

World Greyhound Racing Federation
2000 Conference - Sydney

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PROFILE OF SPEAKER

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BIOGRAPHY

After earlier periods in Government auditing and legal spheres, Peter Baldwin joined the NSW Department of Gaming and Racing in 1995 and has been involved in wagering and racing regulation since then. Over the past few years, Mr Baldwin has prepared and given numerous presentations - both in Australia and overseas - on the impact of the Internet on wagering and racing. Additionally, he chaired a national officers' working party established by Australian Racing Ministers in 1996 to examine and report on interactive wagering. Mr Baldwin holds degrees in economics and Law..

SYNOPSIS

Mainstream access to the Internet heralded enormously optimistic predictions for growth in gambling. Australia, already renowned on the global stage as a first level gambling regulatory regime, has readily embraced Internet technology.

Not surprisingly then, Australia has been the focus of much attention in the attempt to merge wagering on racing and the seemingly boundless potential of the 'Net'. But, to date, the sailing has not all been smooth. The Internet has been the catalyst for the Federal Government's first incursion into gambling regulation in 99 years.

Nevertheless, the Internet has the potential to produce great opportunities for greyhound racing. And these may involve more than straight gambling applications.

GREYHOUND RACING.COM

INTRODUCTION

Looking back, it was about 1995 that it became clear to most mainstream racing people here in Australia that the Internet had the potential for significant impact over their industry. Indeed I can clearly recall the forecasts back then of some gambling industry commentators that, in the United States alone, the on-line sports betting market would be worth \$50 billion per annum by 2005.

Well five years have now passed and, to be frank, those early forecasts of the likely growth in Internet wagering appear to have been wildly over optimistic. However, one thing is certain, we are all much wiser and worldly about on-line gambling and the Internet generally than was the case in the mid-1990's. I'd like to focus on 6 main aspects of greyhound racing and the Internet:

1. disseminating the greyhound racing picture over the Internet
2. using the Internet to deliver information to prospective customers
3. wagering over the Internet - actually placing a bet on-line
4. leakage of wagering turnover (and, hence, revenues)
5. the Internet as an administrative tool for the greyhound racing industry
6. possible future government directions around the World regarding Internet wagering.

LIVE GREYHOUND RACING OVER THE INTERNET

I'm confident many in this room, can recall the days of attending greyhound race meetings in the 1970's and battling the crush of throngs of excited and enthusiastic punters. But a quarter of a century on the situation is of course for different. There is a tendency to attribute much of that decline to the release of the racing picture off -course. In Australia this occurred in 1988 to off -track betting outlets and 1998 to homes through pay TV.

And while off -course parimutuel turnover levels - or handles as they are known in the United States - continued to climb during the 1980's and 1990's, a level of comfort was derived from the belief that the crowds - and the interest in racing -had merely relocated from the racetrack to off -course. But in Australia for example, with the mid-1990's came a rude shock. The growth curve in off -course parimutuel turnover flattened out and the racing industry struggled for answers.

And in that search for renewed turnover growth, I'd suggest a philosophical tussle tended to arise regarding the off -course release of the racing picture.

On the one hand, there are the advocates of distributing the picture as widely and freely as possible, in order to maximise the exposure of racing to the potential audience of fans and punters. On the other hand, however, there is a view that perhaps the racing picture should be jealously guarded and only disseminated under highly controlled circumstances involving direct and identifiable financial benefits to the racing industry. That fight has now spilled over to the Internet.

Looking at the United States, it is clear that the equine racing industry there was convinced very early that the former view held sway. As such, the World Wide Web has come to be recognised as a vehicle for disseminating the live racing picture as widely as possible. Within the current limits of Internet video streaming technology, sites such as www.youbet.com are in contractual relationships with several United States thoroughbred and harness tracks to show their racing pictures and conduct parimutuel wagering on those races. It is interesting to note in the context of this Web site, however, the imposing legal restrictions on the states from which the organisation can accept bets on certain race meetings.

Here in Australia, legal constraints of a different kind would doubtless prevent many of the high profile race clubs from disseminating their racing picture over the Internet. This comes about because of restrictions imposed under confidential commercial arrangements between many greyhound race clubs and Sky Cannel - the provider of racing pictures into off-track betting outlets and Australian homes.

However, the publication of high quality photo finishes over the Internet almost immediately a race is run have proved very popular. An example is the TAR Limited Web site at www.nswtab.com.au.

USING THE INTERNET TO DELIVER VALUABLE INFORMATION TO CUSTOMERS

What of course distinguishes wagering from gaming is the ability of a punter through skill and hard work - to improve one's chances of winning. Again we encounter the issue of whether it is in the best interests of the greyhound racing industry to offer fans and prospective customers valuable "handicapping" information - such as form and pictures of past races for free or should the industry endeavour to extract a revenue stream from this.

Again, let's examine the approach of the horse racing industry in the United States. The Web site, www.compuraceinc.com offers an extensive library of video and audio race replays from numerous US thoroughbred and harness tracks. Single races can actually be accessed for free. However, it tends to be a little cumbersome and frustrating. On the other hand, for a modest fee (around US\$70 per annum) one can access zip files of races more efficiently. While the replay quality is moderate, it is no doubt provides a valuable handicapping tool for keen punters.

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In Australia, no such on-line facility is available with respect to our racing across any of the three racing codes - notwithstanding the widespread telecasting of racing events.

However, there are instances here in Australia where the *form" (alternatively referred to as past performances) is readily available over the Internet. In many ways, the harness racing industry here in Australia has led the other two racing codes in using the Internet to encourage wagering on its races and raising interest. At the site www.hcirness.org.au anybody anywhere in the World can instantly peruse (or print out) for free advance fields or full form for every harness race meeting to be conducted across Australia. Peripheral information of interest to punters such as stewards'is also available.

While the greyhound racing industry here in New South Wales is not yet in a position to offer a similar free service, Australian greyhound punters can obtain detailed form via the Internet for around \$25 per month through the site www.greyhoundform.com.au.

With the virtual absence of detailed greyhound form in mass-circulation daily newspapers, against a background of the massive growth in Internet access in countries such as Australia, Internet form distribution is foreseeably an opportunity of great future potential for greyhound racing.

WAGERING OVER THE INTERNET - PLACING A BET ON-LINE

As many of you may well be aware, the whole area of on-line, or *interactive" gambling has been the source of enormous controversy in Australia over the past few years. In fact, after almost a century of our Federal Government refraining from any serious intervention in gambling regulation, it has now signalled a predisposition to a complete ban on all forms of *interactive gambling".

The bulk of this interest stems from concerns relating to responsible, or . problem" gambling. Against this background, the burgeoning on-line racing and sports wagering industries may have been unfortunate, in that the tendency to date has been to lump the wagering gambling sector with Internet casinos notwithstanding the obvious conceptual differences.

Nonetheless, to this point at least, Internet wagering has been something of a growth industry in Australia. In the totalisator (parimutuel) race betting area, several major Australian TAB's have highly developed on-line betting facilities. Two examples are www.nswtab.com.au and www.ozbet.com.au. They offer efficient on-line parimutuel betting on every major greyhound race meeting throughout Australia. In contrast to the situation in the United States, there are no Australian laws preventing anybody anywhere in the World betting through sites such as these. The global appeal of these Australian sites is, however, limited in that they do not offer any form of live video streaming of races.

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The traditional Australian racecourse landscape is almost unique on the World stage in that it generally offers the choice of highly competitive betting between bookmakers and the totalisator. Any of you visiting Wentworth Park in the course of this conference will no doubt appreciate the freedom of choice between fixed odds and pool betting.

The past two decades or so has unfortunately witnessed a steady decline in bookmaker racing activity in Australia. In fact, at many greyhound and harness race meetings, once bustling bookmaker rings are, in many cases, now down to a lonely single satchel swinger. For several years, some have heralded the Internet as the vehicle by which bookmakers would fight back. They predicted that, through the growth of the Internet, the betting excitement and intensity of the Australian greyhound racetrack of the 1970's - with bookmakers brazenly challenging all comers to claim them for hefty wagers at fixed odds would return. Only this time around it would be in cyberspace.

But, in hindsight, were such predictions realistic?

The Northern Territory Government here in Australia has now licensed two large corporate bookmakers to bet on racing through the Internet - Darwin All Sports and Centreracing. Both field on all major greyhound meetings across Australia. But any greyhound punter who thought this would mean they could once again get set for significant amounts at predetermined prices (fixed odds") will be disappointed. Despite the use of the term "bookmaker", in both these cases all that is offered to greyhound punters is a payout based on a third party totalisators dividend.

There is also the issue of the relatively lower returns to the racing industry and Government of a dollar turned over with a bookmaker as against a TAR.

As I mentioned earlier, the United States horseracing industry leads the way in terms of offering customers a complete on-line race betting solution. Sites such as www.youbet.com offer not only on-line (totalisator) wagering but also a live video stream of the event via the same Web site.

Now that we've had a look at the situation in Australia and the US, a trip over to Europe is very interesting. To quote the firm's Web site, www.williamhill.co.uk, William Hill is the most respected name in British bookmaking". One might think that - in light of such a boost - that the Web address suffix would be *uk".

Not so. To avoid the "crippling betting taxes for non-UK customers" William Hill International's cyber operations have located on The Isle of Man. Similarly, another famous English bookmaking firm, Victor Chandler, has seen fit to locate its on-line betting operation in Gibraltar.

William, Hill International, for example, fields on greyhound racing from its exotic home base. On Sunday, 22 October 2000 a visit to its Web site pointed to coverage of greyhound race meetings at Walthamstow and Sheffield. William Hill offers genuine "fixed odds" and live audio coverage of events is available through the Web site. I'm not privy to any financial arrangements between

offshore British on-line bookmaking operations such as these and the clubs which conduct the racing. However, I get the distinct impression that the British Government fares very poorly from the relocation offshore in terms of taxation revenues.

It was with a little disappointment that I analysed a sample of the greyhound racing fixed odds available from William Hill International. May I allude to the prices on offer just 3 minutes out from the start of race 1 at Walthamstow on 22 October 2000,

RUNNER	RETURN	%
1	7.00	14.5
2	6.00	16.6
3	7.00	14.5
4	3.00	33.3
5	6.00	16.6
6	2.75	36.4
TOTAL:		131.9

With an aggregate percentage of 131% over a 6 greyhound field, certainly nobody could accuse William Hill International of taking excessive risks with its prices. It seems disappointing that a set of prices such as this are the result of the movement offshore to avoid an "oppressive" tax regime.

It is with confidence that I predict that anybody used to greyhound prices such as these will be pleasantly surprised when attending a Wentworth Park greyhound meeting here in Sydney. If the ring of bookmakers there were to bet percentages of this magnitude so close to race jump, I'd suggest the bookmakers would write very few bets.

To illustrate, below are the bookmaker starting prices from race 5 at Wentworth Park on Saturday, 28 October 2000. Significantly, the field consists of 8 runners, as against 6 in the earlier example.

RUNNER	RETURN	%
1	6.00	16.6
2	15.00	6.6
3	2.60	38.5
4	16.00	6.25
5	4.50	22.2
6	13.00	7.7
7	11.00	9.1
8	8.00	12.5
TOTAL:		119.5

Let me speculate that any attempt by a wagering licensee in any large Australian State or Territory to establish a "subsidiary" offshore operation would invoke the sternest response from the relevant regulators and licensing bodies.

LEAKAGE OF WAGERING TURNOVER (AND, HENCE, REVENUES)

I'd like to commence this section of my presentation with the premise that there are few instances around the globe where horse and greyhound racing could exist long term as we know it without a healthy return from the wagering that is occurring on it.

Since the advent of (legal) off -course wagering in Australia during the mid1960's, three notable trends have emerged.

- o First, race meeting crowds have declined to the point where many race meetings now play to on-course numbers in the hundreds.

- o Second, race clubs have grown increasingly dependent for their financial survival upon distributions from the off -course totalisator operator.

- o Third, the incidence of illegal *SP" betting within Australia has declined.

In financial terms, the combined net effect of these trends did not necessarily represent bad news for our racing industry. However, in around 1995 a highly adverse threat materialised. With the reduction in overseas telephone call rates and the growth of the Internet, 'offshore" wagering operators sprung up almost overnight. The threatening characteristic of such operators is that they invariably offer wagering on a *target" jurisdiction's racing to the punters of that jurisdiction. Several presentations at the 2000 Asian Racing Conference in Singapore referred to such operators somewhat unflatteringly as "pirates".

May I emphasise that nobody is suggesting that such operators are operating illegally in their 'own" jurisdiction. However, they are effectively attempting to sever racing's umbilical chord - to which I referred earlier. That critical lifeline between the producer of the racing product and the wagering which takes place on it. The most common contra argument tends to be that, because sports betting operators generally are not required to remit a turnover levy or cl portion of gross revenues to the relevant sport. I've yet to see the new owner of a million dollar yearling won over by that contra argument.

To say the equine racing industry has concerns regarding the longer term repercussions to the racing industry of leakage along the above lines is an understatement.

Here in New South Wales, the Government has actually enacted legislation¹ in response. Paraphrased, the legislation makes it an offence for cl person in New South Wales to place a bet on an Australian horse, harness or greyhound race with a wagering operator not licensed in an Australian jurisdiction.

While the current version of the legislation has only been in force for a few months, indications to date ore that local punters are far more appreciative of the degree to which our racing industry depends on a share of their wagering dollar.

¹ Unlawful Gambling Act 1998, section 8(3)

THE INTERNET AS AN ADMINISTRATIVE TOOL FOR THE GREYHOUND RACING INDUSTRY

Recognition of the growing range of activities for which the Internet is suitable for adoption has excited all manner of entrepreneurs over the past few years. And I'd suggest that much of that excitement has related to the seemingly mundane issue of cost cutting. The banking industry is the classic example.

Here in Australia, the harness racing industry has come to be recognised as a World leader in the use of the Web to automate racing related tasks by trainers such as the nomination/acceptance of runners and the notification of scratchings, driver changes, etc.

The whole notion of a controlling body or race club staff member taking a nomination for a race from a licensed person by phone or fax is of course grossly outdated by modern communication standards. Similarly, that staff member processing cheques to cover fees from licensed persons now represents an avoidable cost the modern racing industry can ill afford.

Again, a visit to the Web site www.harness.org.au will provide some indication of the potential for overhauling cumbersome and costly administrative procedures.

POSSIBLE FUTURE DIRECTIONS AROUND THE WORLD REGARDING INTERNET WAGERING ON RACING

The racing industry is by no means alone in its perception of the Internet as both an enormous opportunity to access new markets and a threat to its very existence.

For example, at present the music recording industry in the United States is embroiled in watershed litigation against Sean Fanning - the 19-year-old proprietor of the Mpster Web site. To the racing industry, Mr Fanning's arguments in support of his "right" to facilitate the free sharing over the Internet of songs to which he has no copyright claims are painfully familiar. Terms such as "consumer freedom of choice" and the Internet as the "last frontier of communications unbridled by Government interference" are used to justify what is essentially the avoidance of paying royalties to the performers who produced the music and songs.

And I would suggest that the battle faced by the racing industry promises to be even tougher than the music industry. Unlike a song, for example, the information relating to a field of greyhounds or a race result is viewed at common law as mere information. As such it cannot be copyrighted.

In wagering's favour (in terms of responding to these offshore on-line threats) is that every bet must logically be accompanied at some stage by a monetary transaction. I would suggest it may be the case in the not too distant future that Governments around the world begin to seriously explore calling credit card companies and the like to sever this life line of offshore wagering operators. Operators often labelled "pirates" by affected Governments and

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racing industries. The catalyst for such government action may well be pressure from racing industries and problem gambling lobbies.

Action of this nature will hopefully clear the way for legitimate telephone and on-line wagering operators who return a fair share of their revenues to racing industries and governments to prosper.

I would be remiss not to mention a concept that has been promoted heavily in Australia over the past four years. It involves the conduct of straight line racing solely for the Internet market - without reliance on on-course attendances. As such it could no doubt be viewed as a very "pure" version of Internet wagering on racing. Despite much hype we are yet to witness the manifestation of the concept.

In conclusion, there is a widely held view that the Internet racing and wagering battles we are witnessing now are merely a warm-up for the real conflict. That war will commence with the widespread convergence of what we now refer to separately as television and the Internet.

Perhaps we should all be grateful for the experience derived from these preliminary battles.