Golden Casket Agents Association

Ref:casket/1981

30 April 2003

Senator The Hon R K R Alston
Minister for Communications, Information
Technology and the Arts
Level 2, 4 Treasury Place
EAST MELBOURNE VIC 3002

By email

Dear Senator,

Interactive Gambling Regulations – Review

We refer to previous correspondence the most recent from James Penrase dated 9 April 2003 advising an extension of the deadline for our submission until 2 May 2003. We are disappointed that we were not contacted by your office given our significant representation in respect of the Interactive Gambling Act 2001 and our letter of 4 March 2003 to your office which went unanswered.

The Association represents over 1,000 Queensland small business operators who distribute Golden Casket Lottery Corporation products.

The Association is strongly opposed to any relaxation in current government regulations covering interactive gambling as we believe a proliferation of interactive gambling would have major detrimental effects on agents, government and the community.

The Association commissioned Access Economics in 2001 to investigate the potential impact of interactive gambling on lottery agents in Queensland. A copy of the Access Economics report is attached for your information.

The Access Economics report concludes that a proliferation of gambling on-line will have a major impact on agents selling lottery products:

> *"Based on past experience, over time, the cumulative loss of agency business to Golden Casket Agents from introducing internet gambling could reach 20 percent.*
>
> - *This might mean the net loss of 400 to 500 full and part time jobs. Up to 25 percent might be in towns and localities with 25,000 or less population.*

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- *Most agents felt that this loss of agency business would have a 'very' or 'quite' serious impact on their overall business."*

The vast majority of agencies are family based businesses, which employ an average 6.5 employees. Of the estimated 7,000 employees in agencies in Queensland 25-30% of the jobs are in towns with populations of 25,000 or less.

Sales of Golden Casket products are vital to the viability of agencies with the Access Economics research finding that on average 47% of turnover of agencies is from sales of lottery products and these sales represented 34% of the gross profit of the businesses.

In addition to providing dedicated shop floor area to lottery products, agents make a very significant financial commitment ranging between $15,000 - $35,000 depending on the size of the shop to install Golden Casket's retail image.

Approximately 80% of lottery agents are also newsagents. These businesses in country and regional areas provide a wide range of services including banking, postal services, travel, dry cleaning, bill paying etc.

A diminution in sales of the magnitude forecast (up to 20%) would lead to a closure of some businesses and a withdrawal of lottery and other products and services from sale. The closure news/lottery agents would have serious consequences for many country/regional towns and signal the further erosion of services at a time when Governments are advocating the need to redress the fall off in services to these areas.

The figures in the Access Economics report relate only to Queensland however, when extrapolated across Australia would indicate a significant loss of employment and closure of businesses.

Problem Gambling

A proliferation of gambling on the internet will lead to an increase in problem gambling and also raises serious concerns regarding access to such sites by minors. Research has shown that lottery products are generally not associated with problem gambling. However proliferation of "instant win" lottery, casino, and poker machine type games on the internet will inevitably lead to an escalation in problem gambling.

Agents selling lottery products adhere to strict Responsible Play Guidelines, which include training for staff to identify customers with gambling problems and the provision of assistance to those people in accordance with the guidelines. Importantly the current "over the counter" sales system has proven to be a highly effective method in denying access to gambling by minors. Internet gambling, no matter what steps are introduced, does not provide the same level of protection for minors.

Loss of Revenue

Proliferation of on-line gambling will divert funds from State Governments. In Queensland alone the lotteries contribute some $200 million annually towards the government through taxes and dividends. If a significant portion of internet gambling were through overseas operators proceeds would not flow back into the Queensland community for government programs.

We believe that the use of credit cards for all forms of interactive gambling should be banned. Also debts incurred by Australian residents on overseas gambling sites should not be enforceable. Such a move would make it very difficult for overseas operators to establish a presence in the Australian market.

Conclusion

The Agents Association believes that proliferation of internet gambling would have widespread social, fiscal and economic consequences and accordingly there should be no changes to the current interactive gaming regulations.

Yours sincerely,

A O Libke
Secretary

cc. Senator Ron Boswell
Hon Peter Slipper
Mr Cameron Thompson

INTERNET GAMBLING: A THREAT TO GOLDEN CASKET AGENTS

prepared for the

Golden Casket Agents Association

by

ACCESS ECONOMICS

in conjunction with

Giles Consulting International

Canberra
December 2001

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1. Executive summary

The Golden Casket Agents Association (GCAA) has commissioned Access Economics to report on the potential impact of the spread of internet gambling on Queensland Golden Casket Agents and on the wider economy.

A central feature of the study is a new survey of Golden Casket agents, conducted by the association, to specifications developed in conjunction with Access Economics and Giles Consulting International. The survey provides new insights into the economic contribution of Golden Casket Agents, and the potential impact on them of introducing internet gambling.

Economic contribution of Golden Casket agents

Key findings:

- **Golden Casket Agents are an important stable component of the Queensland economy. They provide employment and other services to communities throughout the state. Their ability to go on providing these levels of service depends heavily on the Golden Casket operations.**
- Golden Casket Agents have on average 6.5 persons employed. Their employees spend nearly half their time (42 percent) on Golden Casket operations.
- We estimate that Queensland Golden Casket Agents in total have over 7,000 persons employed (or over 4,500 on a full-time equivalent basis). They contribute around $100 million to Queensland wage incomes and about $300 million to Gross State Product (GSP). 25 to 30 percent of the jobs are in towns with populations of 25,000 or less.
- Based on the survey and other data sources, we estimate that the agents purchase about $100 million of goods and services from (mainly) Queensland suppliers, for use within their businesses[1]. These purchases as they flow through the economy are, we estimate[2], in turn supporting a further $75 million of Queensland GSP, and over 1,000 full-time equivalent jobs.
- Golden Casket Agents provide a wide range of other services including banking, bill paying, postage and freight services, travel and bus ticket sales, dry cleaning and health insurance services. The smaller, generally country based, agencies provide a wider range of other services than larger agencies.
- Golden Casket Agents' businesses are generally long-lived relative to other small business types, with the core business operating in its present form for an average of 22 years.
- Golden Casket Agents derive a substantial proportion of their total business turnover and income direct from Golden Casket operations. These operations also boost the overall business at the agencies.

[1] This does not include goods and services for resale to the public.

[2] The estimates are obtained using simple input output multipliers derived from Access Economics input output table for Queensland.

Potential impact of internet gambling

Judging by past experiences of the introduction of new competing gambling products, **Golden casket agents are justified in being concerned about the potential impact of internet gambling**.

Claims (as made in association with the recent Commonwealth legislation to restrict internet gambling) that the internet will facilitate the sale of existing lottery products to aged and disabled consumers, and those living in remote areas seem ingenuous. The supposed target groups are unlikely to be heavy users of the internet.

Based on past experience, over time**, the cumulative loss of agency business to Golden Casket Agents from introducing internet gambling could reach 20 percent.**

- This might mean the net loss of 400 to 500 full and part time jobs. Up to 25 percent might be in towns and localities with 25,000 or less population.
- Most agents felt that this loss of agency business would have a 'very' or 'quite' serious impact on their overall business.

The spread of internet gambling, and consequent reductions in lottery sales, could substantially reduce the Queensland government's gambling revenue. This is because the tax rate on lotteries is much higher than on other forms of gaming.

- The government therefore has a strong interest in maintaining sales of lottery products, because they bring in the most tax per dollar of gambling outlay.

Local lotteries are under threat from foreign competitors that can offer a larger prize, based on their larger overall sales base. **A strong retail network for the local lottery product – one that is embedded in the local community – is an important line of defence against erosion of the lottery tax base.** Golden Casket Agents are effectively providing this network in Queensland.

Access Economics

Giles Consulting International

2. Introduction

The Golden Casket Agents Association (GCAA) has commissioned Access Economics to report on the potential impact of the spread of internet gambling on Queensland Golden Casket Agents and on the wider economy.

Golden Casket agents are concerned at the potential impact on their businesses of an end to the moratorium on internet gambling:

- Golden Casket agents are numerous, dispersed throughout the state, and make a substantial overall economic contribution to Queensland;
- the widespread introduction of internet gambling would have a serious negative economic impact, through its effect on incomes of Casket Agents, the employment they generate, and perhaps on the overall viability of their businesses; and
- there may be serious impacts on rural and regional businesses and communities, as a result of the uncontrolled spread of internet gambling.

In this study we present some general evidence about the potential impact of internet gambling on Golden Casket sales, and on Queensland government revenues. However, the available information is sketchy.

To supplement it, we report findings of a survey of Golden Casket Agents specially undertaken for this report. The survey was conducted by the Association, to specifications developed in conjunction with Access Economics and Giles Consulting International. The survey generates new insights into the economic contribution of Golden Casket Agents, and the potential impact of the introduction of internet gambling.

3. The lottery industry in Queensland

The state-owned Golden Casket Lottery Corporation Limited (Golden Casket) has an exclusive license to sell lottery products in Queensland. Revenue totalled $724 million in 1999-00 - predominantly from sales of lotto and instant scratch-it products.

Golden Casket products are sold throughout Queensland by a network of some 1100 agents. About 820 of these are members of the Golden Casket Agents Association (GCAA).

The *Lotteries Act 1997* and *Lotteries Regulations 1997* governs the Golden Casket organisation and enables Golden Casket to appoint agents to sell and promote lottery products and to pay prizes. The Act also governs key agency relationships between the Golden Casket organisation and its agents. Agents must be small businesses owned and controlled by the applicant and meet other business ownership, control and size conditions. The agents operate the lotto agency business on a “shop within a shop” basis.

The Golden Casket Corporation recognises that the continued success of lotteries depends on the combined strengths of the corporation and its agents[3].

[3] Golden Casket, *Agent’s Information Kit – Issued Oct 1999,* p.25 “Agency Appointment Process”

In addition to the *Lotteries Act*, the agency relationship is also subject to the Commonwealth Franchising Code of Conduct with remedies available under the *Trade Practices Act* and the Australian Lottery Industry Code of Practice.

Golden Casket and predecessor organisations have operated in Queensland for over 80 years. The on-line computerised system with agency terminals was introduced in 1989. The Golden Casket agents have for many years been a strong Queensland institution.

Golden Casket is a member of the Australian Lotto Bloc and the National Lotto Bloc, which allows prizes to be pooled across a number of states.

The geographical distribution of agents broadly follows that of the population. Golden Casket's policy is to ensure that Queensland towns with a population of more than 1,000 people are serviced by at least one on-line agency.

Agencies provide a wide range of other community and business services and commercial operations. Most are part of another business, most commonly newsagents. There are many in smaller rural and regional centres, where their contribution to business and community life is especially significant.

Agents are classified on the basis of average weekly sales for the previous financial year. The agent categories are:

Sales category	Average weekly sales
A (On-line)	$20,001 plus
B (On-line)	$10,000-$20,000
C (On-line)	Less than $10,000
D (Dial up facility)	Instant Scratch-Its only
E (Off line)	Off-line

3.1. Golden Casket Agents Association

The Golden Casket Agents Association was formed in 1952 to ensure that the interests and views of Casket agents were represented on issues affecting their business operations.

The objectives of the Association include:

- to encourage, protect and promote Casket agency business;
- to promote the interests of Casket agents;
- to promote the consideration and discussion of matters affecting the sale of Golden Casket products;
- to present the general views of Casket agents to the Golden Casket Lottery Corporation and government agencies plus direct liaison with the Government and Opposition members and other industry groups.

The Association is governed by a Council drawn from a wide spectrum of agencies including regional centres.

Currently the GCAA has over 800 members throughout Queensland in the following categories and geographic areas. The GCAA has a higher level of penetration in the larger agencies (Categories A, B and C) and lower membership among smaller Category D and E "scratchy" type agencies.

Geographic Area	**Category**				
	A	B	C	D/E	Total
Brisbane CBD	3	10	29	0	42
Brisbane Suburbs	60	103	114	18	295
Gold Coast	24	30	18	3	75
Provincial Cities	28	66	59	17	170
Large Towns	11	22	16	4	53
Medium Towns	7	31	10	0	48
Small Towns	4	33	38	5	56
Localities	0	7	33	16	56
Total	137	302	317	63	819

The geographic area classifications used above and in the report are based on the Australian Bureau of Statistics definition of urban areas at the 1996 Census and on advice from the Department of Planning and Local Government. The geographic areas are as follows.

- Brisbane Suburbs includes all metropolitan areas of Brisbane City (except the CBD), Logan City, south to Beenleigh, west to Ipswich and north to Caboolture. A separate category is provided for the Brisbane CBD.
- The Gold Coast includes all the Gold Coast City excluding the northern Beenleigh area.
- Provincial Cities are urban areas with populations of over 25,000 and include Townsville, Cairns, Caloundra, Noosa, Bundaberg, Mackay, Rockhampton, Hervey Bay and Toowoomba.
- Large Towns are urban areas with populations of 10,000 to 25,000 and include Buderim, Maryborough, and Mt Isa.
- Medium Towns are urban areas with populations from 5000 to 9,999 and include areas such as Roma, Charleville, Yeppoon, Bowen, Ayr and Mareeba.
- Small Towns have populations of between 1,000 and 4,999 and include for example towns such as Chinchilla, Miles, Cooroy, Weipa and Mossman.
- Localities are urban areas with populations less than 1,000, including for example Texas, Clifton, Mitchell and Julia Creek.

3.2. Trends in lottery business

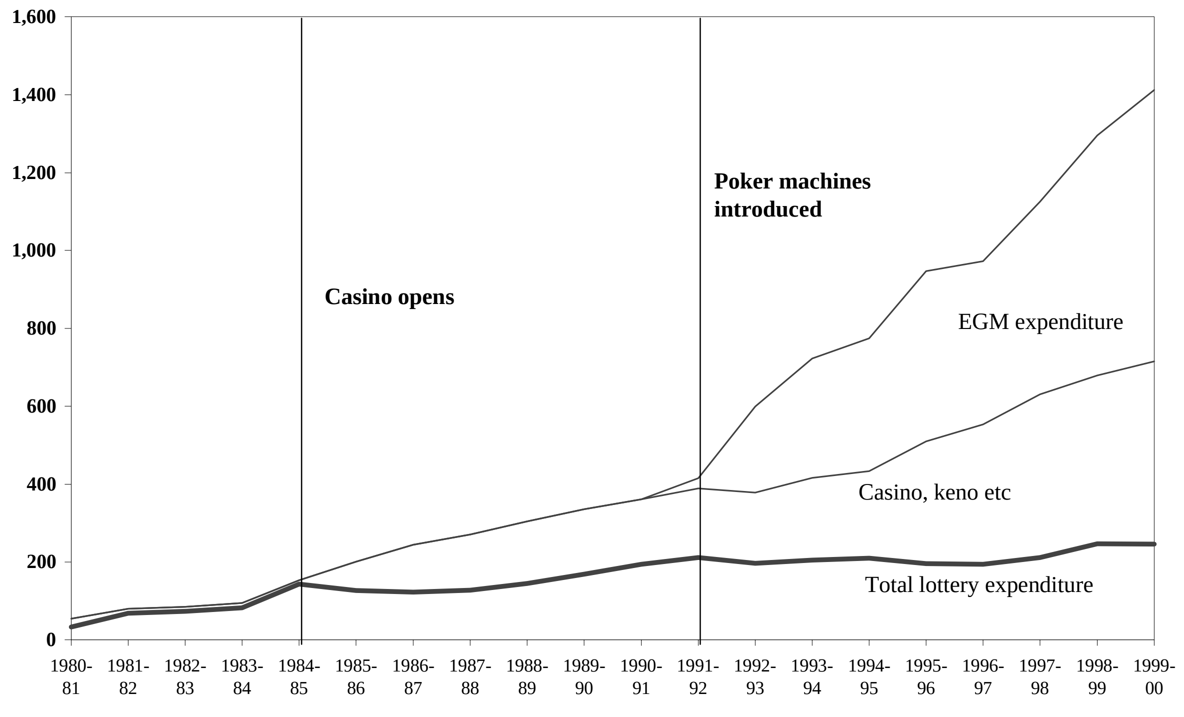
Lottery expenditure per capita is higher in Queensland than in any other state, save Western Australia. Instant scratch-it tickets, in particular, are almost twice as popular in Queensland as anywhere else in Australia. This is impressive evidence of the success of the Golden Casket marketing and retailing – and of the products' continuing acceptability to the Queensland consumer.

In the last decade, lottery expenditure has grown in real terms at about the same rate as Queensland's population. However, as Chart 1 shows, the most substantial growth has been in expenditure at casinos (from the mid 1980s) and on electronic gaming machines (EGMs) (during the 1990s). As a result lotteries have lost market share of the total gaming dollar – from over 90 percent in 1984-85, down to 50 percent in 1989-90, and to just 17 percent a decade later.

Table 1. Impact of competing products on lottery expenditure

Episode	Reduction in lottery expenditure (real terms, percent)	Reduction in share of total gaming expenditure (percentage points)
Casinos open 1984/5 to 1986/7	-14.5 percent	down from 94 percent to 50 percent
EGMs introduced 1991/92 to 1993/93	-7.3 percent	down from 43 percent to 29 percent
EGM numbers rise 1994/5 to 1996/97	-7.3 percent	down from 24 percent to 18 percent

Chart 1. Queensland real gaming expenditure, 1989/90 $ million



Note: Tables and charts exclude minor gaming expenditure.

Over the past 20 years a reasonably clear pattern has emerged:

- as each new competing gaming product has come on the market, lotteries have lost sales and market share.

Lotteries have then slowly clawed back sales (while continuing to lose market share) – until the next major move by competitors.

Each successful new gaming product therefore:

- erodes the support for lottery products; and
- substantially increases overall gaming expenditure by Queenslanders.

Were internet gambling to mount the next successful assault on the Australian gaming market - as the Commonwealth Government believes likely - then it too should cause further loss of lottery sales and a further substantial increase in overall gaming expenditure by Queenslanders.

4. Economic contribution of Golden Casket Agents

4.1. The survey-based approach

Access Economics and Giles Consulting in association with the Golden Casket Agents Association conducted a survey of Golden Casket agents to help determine the economic contribution that Golden Casket agents make to the Queensland economy. The approach was designed to gather new information not available from other studies, which by and large concentrate on either Australia-wide or state-wide data.

- 207 responses were received, representing 25 percent of GCAA members and an estimated 19 percent of all agents. As intended, there was a higher response rate by larger agencies with 39 percent of Category A members responding and 29 percent of combined Category A and B members. For "scratchy" type agencies (Categories D and E), the response rate was lower at 16 percent.
- The response rate based on geographic region was relatively even across all areas of Queensland ranging from 36 percent for the Gold Coast to 19 percent for small towns.

The sampling frame, the higher concentrations of larger agencies and the wide and even distribution across geographic regions in Queensland means that the survey results can generalised to all GCAA members and to the industry as a whole with reasonably high levels of confidence. See Appendix 1 for more information about the survey design and methodology.

4.2. The survey findings

The survey provided valuable information in a number of areas.

4.2.1. Business structure

- About two-thirds of members have "life" agency agreements and one-third have the more recently introduced 5-year agreements.
- Newsagencies alone provided the base business for some 80 percent of the Golden Casket agencies, and newsagencies in association with other business operations such as gift shops, tobacconists, and mixed business accounted for a further 10 percent of all responses.
- The proportion of newsagencies alone was positively correlated with the size of the Golden Casket agency business — 94 percent of Category A, 84 percent of Category B and 73 percent of Category C agencies were newsagents only.
- In addition to the main line of business, agencies provided a very wide range of other services including banking, bill paying, postage and freight services, travel and bus ticket sales, dry cleaning and health insurance services. The smaller agencies (Categories C, D and E) tended to provide a wider range of other services than did the larger agencies.
- A feature of the responses was the average length of time the Golden Casket agency had been operating, irrespective of changes in ownership (average 21 years) and the time the core business had operated in its present form (average 22 years). This stability contrasts with other data reporting high business failure rates and short business life for many other types of small business.

4.2.2. Business operations

- The vast majority of respondents (98 percent) considered that the Golden Casket agency business had a positive effect on the turnover of the rest of the business.
- Most (77 percent) Golden Casket agents were aware of another agency in the same postcode area, while 18 percent did not have direct competition from another agency in the same postcode area.
- The importance of the Golden Casket operations is indicated by the fact that on average Golden Casket turnover accounted for nearly half (47 percent) of the total business sales and Golden Casket commission income accounted for about one-third (34 percent) of the gross profit for the business.
- As expected, average weekly business sales, average weekly business gross profits, average weekly wages, Golden Casket turnover and commission income varied with the category of agent. The business ratios showed that, on average, Category A businesses were about 60 percent larger than Category B, more than double Category C and about four times the average for Categories D and E.
- Golden Casket business accounted for 42 percent of employees' time in the total business. Golden Casket business was much more important for the larger Category A businesses (52 percent), declining somewhat for Category B and C (45 percent and 39 percent respectively) and relatively unimportant for Categories D/E (at 14 percent).
- Golden Casket agencies are important employers with each agency employing on average one owner, 1.9 full-time employees and 3.6 part-time or casual employees. In terms of full-time equivalents (based on a 35-hour week), each agency provided employment on average for over 4 employees.
- Category A businesses employed 7.2 full-time equivalent employees, Category B 4.4 employees, Category C 3.5 and Categories D and E 2.7 full-time equivalent employees.
- Agents reported that Golden Casket agency turnover in the past three years has been relatively flat. For 63 percent turnover had increased and it had declined for 36 percent. The median response for the three-year period was an increase of 4 percent, which is a real decline after taking into account inflation of 10 percent over the period (including the introduction of GST).
- Of the major factors affecting the growth or decline of the Golden Casket agency turnover by far the most important was the competition from other gambling products or outlets, which was ranked as very important by 62 percent of respondents and of some importance by 25 percent. Only 9 percent of respondents considered the factor unimportant.
- This factor was ranked as more than twice as important as any other factor. The other factors rated as very important were population change (31 percent), changing population demographics (9 percent), changing affluence (27 percent) and changing consumer tastes (27 percent).
- The importance of competitive gambling was reinforced as the single largest response in the reply to the question of "any other important factors".

4.2.3. Regional patterns

The main features of the regional patterns are:

- Relatively low business sales per agent in small towns (1000–4999 population) and localities (under 1000 population), compared with all other areas.
- Relatively high Golden Casket turnover and commission income per agent for the Gold Coast and Brisbane Suburbs, more than double that for small towns and localities.
- Greater dependence on Golden Casket Commission income for agencies in suburban Brisbane and the Gold Coast and much lower dependence on Golden Casket products for businesses located in the Brisbane CBD and for agencies in localities.
- Brisbane CBD businesses had the highest level of employment per business at 12 full and part-time employees, down to about half that number (6) for localities. In terms of full-time equivalents, the employment distribution and the time spent on Golden Casket business was:

Region	Full-time equivalents	Percent time on Golden Casket
Brisbane CBD	7.9	29
Brisbane Suburbs	4.5	46
Gold Coast	5.0	46
Provincial Cities	4.3	49
Large Towns	4.1	39
Medium Towns	5.3	51
Small Towns	5.1	33
Localities	3.5	23

- The resulting average full-time equivalent employment per agency attributable to Golden Casket operations on a regional basis was:

Region	Golden Casket employment per agency (FTE)
Brisbane CBD	2.3
Brisbane Suburbs	2.1
Gold Coast	2.3
Provincial Cities	2.1
Large Towns	1.6
Medium Towns	2.7
Small Towns	1.7
Localities	0.8

4.3. Agents' overall economic contribution

It is clear from the survey data that Golden Casket Agents play an important role in the Queensland economy. Agencies provided a wide range of other services including banking, bill paying, postage and freight services, travel and bus ticket sales, dry cleaning and health insurance services, with the smaller agencies (Categories C, D and E) tending to provide a wider range of other services than larger agencies.

Golden Casket agents' businesses have generally been long-lived relative to other small business types, with the core business operating in its present form for an average of 22 years. This stability contrasts with other data reporting high business failure rates and short business life for many other types of small business.

Golden Casket agents derive a substantial proportion of their total business turnover and income direct from Golden Casket operations, with the operations also serving as a boost to the overall business for 98 percent of agents. The Golden Casket business was an important form of employment – Golden Casket agents have on average 6.5 persons employed. While over half the employees are part time, each agency still provides an average of over four full-time equivalent jobs. Employees spend almost half their time (42 percent) on Golden Casket operations.

Extrapolating from the survey results, we estimate that Queensland Golden Casket agents in total have over 7,000 persons employed (or over 4,500 on a full-time equivalent basis). They contribute around $100 million to Queensland wage incomes and about $300 million to Gross State Product (GSP). 25 to 30 percent of the jobs are in towns with population 25,000 or less.

Based on the survey and other data sources, we estimate that the agents purchase about $100 million of goods and services from (mainly) Queensland suppliers, for use within their businesses[4]. These purchases as they flow through the economy are, we estimate[5], in turn supporting a further $75 million of Queensland GSP, and over 1,000 full-time equivalent jobs.

Golden Casket agents run stable businesses, that provide an important source of employment and other services to local communities. The ability of these businesses to continue to provide these levels of service depends heavily on the Golden Casket operations. It is therefore of concern that Golden Casket agency turnover has suffered a real loss over the past three years, with competition from other gambling products or outlets overwhelmingly the most important contributor to this.

Internet gambling would represent another onslaught of competition to Golden Casket agents, that could potentially result in another dramatic drop-off in business. The next section considers the impacts this might have on the Queensland community from three perspectives — the impact on State revenues; the impact on problem gambling; and using the survey results, the potential impacts on Golden Casket agents' business and employment, and the resulting flow ons to the wider business community.

[4] This does not include goods and services for resale to the public.

[5] The estimates are obtained using simple input output multipliers derived from Access Economics input output table for Queensland.

5. Lotteries and internet gambling

This section points to some possible consequences of the introduction of internet gambling – from the perspective of lotteries. We focus on government revenues and problem gambling, We also report insights from the survey of Golden Casket agents about the potential impacts of a reduction in Golden Casket Agency business on the Golden Casket agents themselves.

5.1. Potential impact on government revenue

Golden Casket Corporation contributed almost $200 million to the Queensland government in 1999-00, through dividends, income tax equivalents and gaming taxes.

The tax rate on lotteries, at 25 percent of turnover, is much higher than on other forms of gaming. The same is true when the tax is expressed as a proportion of consumers' net expenditure (i.e. losses). The average tax on lottery expenditure (nearly 60 percent) compares with average rates of 30 percent on EGM expenditure, and only 17 percent on Queensland casino gaming.

Hence the government has a strong interest in maintaining sales of lottery products, because they bring in the most tax per dollar of gambling outlay.

Lottery products have traditionally borne a high rate of tax, because customers are willing to purchase tickets that bring the possibility of winning a large prize – and have shown that they are not very sensitive to changes in the odds caused by higher and lower rates of tax on lottery products. However, sales of lottery tickets do surge when the prize jackpots from one week to the next – indicating that customers do respond to increases in the size of the prize.

Local lotteries, therefore, are under continual threat from national or international competitors that can offer a larger prize, based on their larger overall sales base. While governments seek to regulate access to 'foreign' lottery products, a strong retail network for the local lottery product – one that is embedded in the local community – is an important line of defence against erosion of the lottery tax base. The Golden Casket Agents effectively provide this network in Queensland.

Internet gambling removes the requirement that the seller of the gambling product be in the same place as the consumer. Governments therefore are concerned that they may lose gambling revenue to suppliers located elsewhere – particularly those in jurisdictions with lower rates of gambling taxation. We believe that the threat is real. However, lower rates of tax are probably only a minor factor in the consumer's eyes. Size of prizes, other product characteristics, marketing, and perceptions about consumer protection regimes are all likely to be important in influencing consumer choice. Providers, though, will be attracted to jurisdictions with lower rates of tax, since that will bring the prospects of higher profits for a given level of sales of gambling products.

It is in governments' interest to slow the penetration of internet gambling, since by doing so they will protect their gambling tax revenue. Per gambling dollar, the pay-off will be highest if they can reduce the threat to local lottery sales.

5.2. Potential impact on problem gambling

Lottery products are generally not a major source of gambling problems. According to the Productivity Commission[6]:

> *The prevalence of problem gambling varies by the mode of gambling, with higher prevalence for regular players of gaming machines, racing and casino table games. For example, around one in five weekly gaming machine players have significant problems. The prevalence of problem gambling is much lower among lotteries.* (PC Report, Ch.6)

Problem gambling is associated more with the TAB, casinos and poker machines. These are gambling forms where it is comparatively easy to lose a sense of reality. In particular, players tend to be cut off from outside stimuli, and can make many successive bets without a cooling off period. Traditional lotteries, by contrast have a wait between ticket purchase and the lottery draw.

Lotteries have sought to combat the competition from continuous gambling forms by introducing products (such as instant scratch its) that have more of the characteristics of their competitors. However, with traditional distribution there is a natural limit to their ability to mimic the competition.

Internet lottery products have the potential to break down the distinction between lotteries and other gambling forms – thereby exacerbating the problems associated with excessive gambling.

From the perspective of the lottery provider, the internet offers an opportunity to compete more successfully against the competitors who are eroding market share. But it can only do this effectively by introducing products with less socially desirable characteristics.

Claims (as made in association with the recent Commonwealth legislation to restrict internet gambling) that the internet will facilitate the sale of existing lottery products to aged and disabled consumers, and those living in remote areas seem a little ingenuous. The supposed target groups are unlikely to be heavy users of the internet. For example Table 2 below shows that Australia-wide, non-metropolitan residents have lower rates of usage of internet services than metropolitan residents. Subscriber accessibility is somewhat lower in Queensland than in NSW and Victoria.

Table 2. Australia-wide use of internet by region

	Metropolitan	Non Metropolitan	Total
Computer use	68%	63%	66%
Internet use .	52%	44%	50%
Internet shopping	52%	44%	50%

Source: ABS, Use of Internet by Householders, November 2000, Cat 8147.0.

[6] Productivity Commission, *Inquiry into Australia's gambling industries, Final report* Canberra, 1996

5.3. Potential impact of internet gambling on Golden Casket agents and their suppliers

5.3.1. Impact on Golden Casket agencies' overall business

The survey of Golden Casket Agents contained questions about perceptions of the potential impact of the introduction of internet gambling on agents' business, and (more specifically) about the potential quantitative impact of a 20 percent reduction in Golden Casket product sales. Both questions are hypothetical, with the answers reflecting beliefs and opinions. The results nevertheless provide interesting insights into the possible effects of increased competition on agents' businesses

The survey respondents believed that the introduction of internet gambling would have serious implications for their businesses:

- Nearly four-fifths (77 percent) of agents considered that the introduction of internet gambling would seriously impact on the Golden Casket agency business, 8 percent of respondents did not think it would have any impact and 15 percent were not sure. The expectations were broadly similar across all category types.
- A 20 percent reduction in Golden Casket business was expected by respondents to result on average in a 20 percent reduction in overall business sales, 20 percent reduction in wages paid and a 17 percent reduction in gross profits. The responses from Categories A, B and C were similar at about the average but - reflecting their lower reliance on Golden Casket business - Category D/E respondents considered that the impacts on business sales, wages and gross profits would be in the 10–13 percent range.
- A 20 percent reduction in Golden Casket business was expected to have a very serious impact on the overall business by 55 percent of respondents and a quite serious impact by 29 percent. Only 13 percent considered that the impact would be small or not at all.
- Nearly three in ten (29 percent) of respondents considered that a 20 percent reduction in Golden Casket business would or could cause Golden Casket organisation to definitely or possibly terminate the agent agreement, while 61 percent did not consider that this would happen.

5.3.2. Economy wide impacts

Given the sorts of impacts that previous structural changes in gaming have had on Golden Casket business (see Table 1 above), a 20 percent reduction may overstate somewhat the immediate effects of introduction of internet gambling on traditional Golden Casket sales through agents. Nevertheless there would appear the potential for cumulative losses of business to reach this level over time.

Accepting the survey results, a 20 percent reduction in Golden Casket and other business might mean the loss of 1,400 full and part time jobs[7] in agencies. Some of these jobs would be recreated in other businesses that attracted the lost <u>non-agency</u> business. But the 42 percent of employees time that is devoted to sales of Golden Casket products would in all likelihood be reflected in actual net reductions in Queensland employment. This might amount to about 400 full and part time jobs in agencies.

[7] Around 900 jobs on a full time equivalent basis.

Similarly there would be net reductions in sales, value added and employment in Queensland businesses supplying goods and services that were formerly used in the agencies - at least for the portion used in the Golden Casket side of the business. This might imply the loss of a further 100 full time equivalent Queensland jobs.

About 20-25 percent of these reductions might be in towns and localities with 25,000 or less population.

5.4. Discussion

Golden Casket agents are concerned at the potential impact that introduction of internet gambling may have on their businesses.

Judging by past experiences of the introduction of new competing gambling products, they are justified in being concerned. Successful penetration by internet gambling could result in significant loss of sales, profits and employment. To the extent that provision of internet gambling is less employment-intensive than Golden Casket Agency activities, there could be a significant loss of employment opportunities, including in regional areas.

Golden Casket agents are a long-standing and substantial part of the Queensland small business community, with representation throughout Queensland in metropolitan and regional centres, and smaller localities. They provide valuable employment and services to the communities in which they are located. Their businesses as a whole depend on the continuing success of the Golden Casket agency portion of the business.

The introduction of internet gambling is expected to come with social, fiscal and economic costs. In social terms, internet gambling may result in an increase in problem gambling, relative to that caused by expenditure on Golden Casket products. Lotteries are not generally considered to be a source of serious problem gambling.

From the government's point of view, the encroachment of internet gambling into sales of Golden Casket products means a shift from goods with a higher per dollar rate of taxation to those with lower rates of tax.

Access Economics

Giles Consulting International

Appendix 1: Survey

Purpose

The survey-based approach was designed to gather new information that was not available from other studies that by and large concentrate on either Australia-wide or state-wide data. The dispersed nature of the Queensland population and the associated dispersal of Golden Casket agencies reinforced the need for a survey of Golden Casket members.

Methodology

The survey coverage and questionnaire design were governed by the need to provide data that could generate valid and reliable population data as well as providing a snap shot of industry operations and performance.

The sample consisted of all GCAA members with response criteria set to ensure that statistically useful results were obtained within defined confidence limits. The criteria were based primarily on the grouping of members by the category of agency classification and the key geographic areas. Targets were set to achieve threshold responses in each cell grouping so as to meet the sample size requirements.

Within the framework set by the consultants, the GCAA sent out, received and processed the responses. Follow up was undertaken until the cell target responses were achieved. The consultants audited the GCAA data entry.

The questionnaire was developed to obtain the information needed. A series of draft questionnaires were prepared, field tested on GCAA members and progressively refined. The final questionnaire is at Appendix 2.

Response rate

- 207 responses were received representing 25 percent of GCAA members and an estimated 19 percent of all agency members. As intended, there was a higher response rate by larger agencies with 39 percent of Category A members responding and 29 percent of combined Category A and B members. For “scratchy” type agencies (Categories D and E), the response rate was lower at 16 percent.

- The response rate based on geographic region was relatively even across all areas of Queensland ranging from 36 percent for the Gold Coast to 19 percent for small towns.

The sampling frame, the higher concentrations of larger agencies and the wide and even distribution across geographic regions in Queensland means that the survey results can generalised to all GCAA members and to the industry as a whole with reasonably high levels of confidence.

Appendix 2: Survey questionnaire

CONFIDENTIAL

Golden Casket Agents Association

Economic Contribution of Golden Casket Agents and Potential Impact of Internet Gambling

This questionnaire will be used to assist the Golden Casket Agents Association in the preparation of a report on the economic and social contribution of Golden Casket Agents and the potential impact of the introduction of internet gambling.

This questionnaire seeks information from members of the Golden Casket Agents Association. The information requested will be treated as confidential and will only be used to prepare tables showing aggregate values and proportions in such a way that details of individual agencies' operations are not revealed.

No details that would identify individual agencies' business will be revealed in the report of this project. Individual responses will be destroyed following the completion of the report. We have asked for a contact name and phone number should it be necessary to clarify or otherwise follow up the responses that you provided.

Please fax your response to Tony Libke on 07 3221 7267 or return in the enclosed envelope to the Golden Caskets Agents Association GPO Box 1705, Brisbane, Qld 4001.

Any inquiries about the survey or the questionnaire may be directed to Tony Libke on 07 3211 1017 or on 1800 621 413 for Agents calling from country areas.

Please write clearly with a black pen and return all pages.

If you operate Golden Casket Agencies at more than one location, please photocopy this form and fill in a separate form in respect of each separate location at which your Agencies operate.

Please provide contact details in case the Golden Casket Agents Association needs to discuss the questionnaire responses. Please provide:

(a) Contact name ……………………………………………….

(b) Phone number ❑❑❑❑❑❑❑❑❑❑

Office use only

Return ❑❑❑

Reference ❑❑❑❑❑

(A) Nature of the Business

(1) Geographical location

Where is the business located?

(a) Postcode ❑❑❑❑

(b) Local Government Area ……………………………………

(2) Nature of Golden Casket Agency operated at the location. *(Tick appropriate box)*

Full on-line agency:

Category A ❑ Category B ❑ Category C ❑

Instant Scratch-it ticket agency only

Category D ❑ Category E ❑

Other (please specify) ………………………………………………………………..

…………………………………………………………………………………………

Note: the Golden Casket sales categories referred to above are as follows.

A	*$20,001 Plus*	*On-line*
B	*$10,000-$20,000*	*On-line*
C	*Less than $10,000*	*On-line*
D	*Instant Scratch-Its only*	*Dial-up*
E	*Instant Scratch-Its only*	*Off line*

(3) Nature of agreement with Golden Casket *(Tick appropriate response)*

Lifetime agreement ❑ 5-year agreement ❑

Other *(please specify)* ……………………………………………………….

(4) Nature of the overall business operating at the location *(Tick appropriate response(s))*

Only Golden Casket agency business ❑ Newsagency ❑

Tobacconist ❑ Gift shop ❑ Petrol station ❑

"727" or other convenience store ❑ Mixed business ❑

Other (please specify) ………………………………………………………………..

(5) In addition to the main line of business and the Golden Casket Agency, does the business offer other goods and/or services to the local community? *(For example, a newsagency might also offer a dry cleaning service, postal or bank agency services, or bill paying services). Please list any other goods and/or services supplied to the local community.*

…………………………………………………………………………………………..

…………………………………………………………………………………………..

…………………………………………………………………………………………..

(6) How many years has a Golden Casket Agency been operating at this location? *(Provide best estimate of number of years)*

❑❑ Years

Note: give the number of years since the agency business was founded. Changes since then in agency ownership or the type of agency operated are acceptable.

(7) How many years has the overall business been operating in its current form at this location? *(Provide best estimate of number of years)*

❑❑ Years

Note: give the number of years in which the business has been operating in broadly its present form, (e.g. as a "combined news agency and Golden Casket agency operation"). Ignore changes in ownership and minor changes in the nature of the business (e.g. that the business took on a dry cleaning agency operation in conjunction with the news agency three years ago)

(8) Does the operation of the Golden Casket Agency have a positive effect on turnover of the rest of the business? *(Tick appropriate response)*

Yes ❑ No ❑ Don't know ❑

(9) Is this business the only Golden Casket Agency operating in this Postcode area? *(Tick appropriate response)*

Definitely yes ❑ Definitely no ❑

Probably yes ❑ Probably no ❑

Don't know ❑

(B) Business size and employment

In answering the following questions you may wish to refer to the business' latest annual accounting statement and/or tax return

(10) Please indicate the approximate average weekly sales of the overall business operating at this location

Average weekly sales (excluding GST) = $ ❑❑❑❑❑❑

(11) Please indicate the approximate average weekly gross profit earned by the business (all products) operating at this location. *(Gross profit equals average weekly sales minus the cost of goods and services for resale. Exclude GST)*

Average weekly gross profit (excluding GST) = $ ❑❑❑❑❑

(12) Please indicate the approximate average weekly wages paid by the overall business operating at this location , including wages paid to owners *(Average weekly wages paid, before deduction of PAYE, employee superannuation contributions etc. Do not include payroll tax, workers compensation, accrued leave and other on-costs)*

Average weekly wages = $ ❑❑❑❑❑

(13) Please indicate the approximate average weekly turnover and commission income of the Golden Casket Agency component of the business operating at this location.

Average weekly Golden Casket turnover (excluding GST) = $ ❑❑❑❑❑

Average weekly Golden Casket commission income = $ ❑❑❑❑❑

(14) In an average week, how many people are currently employed in the overall business operating at this location, including owners? *Indicate number of:*

Business owners employed but not drawing salary or wages ❑❑

Full-time employees (including owners drawing salary or wages) ❑❑

Part-time and casual employees (including owners drawing salary or wages) ❑❑

Average weekly hours of each full time employees ❑❑

Average weekly hours of part-time and casual employees ❑❑

(Estimate as total weekly paid hours of part-time and casual employees divided by total number of part-time and casual employees receiving wages or salary)

(15) In an average week, what proportion of total employees' (including owners) time would be spent in servicing the Golden Casket Agency portion of the business at this location? *Please provide best estimate of approximate percentage of total employee time*

Approximate proportion of total employee time = ❑❑ %

(C) Trends in the Golden Casket Agency business

The following questions seek your opinion about factors behind trends in your Golden Casket Agency business.

(16) Over the past three years what has been the average annual growth in your Golden Casket Agency turnover? *(Please tick appropriate response)*

Grown by more than 10% per annum ❑ Fallen by under 5% per annum ❑

Grown by 5 to 10% per annum ❑ Fallen by 5 to 10% per annum ❑

Grown by under 5% per annum ❑ Fallen by more than 10% per annum ❑

(17) What do you consider have been the major factors behind the growth or decline in Golden Casket Agency turnover? *(Please tick appropriate response(s)*

(A) Local population growth/decline:

Very important ❑ Some influence ❑ Unimportant ❑

B) Local population getting older/younger:

Very important ❑ Some influence ❑ Unimportant ❑

(C) Local consumers becoming more/less affluent:

Very important ❑ Some influence ❑ Unimportant ❑

(D) Changing consumer attitudes/tastes:

Very important ❑ Some influence ❑ Unimportant ❑

(E) Competition from other gambling products/outlets:

Very important ❑ Some influence ❑ Unimportant ❑

(F) Other important influences *(please specify)*:

……………………………………………………………………………………

(18) Do you think that the introduction of internet gambling has the potential to impact seriously on your Golden Casket products business? *(Please tick appropriate response)*

Yes ❑ No ❑ Don't know/uncertain ❑

(D) Impact of reduction in Golden Casket Agency turnover

The following question asks what you believe would be the impact of a reduction in the turnover of your Golden Casket Agency business

(19) What do you anticipate would be the impact of a 20% reduction in the annual sales of your Golden Casket products operation at this location? *(Include the impact of any estimated flow-ons to other parts of the business)*

Possible percentage change in overall business sales = ❑❑ %

Possible percentage change in average weekly wages paid = ❑❑ %

Possible percentage change in average weekly gross profit = ❑❑ %

(20) How would a 20% reduction in Golden Casket product sales affect the overall viability of the business? *(Please tick appropriate response)*

Very Seriously ❑ Quite A Lot ❑

Just A Little ❑ Not At All ❑

Don't Know ❑

(21) Do you believe a 20% reduction in Golden Casket product sales might cause Golden Casket to terminate your agency agreement? *(Please tick appropriate response)*

Yes ❑ No ❑ Possibly ❑ Don't Know ❑

Thank you for your assistance.

Please return the completed questionnaire to Tony Libke by fax on 07 3221 7267 or return in the enclosed envelope to Golden Caskets Agents Association GPO Box 1705, Brisbane, Qld 4001.

If you have any questions or require additional information about the survey please contact Tony Libke on 07 3211 1017 or on 1800 621 413 for country Agents.