

Paper for the Bills Committee

Betting Duty (Amendment) Bill 2003

Administration's response to the views from the public

A consolidated account of views from members of the public on the proposal to authorize and regulate football betting, and the Administration's response is set out in the following table:

	Views [the relevant items in the summary table prepared by LegCo Secretariat]	Administration's Response
A.	Authorization and regulation of football betting—objective and effectiveness, and timing	
1	<p>The existing authorized gambling outlets are adequate and the Government should not increase or promote other outlets as this may encourage gambling.</p> <p>[1(a)]</p>	<ul style="list-style-type: none"> • The Government's long-standing gambling policy is to restrict gambling opportunities to a limited number of authorized and regulated outlets only. The underlying rationale is not to encourage gambling. The proposal to authorize and regulate football betting is in line with this policy. • The Government considers it appropriate and necessary to provide an authorized outlet for football betting now, on the following grounds: <ul style="list-style-type: none"> a) There has been a sufficiently large and persistent demand for football betting (both in terms of estimated number of participants and betting money), despite tightened anti-gambling legislation and enhanced enforcement efforts;

		<p>b) The demand is being satisfied by illegal means (which in turn are linked to other criminal activities), and the problem cannot practically and fully be tackled by law enforcement alone even with the devotion of substantial resources; and</p> <p>c) The proposition commands majority public support (around 70% in support).</p> <ul style="list-style-type: none"> • The primary objective of authorizing and regulating football betting is to combat the growing problem of illegal football gambling by diverting the existing demand for football betting into a regulated channel. To this end, authorization serves to <u>supplement</u> the following two existing measures against illegal gambling: <ul style="list-style-type: none"> a) effective anti-gambling legislation (under the existing Gambling Ordinance, all gambling activities by way of trade and business are unlawful, except expressly exempted or authorized by the Government); and b) vigorous law enforcement efforts. • We would put in place appropriate measures to minimize any negative social impact of the proposal. These include: <ul style="list-style-type: none"> a) setting up an independent Gaming Commission to ensure effective regulation; b) a stringent operational and regulatory framework (no underage betting, no credit betting, restriction on advertising and mandatory preventive measures against
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		<p>gambling-related problems etc.); and</p> <p>c) setting up a dedicated fund for addressing gambling-related problems.</p>
2	<p>The Government should not authorize football betting <u>before</u> thoroughly analyzing the adverse social impact of gambling.</p> <p>[1(a), 2(c), 6(d)]</p>	<ul style="list-style-type: none"> • Given the increasing prevalence of illegal football gambling activities and their association with triad and other criminal activities, we consider that there is an imminent need to authorize and regulate football betting as a means of combatting the illegal football gambling problem. This serves to supplement the effects of anti-gambling legislation and the vigorous enforcement efforts by the Police. We would closely monitor the effectiveness of this measure in achieving its intended objective and its impact on the community after it has been implemented. • In mid-2001, we commissioned the Hong Kong Polytechnic University to conduct the first study on Hong Kong people's participation in gambling activities. Its findings, which were released in September 2001, include an assessment of the prevalence of problem and pathological gambling, as well as other aspects of the social impact of gambling in Hong Kong. • On the basis of findings of the above study, we plan to conduct continual research and studies on gambling-related issues, making use of the dedicated fund set up to address gambling-related problems. Such studies would include the following: <ul style="list-style-type: none"> a) tracking surveys on the impact of gambling participation, and prevalence of problem and pathological gambling in

		<p>Hong Kong; and</p> <p>b) the effectiveness of different types of screening methodology as well as counselling and treatment services for problem / pathological gamblers and their family members.</p> <ul style="list-style-type: none"> • Appropriate measures to address gambling-related problems would also be put in place taking into account the findings of the studies. We would also take into account the views of all concerned parties in this regard.
3	<p>The Government should not authorize football betting <u>before</u> introducing preventive and remedial measures to address gambling-related problems, tightening the relevant legislation and taking vigorous enforcement action against illegal gambling.</p> <p>[2(a), 4(b), 6(d)]</p>	<ul style="list-style-type: none"> • We plan to implement the preventive and remedial measures for addressing gambling-related problems on a <u>long-term</u> basis through the dedicated fund set up for this purpose. The various measures would start to be implemented as from mid-2003. This would be done regardless of whether and when our legislative proposal on authorizing football betting is passed or not. • As mentioned in our response to Item 1 above, given the increasing prevalence of the illegal football gambling problem and its associated problems to the community, we see an imminent need to combat it through authorization and regulation of football betting. This seeks to supplement the anti-gambling legislation and the Police's enforcement efforts. <p>On the other hand, it would take time for preventive and remedial measures on gambling-related problems to produce any material impact on the community.</p>

		<p>We therefore consider the concurrent implementation of law enforcement, authorization and regulation, as well as preventive and remedial measures for gambling-related problems a pragmatic and effective approach in tackling the problems caused by illegal football gambling.</p>
4	<p>Authorization of football betting may not be an effective means to combat illegal football gambling</p> <p>[2(b)]</p>	<ul style="list-style-type: none"> We agree that unauthorized soccer gambling activities, owing to their inherent competitive edge over their legal counterparts (e.g. no betting duty and the availability of credit betting), could not be completely eliminated by the provision of an authorized outlet. <p>However, we believe that authorization and regulation could divert the bets placed with illegal operators to the authorized channel. This would considerably reduce the magnitude of illegal gambling problem and income for illegal operations. The Police could then focus their enforcement efforts on clamping down on illegal gambling syndicates. As a result, the problem caused by illegal soccer gambling could be considerably alleviated and the associated social costs reduced.</p>
5	<p>The Government should combat illegal gambling problem only through vigorous enforcement action and public education regarding the downside of engaging in illegal gambling, rather than authorization of football betting.</p>	<ul style="list-style-type: none"> As mentioned in our response to Item 1 above, we propose to authorize football betting primarily as a means to supplement the law enforcement efforts of the Police in combatting the growing problem of illegal football betting. We consider that this would enhance the overall effectiveness of our measures against illegal gambling. Following the authorization and regulation of football betting, the Police would continue to take vigorous enforcement actions against

	[6(c), 8(f)]	illegal gambling. We would also step up public education on the consequences of participating in illegal gambling.
6	It is not appropriate to tackle the problems of gambling which is morally wrong by legalizing gambling itself [3(a)]	<ul style="list-style-type: none"> The primary objective of authorizing and regulating football betting is to combat the growing problem of illegal football gambling. In other words, this serves as yet another means of tackling an existing social problem. It does not carry any moral judgment on gambling.
7	Revenue-raising does not justify the authorization of football betting. [3(b), 3(c)]	<ul style="list-style-type: none"> Authorization of football betting seeks to combat illegal football gambling, which is an existing social problem. Revenue-raising is not the main objective of the exercise. Nevertheless, the imposition of a betting duty on football betting would bring in additional recurrent revenue for the Government and help alleviate the budget deficit.
B	Impact of authorizing and regulating football betting on the community	
8	Adolescents would be encouraged to gamble following authorization of football betting as this would be seen as approval of gambling activities. This would be detrimental to their upbringing. [2(d), 3(d), 5(a), 8(c)]	<ul style="list-style-type: none"> Under the proposed regulatory framework for football betting, underage betting is strictly prohibited and the licensed operator is forbidden to target young people in its promotion and advertisement. This could alleviate the possible negative impact of gambling on adolescents. We would devote special efforts on gambling-related education for the youth, making use of the dedicated fund. We would start with launching a public education programme targetting school students and young people. The objectives are:

		<ul style="list-style-type: none"> i) to enhance the understanding of young people about the nature, inherent risks, and potential adverse consequences of gambling problems on individuals, families and the society; ii) to strengthen the ability of adolescents to exercise self-control so as to prevent themselves from becoming addicted to any activity including gambling; and iii) to increase their awareness of problem and pathological gambling, including symptoms and warning signs, the associated personality traits, behavioural and risk factors as well as when and how to seek help in case of need.
9	<p>Authorization of football betting would have adverse social impact as this would lead to an increase in gambling opportunities, an increase in the number of gamblers (hence increasing the prevalence rate of pathological gambling) and an increase to family and social problems.</p> <p>[4(c), 5(a), 6(a), 6(b), 7(a), 10(a), 12(k)]</p>	<ul style="list-style-type: none"> • We believe that the provision of authorized outlets could divert the bets placed with illegal operators to the authorized channel, and henceforth displace a considerable number of illegal gambling operations. As such, the decision would not necessarily bring about any net increase in the overall gambling opportunities (including legal and illegal) already available in Hong Kong. • Given the strong and persistent demand for football gambling in the community, the number of people taking part in football betting would continue to increase substantially even without the provision of an authorized outlet. We therefore do not consider that our decision to authorize football betting would add significantly to this on-going rising trend. • There is no conclusive evidence that the prevalence rate of pathological gambling

		<p>would definitely increase with the increase in the number of “legal” gambling outlets.</p> <p>According to a study conducted by the Hong Kong Polytechnic University in 2001, while over 70% of the population in Hong Kong have participated in at least one form of gambling, around 1.85% of the adult population have displayed signs which characterize them as “probable pathological gamblers”.</p> <p>In many overseas countries, despite the availability of various forms of legal gambling, the prevalence rates of pathological gambling are by no means higher than Hong Kong. The prevalence rate is 0.6-0.8% in the UK, 2.3% in Australia, 1.1% in the US, 1.2% in New Zealand, 1.4% in Spain and 0.6% in Sweden.</p> <ul style="list-style-type: none"> • The Government’s package of proposals relating to the authorization and regulation of football betting (a prudent regulatory system under the draft legislation, stringent licensing conditions and a Gaming Commission), taken together, should not give rise to a significant increase in the prevalence of pathological gambling, or social problems associated with gambling. • The implementation of preventive and remedial measures with the dedicated fund on gambling-related problems would have the effect of alleviating the negative impact of gambling.
10	According to overseas experience, legalization of	<ul style="list-style-type: none"> • While the expansion of gaming industry may have a negative impact on consumer spending in certain areas of the retail sector due to the

	<p>gambling would lead to reduction in consumer spending which is detrimental to the economy.</p> <p>[8(d), 12(I), 12(j)]</p>	<p>switch of spending according to some overseas experience, it is not expected that this will apply in the case of authorization of football betting in Hong Kong.</p> <ul style="list-style-type: none"> • As illegal football gambling is already prevalent in Hong Kong and authorization seeks to combat this problem by diverting the demand from illegal channels into the authorized avenue, the impact on consumer spending should be minimal. Moreover, authorization of football betting would give rise to increase in employment opportunities in the licensed gambling organization, this may to some extent have a positive impact on the economy.
11	<p>Authorization of football betting would bring about law and order problems, such as loan-sharking and other criminal activities</p> <p>[8(b),12(k)]</p>	<ul style="list-style-type: none"> • We consider that authorization of football betting would reduce the source of income for triad and other illegal activities by diverting the demand for football gambling from the illegal to the authorized channel. The Police could then focus their enforcement efforts on clamping down on illegal gambling syndicates. This would alleviate, rather than aggravate, law and order problems (including loan-sharking and other criminal activities) associated with illegal gambling activities.
12	<p>It is worried that the Government would authorize other illegal activities following the authorization of football betting.</p> <p>[7(b)]</p>	<ul style="list-style-type: none"> • The decision to authorize football betting has been made having regard to our existing gambling policy and a host of many other considerations particular to the case. There are no plans to authorize other forms of illegal gambling.

C	The commercial viability of authorized football operation in Hong Kong	
13	<p>According to the experience of the overseas bookmakers, it is estimated that the gross profit margin of authorized football betting should be around 5 % only, instead of 10% as stated by the Government.</p> <p>[12(b), 12(h)]</p>	<ul style="list-style-type: none"> • The gross profit margin of any authorized football betting operator depends on various factors, which include the combination of bet types offered and its risk management strategy. According to overseas experience of licensed football betting operations, the gross profit margins vary amongst different bet types, which could range from 5% – 15%. For illustration, the average gross profit margin of football betting from UK shops during the period 1997-2000 was 15.9%, as published in Ladbrokes’ Half-Year Financial Reports. • We would be charging betting duty for football betting on gross profits, would allow the licensee to offer different types of fixed-odds and pari-mutuel betting on football matches, and would permit it to lay off bets for hedging purpose. This would provide the licensee with adequate flexibility to ensure its competitiveness vis-à-vis illegal operators, as well as to sustain its business with a manageable profit margin.
14	<p>The estimated turnover of authorized football betting at \$30 billion is an overestimation given the total turnover of legal betting activities in UK is \$108 billion only in 2002.</p> <p>[12(b)]</p> <p>It is estimated that the</p>	<ul style="list-style-type: none"> • In UK, there are different legal gambling outlets including casinos, lottery and sports betting, etc., and casino gaming constitute the bulk share of the gambling turnover. Due to the difference in market conditions, it would not be appropriate to make a direct comparison between the situation in Hong Kong and the UK. • Having regard mainly to indicators of prevalence of illegal football gambling in Hong Kong, we consider our rough estimate

	<p>tax revenue from authorized football betting would only be around HK\$220 million to HK\$300 million (15 – 20% of the estimated amount by the Government)</p> <p>[12(e)]</p>	<p>of \$30 billion annual betting turnover on average, and hence \$1.5 billion annual betting duty (at 50% of gross profits) reasonable.</p>
15	<p>If the turnover of authorized football betting reaches \$30 billion, this would mean a sharp increase in the gambling participation among the population.</p> <p>[12(c)]</p>	<ul style="list-style-type: none"> • We believe that authorization of football betting could <u>divert</u> the existing demand for football betting from illegal into the authorized outlet. Therefore, the fact that the estimated turnover of authorized football betting is \$30 billion does not necessarily entail a sharp increase in the demand for football betting.
16	<p>If a certain proportion of the betting money on horse racing would be diverted to authorized football betting, the tax revenue from horse racing would be reduced.</p> <p>[12(d)]</p>	<ul style="list-style-type: none"> • The objective of authorizing football betting is to divert the existing strong and persistent demand for football betting into authorized outlet, rather than to divert the demand for other legal gambling outlets to football betting. • While we would not rule out the possibility that some betting money on horse racing may switch to football betting after authorization, we believe this would not have a serious impact on the turnover of horse racing, since the market niche for betting on horse racing and football betting is not entirely the same.
17	<p>The bets laid off from illegal bookmakers to the authorized football betting operator would lower the profit margin</p>	<ul style="list-style-type: none"> • While the licensed operator may receive bets laid off from other bookmakers, it would not necessarily mean that such bets would definitely lower the profit margin of the authorized football betting operation.

	<p>of authorized football betting, and henceforth reducing the possible tax revenue.</p> <p>[12(d)]</p>	<ul style="list-style-type: none"> As mentioned in our response to Item 13 above, the gross profit margin of any authorized football betting operator depends on various factors, which include the combination of bet types offered and its risk management strategy. We believe that the licensed operator would put in place appropriate risk management measures to minimize the risk exposure arising from the acceptance of any bets, including bets laid off from other bookmakers.
18	<p>There are not many opportunities for the licensed operator to hedge against its risk due to the free flow of betting information. As the other bookmakers would lay off their bets with the licensed operator, it will be difficult to manage the risk through hedging.</p> <p>[12(f)]</p>	<ul style="list-style-type: none"> Hedging is a common risk management practice amongst fixed-odds bookmakers. We would allow the licensee to place hedged bets for the purpose of reducing its risk exposure, which is in line with market practice. As such, we see no reason why we should presume that the authorized football betting operator in Hong Kong would find it more difficult to manage its risks through hedging than any other bookmakers in the international football betting market.
19	<p>The overseas criminal organizations may choose to target the authorized football betting operator in Hong Kong as a money laundering channel, especially for disposing of monetary gains from match-fixing activities.</p> <p>[12(g)]</p>	<ul style="list-style-type: none"> The risk of authorized gambling operators being manipulated as money laundering channels (essentially a law and order problem) is common to all licensed gambling operators round the world. It is not unique to Hong Kong. We believe that the licensed operator could minimize such risk by maintaining a prudent system of internal controls, selecting football matches or tournaments of high standards and reputation, and also through collating field intelligence about the possibility of

		<p>match-fixing.</p> <ul style="list-style-type: none"> The licensed operator would also co-operate with the Police to report any irregularities including suspicious cases of money laundering.
D	Betting Duty (Amendment) Bill 2003 and its implementation	
20	<p>Section 6B(2)(c) - the chairman of the Gaming Commission should be a non-official</p> <p>[13(b)]</p>	<ul style="list-style-type: none"> It is our intention to appoint a non-official as the chairman of the Gaming Commission.
21	<p>Section 6H – The concept of “gross profit” should be clearly defined to avoid possible conflict or argument in the future</p> <p>[13(c)]</p>	<ul style="list-style-type: none"> The calculation method of the gross profits of licensed football conductor has been set out clearly in the proposed new sections 6I and 6J of the Bill.
22	<p>An internal audit team could be set up to monitor the licensed operator to ensure its operation is in order.</p> <p>[13(d)]</p>	<ul style="list-style-type: none"> Under the proposed legislation for the authorization and regulation of football betting, the Secretary for Home Affairs will be responsible for regulating the conduct of the licensed football betting and the Gaming Commission will advise him on this. We intend to include in the licence for conducting football betting provisions which require the licensee to put in place adequate accounting systems and systems of control relating to football betting operations, for the purposes of ensuring efficient running of operations and prudent risk management, minimising the risk of fraud, as well as enabling compliance with the Gambling Ordinance, Betting Duty Ordinance, and

		conditions of this licence.
23	<p>The Government should devise a contingency plan in case of revocation or termination of licence.</p> <p>[13(e)]</p>	<ul style="list-style-type: none"> As authorized football betting has yet to come into operation, we do not consider it necessary to devise contingency plan for revocation or termination of licence at this juncture.
24	<p>Section 6ZC – It should be specified clearly whether the Appeal Board is a standing establishment or formed on an ad hoc basis. The membership of the Appeal Board and the Gaming Commission must not include representatives from HKJC to avoid conflict of interest.</p> <p>[13(f)]</p>	<ul style="list-style-type: none"> The Appeal Board is intended to be a standing body composed of a Chairperson and 4 members. The Chairperson shall designate not less than 2 members to hear an appeal. We agree that the Gaming Commission and the Appeal Board would not include representatives from the licensed operators in order to avoid any possible conflict of interest.
25	<p>The arrangement of collecting stamp duty may be different from that of betting duty. It is doubtful whether the Collector of Stamp Duty has the auditing capacity or related mechanism to guard against understatement of betting duty.</p> <p>[13(h)]</p>	<ul style="list-style-type: none"> The Collector of Stamp Duty is in effect the Commissioner of Inland Revenue. The Inland Revenue Department shall be responsible for the collection of betting duty. Given their experience in the collection of betting duty and other taxes in the past, we are confident that the Department could take up the responsibility of administering betting duty on authorized football betting.

26	<p>The hedging bets would have impact on the dividend and revenue from betting duty. Would the Government impose any limit on the amount of hedging bets and introduce other control mechanism to avoid abuse?</p> <p>[13(i)]</p>	<ul style="list-style-type: none"> • Under the proposed new section 6Q of the Bill, the licensed operator could only place a hedging bet if the bet meets certain prescribed requirements. The Collector of Stamp Duty could, in the process of assessing betting duty, decide whether to include any particular hedging bet transaction into the calculation of betting duty. We therefore do not consider it necessary to impose any limit on the amount of hedging bets. This is also against international practice. • We intend to include in the licence for conducting football betting provisions which require the licensee to put in place adequate accounting systems and systems of control relating to football betting operations. They should include risk management systems covering hedging transactions.
27	<p>The responsibility of HKJC over its wholly-owned subsidiaries (to be licensed to conduct football betting and lotteries respectively) should be set out clearly in the Bill, board of directors of the subsidiaries should consist of stewards of the HKJC or its senior management staff.</p> <p>[13(j)]</p>	<ul style="list-style-type: none"> • The licensing regime for football betting and lotteries is generic in nature and will apply to all licensees in future. In this connection, we do not consider it appropriate to set out in the legislation the responsibility of HKJC for its subsidiaries to be licensed to conduct football betting or lottery. • Under the proposed new section 6W of the Bill, the constitution of the licensee (which could include the composition of the board of directors) shall not be amended without the prior approval of the Secretary for Home Affairs. This would serve to ensure that HKJC would shoulder a reasonable degree of responsibility over its subsidiaries which would be licensed to conduct football betting and lotteries.

28	<p>The betting centres should not be set up in the vicinity of the primary and secondary schools, as well as any playgrounds for children.</p> <p>[13(k)]</p>	<ul style="list-style-type: none"> Any application by the licensed operator to set up a new betting centre has to be approved by the Secretary for Home Affairs, who would take into account all relevant considerations, such as public demand for the particular betting services, prevalence of illegal gambling in the vicinity, and impact on neighbouring areas.
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Home Affairs Bureau
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