlements to be removed, had not been traded out of the industry by that date, then a lottery should be conducted, removing a machine per venue until the full number of entitlements has been removed from the industry.

### 3.1.6 Voluntary

We accept this objective, in part. The mandatory element of the program, however, is that the Parliament's decision of 2004 must be implemented, which means a reduction of 3000 poker machines, and their entitlements, from 2004 levels. Where trading mechanism is to be used to reduce total entitlement numbers, then the decision to trade should be voluntary.

#### Additional objective

The trading system introduces a new class of gaming machine entitlements into South Australian hotels and clubs, namely EGM's for which a price has been paid for the entitlement. We restate the important fact that no fee has been paid for any gaming machine entitlement issued by the office of the Commissioner for Liquor and Gambling. This has resulted in a windfall gain of many billions of dollars for hotels and clubs. The creation of a trading system means that the market puts a price on an entitlement, which has previously had no cost. It is important that future gambling policy options, including the possibility of further reductions in EGM entitlements in the future, are not compromised by claims for compensation by venues, for entitlements that are not paid for.

We strongly suggest that a register be maintained of trade entitlements for which a venue has paid a price, and the venue that holds these entitlements. All non traded entitlements must retain the original acquisition cost, i.e. zero dollars.

Based on this discussion, we propose the following market design objectives:

1. Effective: the objective of removing 3000 gaming machine entitlements from 2004 levels is achieved
2. Efficient cost of market operation
3. Transparency of trading regime
4. Transparency in public policy
5. Timely: the entitlement reduction objective is achieved with in a reasonable timeframe
6. Voluntary: buyers and sellers are free to trade as they wish.
7. Entitlement classes: only traded EGM entitlements to have a monetary value.

### Common market features

#### 4.2 Forfeiture

We continue to support the position that was a key presentation by the collaborating community agencies in the 2008 consultation, namely that the forfeiture rate should be one entitlement forfeited for every three entitlements traded. Using our 2008 figures, this still means that about 2400 trades required to secure the EGM loss outcome, recognising that the actual number of entitlements to be removed is still not explicit public policy.

We believe the arguments for this forfeiture rate were clearly outlined in the 2008 submission, to which we contributed, and draw attention to this submission, rather than restating the arguments here.

#### 4.3 Club priority

Restating that the primary objective is the reduction of gambling harm through reduced accessibility to gaming machines, we do not see that there is a significant difference between an EGM in a hotel or club and suggest that the trading model should apply to both hotels and clubs. We do not consider that there could be a strong case for future exemptions for clubs, which were given considerable benefits under the 2004 legislative change. This has enabled clubs to reorganise and relocate as they deemed necessary.

#### 4.4 Insolvency

The outcome as proposed is accepted

#### 4.5 Geographic restrictions

The original proposal from Anglicare to limit EGM entitlement trades to geographic areas that already have higher concentrations of entitlements, is a sound measure that has considerable merit.

We disagree with the government of South Australia in their proposal that the improved trading system not treat venues differently, based on their geographic location. There are very strong consumer protection reasons to limit an increase in concentration of gaming machine entitlements in geographic locations that already have higher than State average concentrations.

#### 4.6 'Use it or lose it' gaming machine entitlements

The outcome proposed in the discussion paper by the government of South Australia, is endorsed for this proposal.

### **Approved Trading System Options**

The five trading system models have been considered in the following table and summarises our perspective on the effectiveness of these models against the market design objectives that we presented in our response to section 3 of the issues paper.

**Of our seven design objectives, we consider three as objectives that must apply irrespective of the eventual trading system, these being; transparency in public policy, voluntary and the construction of two tiers of entitlement classes.**

This leaves four objectives that could vary depending on the trading model utilised: effective, cost efficient, transparent, timely. Our summary of our assessment of the four market models against these four objectives is given below:

|                | Bilateral trade | Noticeboard trade | periodic | Pooled trade |
|----------------|-----------------|-------------------|----------|--------------|
| effective      | ?               | ?                 | ?        | ?            |
| Cost efficient | √               | √                 | X        | ?            |
| transparent    | √               | √                 | √        | √            |
| timely         | ?               | ?                 | X        | X            |

Regarding our most important objective, effectiveness in meeting the machine reduction outcome, no trading system model stands out as being highly likely to deliver the outcomes. However, those models relying on structured trading rounds, specifically the periodic and noticeboard models, may be less effective if buyers and sellers take a couple of trading rounds to 'test each other out'.

Using the cost efficient criteria, the simplest trading system, bilateral trade, was most likely to be cost-effective, particularly transaction costs, though for search costs, the noticeboard model was likely to present the most cost-effective option.

Assuming that each model is effectively implemented, each trading model was regarded as transparent.

The important objective of timeliness indicates that trading ground-based models are more likely to take more time.

Based on the analysis given above, we still lean towards the bilateral trading model as the most effective, and recognise that each of the other models can also be effective, if effectively administered. We remain very concerned about the potential for further delays in implementing the objective, if structured trading rounds and more complex trading systems are utilised.

We would accept any trading model that is able to demonstrate that it will meet the targets of machine reduction in the quickest timeframe.

Questions or further comment  
 Contact Mark Henley

