

Draft

**Extract from the draft minutes of meeting of the
Panel on Home Affairs held on 13 May 2005**

X X X X X X

Action

V. Proposed reforms to betting duty system on horse racing bets
[LC Paper No. CB(2)1520/04-05(02)]

7. The Chairman and Mr Timothy FOK declared that they were the Voting Members of the Hong Kong Jockey Club (HKJC). In addition, Ms Emily LAU declared that she was the spouse of a Full Member of HKJC.

8. At the invitation of the Chairman, Deputy Secretary for Home Affairs (1) (DSHA(1)) briefed members on the salient points of the Administration's paper. He said that a package of reforms were proposed to the betting duty system for the purposes of enhancing the effectiveness of authorised horse race betting in combating illegal gambling and maintaining the betting duty revenue at a steady level. The major proposals, as detailed in paragraph 13(a) to (d) of the Administration's paper, included –

- (a) conversion of betting duty on horse race bets from turnover-based to a tax on net stake receipts (gross margins);
- (b) reforms on the betting duty system on overseas bets;
- (c) guarantee of betting duty revenue; and
- (d) extension of racing season.

9. The Administration also proposed to take the opportunity to rationalise the regulatory regime of horse racing betting in order to bring it broadly in line with the authorised football betting and lotteries under the existing Betting Duty Ordinance (the Ordinance). Details of the relevant proposals were set out in paragraph 14(a) to (d) of the Administration's paper.

10. Mr Andrew CHENG said that the proposed package of reforms agreed between the Administration and HKJC was most regrettable. He considered that the Government's gambling policy should be conservative and should not encourage people to gamble. Referring to paragraph 15 of the Administration's paper, Mr CHENG expressed dissatisfaction that the proposed changes aimed to enhance the competitiveness of authorised horse race betting vis-à-vis the illegal and offshore bookmakers and enable HKJC to capture a larger share of the gambling market. He said that the Government's gambling policy should never be to compete with the illegal and offshore bookmakers for a larger share of the gambling market but, rather, to combat illegal gambling by law

Action

enforcement and not to encourage people to gamble. He further said that since illegal bookmakers could always offer more attractive odds to bettors, short-term credit and other incentives, HKJC would not be able to compete with them. He considered that the genuine purpose of the Administration in introducing the proposed reforms was to increase betting duty revenue. He added that, however, the Administration should also look at the consequential social costs, including family and loan sharking problems, in introducing the proposed reforms.

11. DSHA(1) responded that the illegal gambling market based on Hong Kong's horse races had been aided by low operating cost and improved communications technology. It had an inherent advantage over HKJC by offering various incentives. He said that while the Administration agreed that it would not be able to completely eradicate the problem of illegal bookmaking, it had to tackle the structural problems which had led to a shrinking share of authorised horse race betting in the overall gambling market. He pointed out that the turnover on horse race betting conducted by HKJC had declined significantly in recent years, from \$92.4 billion in 1996-97 to \$65 billion in 2003-04, representing a decline of around 30%. According to HKJC's forecast, if no action was taken to tackle the decline, the betting turnover would decline by a further 30% by 2007-08, and given its overheads, HKJC's present mode of conducting business might not even be feasible any more by then. He added that the current proposals would serve the purposes of combating illegal gambling and diverting a large share of gamblers to the authorised channels of gambling.

12. Mr Andrew CHENG considered that the Administration should resort to strengthening enforcement measures in tackling illegal bookmaking. He asked if the Administration had assessed whether the proposed reforms to the betting duty system on horse race betting would give rise to a substantial increase in public participation in horse racing.

13. DSHA(1) pointed out that even if the Administration continued to curb the competitiveness of authorised horse race betting, the problem of gambling would still not be tackled. However, such a policy would only lead to more rampant illegal bookmaking activities on horse race betting in Hong Kong and a shrinking share of authorised horse race betting in the overall gambling market. He cautioned that the money derived by illegal bookmakers from turnover on horse race betting could be used to fund other illegal activities. The Administration considered that the proposed reforms would not lead to substantial increase in the number of gamblers but would achieve social benefits which included enhancing the effectiveness of authorised horse race betting in combating illegal gambling while maintaining the betting duty revenue at a steady level, tackling the structural problems leading to the decline of betting turnover, and rationalising the regulatory regime for the conduct of betting on horse races.

Action

14. The Deputy Chairman agreed with Mr Andrew CHENG that the Government's gambling policy should not be one to encourage people to gamble. Regarding the package of proposed reforms to the betting duty system, she requested the Administration to provide the following information –

- (a) the amount of duty in respect of horse racing bets received by the Government in the past five years;
- (b) the payout rates that HKJC was going to set for horse racing bets under the new system and the basis on which the rates were determined;
- (c) whether the Administration had conducted any research studies to demonstrate that the proposed reforms would be able to effectively combat illegal gambling;
- (d) the cost-effectiveness of extending the annual racing season by five days, given the persistent decline in betting turnover;
- (e) the Government's revenue from betting duty on horse race betting, football betting and lotteries in recent years; and
- (f) whether HKJC had conducted studies on the genuine reasons for bettors to have gambled less on horse racing in recent years.

15. DSHA(1) said that the Government's revenue from betting duty on horse race betting during each of the five years between 1999-2000 and 2003-04 were \$11.2 billion, \$10.95 billion, \$10.5 billion, \$9.52 billion and \$8.78 billion respectively. It was estimated that the revenue would be \$8.22 in 2004-05 and further drop to \$7.24 billion and \$6.45 billion by 2005-06 and 2006-07 respectively.

16. DSHA(1) said that depending on the changing market conditions and the odds offered to bettors by the illegal bookmakers, HKJC would adjust the payout rates for horse racing bets with a view to combating illegal bookmakers to capture the betting market. Due to shortage of time, the Administration would provide written response to the other questions yet to be answered.

Admin

17. Dr Fernando CHEUNG said that under the proposed system, if the payout rate was as high as 90% of the dividends, the turnover on horse race betting would have to increase by 60% or else the Government could not even maintain the present level of revenue from betting duty on horse race betting. He said that as he could hardly expect that the turnover would increase by 60%, he considered that the current proposal was tantamount to reducing the rate of betting duty on turnover.

Action

18. DSHA(1) responded that the current package of reforms had contained a proposal that HKJC would guarantee that the duty receivable during each of the four years from implementation would be no less than \$8 billion plus the amount of duty in respect of any overseas bets. He said that the turnover on horse race betting conducted by HKJC was \$65 billion in 2003-04. Using this amount as the basis of calculation, in order that HKJC could pay the Government the guaranteed minimum of \$8 billion, it would be necessary for the turnover on horse race betting to increase by \$24 billion which were expected to come from the business of the illegal bookmakers under the new betting duty system. In addition, if the take-out rates for different bet types were around 13%, HKJC should be able to pay the Government the guaranteed minimum and get commission for itself.

19. Ms Emily LAU expressed concern that the guaranteed minimum of \$8 billion would be even less than the Government's revenue from betting duty on horse race betting in 2003-04, i.e. \$8.78 billion. DSHA(1) explained that according to HKJC's forecast, if no action was taken to tackle the decline in the betting turnover, it would decline by a further 30% by 2007-08 and the Government's revenue from betting duty on horse race betting would also correspondingly drop. At the request of Ms LAU, DSHA(1) agreed to provide the following information –

Admin

- (a) the existing turnover on horse race betting conducted by HKJC and the Government's revenue from betting duty on horse race betting under the current turnover-based duty system; and
- (b) the expected turnover on horse race betting conducted by HKJC under the new system based on the net stake receipts, and the Government's revenue from betting duty on horse race betting under the new system.

20. Mr James TO opposed the proposed reforms and expressed grave concern about the possibility that the proposed reforms would give rise to a large increase in public participation in horse racing or lure bettors to gamble more for the more attractive odds that would be offered. He pointed out that with the implementation of authorised football betting, the Government's overall revenue from betting duty actually had not significantly dropped in recent years. He added that the decline in turnover on horse race betting was inevitable given the economic downturn over the past few years.

21. DSHA(1) explained that the proposed reforms to the betting duty system aimed at diverting bettors into the authorised channels of horse race betting. The Administration considered that the proposed reforms would only give rise to a slight increase in public participation in horse racing, and the people

Action

targeted were those who were all along gamblers but had been placing bets with illegal bookmakers.

22. Mr WONG Ting-kwong considered that the Administration should combat illegal bookmaking by strengthening enforcement measures and increasing penalties against the relevant offences in order to enhance the deterrent effect and increase the operating costs of illegal bookmaking activities. He further suggested that HKJC should explore the feasibility of providing incentives, such as discounts on losing bets and short-term credit, as well as new horse racing products/games in order to boost betting turnover and the Government's revenue from betting duty. Mr Andrew CHENG agreed with Mr WONG that the Administration should consider introducing heavier penalties to combat illegal bookmaking activities.

23. DSHA(1) responded that the Police had been taking enforcement actions against illegal bookmaking activities and recent enforcement experience indicated that an increasing number of illegal bookmakers had adopted new modes of operation. He pointed out that the problem of illegal bookmaking could not be tackled merely by relying on law enforcement, and the main attractiveness of the illegal gambling market was their offer of more attractive odds to bettors.

24. Miss CHOY So-yuk said that as a result of the enforcement actions taken against local illegal bookmakers a few years ago, many of them had moved to the Pearl River Delta and at present, they only got a small market share of the turnover on horse race betting conducted by HKJC. She considered that the reason given by the Government did not stand, i.e. the proposed reforms to the betting duty system were introduced for combating illegal bookmakers to capture the betting market. She considered that the Government was actually reducing the rate of betting duty on turnover through the proposed reforms and that was debatable. She also considered that the guaranteed minimum of \$8 billion was too little.

25. Miss CHOY So-yuk further said that as recently reported by the mass media, many bettors had expressed the opinion that the decline in the turnover on horse race betting conducted by HKJC was mainly due to the lack of attractiveness of HKJC's horse racing products and the presence of large offshore bookmakers. She suggested that HKJC should explore how to enhance the attractiveness of its horse racing products.

26. DSHA(1) responded that illegal bookmakers who had moved out from Hong Kong could still accept bets, through electronic means, from local horse racing bettors who betted on Hong Kong races. He said that the current proposals aimed at tackling this problem. As regards horse racing products, DSHA(1) said that at present the "standard bets" were defined in the existing

Action

Ordinance and HKJC would be allowed flexibility in introducing any new changes after the Ordinance had been amended.

27. Mr Andrew CHENG considered that the proposed reforms were irrational and inconsistent with the Government's gambling policy. He stressed that he was not opposing the current proposals from a moral point of view but was concerned that the proposals would attract many people who did not gamble to become gamblers. He anticipated that in order to pay the Government the guaranteed minimum of \$8 billion, HKJC would explore new horse racing products/games to boost the turnover. He suggested that the Administration should commission a tertiary institution to conduct an independent study on whether or not the proposed reforms would give rise to a substantial increase in public participation in horse racing. He also queried whether the Football Betting and Lotteries Commission would be able to effectively regulate the conduct of betting on horse racing, under the current proposal to rationalise the regulatory regime of horse racing betting. DSHA(1) agreed to provide a written response to the views and suggestion raised by Mr CHENG.

Admin

28. Mr Albert CHAN expressed regret that the Secretary for Home Affairs (SHA) had not attended this meeting to present the proposed reforms which were controversial. Referring to the proposal of extending the annual racing season by five days, Mr CHAN suggested that the additional five racing days should not fall on Sundays in order to minimise any adverse impact on family days. DSHA(1) responded that the Administration would convey this suggestion to HKJC and follow it up.

Admin

29. The Chairman said that the Liberal Party was supportive of the proposed reforms. He requested the Administration to provide the following supplementary information –

Admin

- (a) information and data on the duty rates applied to horse race betting in overseas jurisdictions, e.g. Japan, Australia, the United Kingdom (UK) and the United States; and
- (b) timetable for introducing the Bill into LegCo.

30. DSHA(1) said that the betting duty systems in UK and Singapore had been changed and the Administration would provide, in writing, the duty rates applied to the net stake receipts under their respective betting duty systems. He added that as far as he understood, the proposed duty rate of 75% for the net stake receipts exceeding \$15 billion would be the highest in the world.

31. DSHA(1) further said that the Administration intended to introduce a Bill to amend the Ordinance to give effect to the proposals later in the current year and drafting of the Bill was underway. He informed members that the

Action

Administration would strive to introduce the Bill into LegCo before the summer recess and, if not, it would be introduced afterwards. He agreed to provide the above requisite information after the meeting.

32. Ms Emily LAU asked whether the Administration had conducted any public consultation on the proposed package of reforms. DSHA(1) responded that after consultation with this Panel, the Administration would meet with concern organisations to collect their views. He added that if a Bills Committee was formed to scrutinise the Bill to be introduced into LegCo later, collection of public views could be further conducted at that stage. Ms LAU said that the Administration's usual practice had been conducting public consultation on a proposal first before submitting the proposal to this Panel for discussion. She considered that the Administration should stick to this practice.

Admin

33. As suggested by Mr James TO, the Panel agreed to hold a special meeting on Thursday, 16 June 2005 at 8:30 am to further discuss the proposed reforms to the betting duty system on horse racing bets. The Panel also agreed that deputations be invited to the meeting to present views on the subject. At the request of the Chairman, DSHA(1) agreed to provide the information requested by members at this meeting as soon as possible.

Admin

X X X X X X