

LEGISLATIVE COUNCIL BRIEF

AUTHORIZATION OF SOCCER BETTING: THE WAY FORWARD

INTRODUCTION

At the meeting of the Executive Council on 26 November 2002, the Council ADVISED and the Chief Executive ORDERED that:

- (a) an authorized and regulated outlet for soccer betting should be provided as a means of tackling the problem of illegal soccer gambling in Hong Kong;
- (b) the Hong Kong Jockey Club (HKJC) should be licensed to operate soccer betting in Hong Kong for an initial period of five years, and the licence be renewable subject to a review thereafter;
- (c) an independent special commission (tentatively named the Gaming Commission) composed predominantly of non-officials should be set up for the purpose of regulating and supervising both authorized soccer betting and the Mark Six lottery conducted by the HKJC;
- (d) the Hong Kong Lotteries Board should be dissolved upon the establishment of the Gaming Commission, and the licence for Mark Six lottery now held by the Lotteries Board be granted to the HKJC;
- (e) the licensee should be allowed to operate fixed-odds games on matches not involving Hong Kong teams;
- (f) a betting duty on soccer betting should be levied on the basis of gross profits (total turnover minus payouts to punters);
- (g) the licensee should be required, as one of the licensing conditions, to contribute an amount (possibly pitched at a certain percentage of proceeds) to a dedicated fund for the

purpose of conducting research and promoting public education on problem gambling, as well as providing treatment and counselling services for problem and pathological gamblers;

- (h) in addition to (b) to (g) above, soccer betting should be provided on the basis of the operational and regulatory framework set out in para 14-23 below; and
- (i) the Government should draw up the details of the operational and regulatory framework for soccer betting with a view to introducing a Bill to amend the Betting Duty Ordinance and specifying other relevant details for the purposes of (a) to (g) above in early 2003.

JUSTIFICATIONS

Why Should We Authorize and Regulate Soccer Betting?

2. As set out in the consultation paper on Gambling Review which was issued by the Home Affairs Bureau (HAB) in June 2001, the Government would consider providing a new authorized gambling outlet under the following conditions:

- (a) There has been a sufficiently large and persistent demand for a new type of gambling (both in terms of estimated number of participants and betting money);
- (b) The demand is now 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
- (c) The proposition of authorizing the new gambling outlet commands public support.

3. Having analyzed the latest developments and current public opinion on the issue against the above criteria, we have decided to authorize soccer betting under a suitable regulatory framework in Hong Kong, on the grounds set out in the following paragraphs:

(A) Sufficiently Strong and Persistent Demand for Soccer Betting

4. Demand for soccer betting in Hong Kong continues to be strong and persistent, despite the tightened anti-gambling legislation and enhanced enforcement efforts in recent months. This could be borne out both by enforcement figures and survey results on public participation rate, as illustrated below:

- a) The total amount of money and betting slips seized during the first six months of 2002 was \$52.1 million, as compared to a total of \$20 million for the whole year of 2001. The amount seized in the month of June 2002 alone was around \$38 million, reflecting largely the effect of the 2002 World Cup Finals. The prevalence of illegal soccer gambling has been acknowledged by the Police in the light of their operational experience.
- b) The degree of public participation in soccer betting has apparently been on the increase. A survey commissioned by the HAB in May 2001 revealed that about 2.4% (representing around 120,000 people) of the population aged 15-64 bet with a local or offshore bookmaker on soccer in the past year. This participation rate rose substantially to 4.2% (representing 206,300 people) as revealed by another similar survey commissioned in October 2001 and further to 7.5% (representing 364,000 people) in July 2002. This could be an under-estimation, given that a considerable portion of the general public would likely have concealed their participation in soccer betting which is currently an unlawful activity.

5. We consider that this huge and persistent demand is sufficiently strong to warrant the introduction of authorized soccer betting as another means (in addition to enforcement and anti-gambling legislation) to combat the illegal soccer gambling problem.

(B) Demand for Soccer Betting being Satisfied by Illegal Channels Associated with Other Criminal Activities, despite Enforcement Efforts against Illegal Soccer Gambling

6. Most of the soccer betting activities in Hong Kong take place through illegal channels, i.e. betting with local or offshore unauthorized

bookmakers, as opposed to social betting. As revealed by Police operational experience, illegal soccer gambling is invariably associated with other illegal activities, such as debt collection, which may involve triad and organized crime syndicates. Illegal soccer gambling is also one of the major sources of funding for triad activities. Of the 123 people arrested for soccer gambling in the first half of 2002, 25% had a triad background and the rest were believed to have such connections. Soccer gambling in Hong Kong has also led to other criminal activities such as loan sharking and debt-collection crimes, as well as some violent inter- and intra-triad society disputes. It is clear that the growing illegal soccer gambling activities have had a negative impact on law and order in Hong Kong.

7. The enhanced enforcement actions taken by the Police against illegal soccer gambling before and during the 2002 World Cup Finals have yielded considerable results. Many local bookmakers have shifted their bases to neighbouring jurisdictions or become more cautious in their operations so as to escape the attention of the Police. Moreover, the enactment of the Gambling (Amendment) Ordinance 2002 has also facilitated investigations into illegal gambling activities with an offshore element. However, such enforcement efforts are resource-intensive. Their effectiveness could only be sustained through the long-term deployment of dedicated Police resources, particularly for gathering intelligence, and conducting frequent checks and raids.

8. To the extent that the provision of an authorized soccer betting outlet would divert part of the existing demand for illegal soccer gambling, this would alleviate the problem and reduce the Police resources required to counter such activities. However, the impact cannot be meaningfully assessed at this stage.

(C) The Proposition Commands Public Support

9. According to the results of the latest opinion polls on the subject during the past few months, around 70% of the general public supported the proposition of authorizing soccer betting. In fact, there has been a gradual increase in public support for the proposition since March 2002 (from 50-55% to around 70% at present). A table summarizing the results of some major polls conducted from 2000 to 2002 is at *Annex A*.

 A

10. Based on the above, we conclude that this proposition commands general public support.

Who Should Operate Authorized Soccer Betting in Hong Kong and for How Long?

11. We propose to authorize only one organization as the operator of soccer betting. The major reason is that licensing more than one operator (commercial or non-commercial) to run soccer betting would inevitably bring about a substantial increase in gambling opportunities and gambling outlets. This would also bring about competition and aggressive promotion in soccer betting. This could have the effect of stimulating more demand for gambling and could run against our objective of providing authorized betting outlets primarily as a means to combat illegal gambling.

12. We would like to designate the HKJC to operate authorized soccer betting on the following grounds –

- (a) This is in line with the existing regulatory regime whereby gambling is mainly operated by non-commercial and non-profit-making entities with a charitable element¹ (except for mahjong parlours), which is a main feature of the regulatory regime in Hong Kong. This has been well accepted by the public.
- (b) The HKJC could make use of its existing resources and betting facilities, including its professional staff, computer systems and off-course betting branches to offer the new services. This would obviate the need for additional gambling facilities. This could therefore minimize the nuisance which gambling outlets might cause to the public;
- (c) HKJC's experience and reputation in running gambling in Hong Kong would command public confidence in the authorized soccer betting.
- (d) Most of the respondents who commented on this matter in the 2001 public consultation exercise on gambling review preferred this option to the other two alternatives--licensing

1. At present, the HKJC transfers part of its surplus to the Hong Kong Jockey Club Charities Trust which in turn makes donations to charity causes in Hong Kong. The annual donations amount to about \$1 billion for the recent years. 15% of the turnover from Mark Six is transferred to the Lotteries Fund for financing social welfare initiatives.

another non-profit entity to run soccer betting, or licensing one or more commercial entities.

13. We propose to grant an initial license for a five-year period to HKJC. This would enable the Government to conduct a review by the end of this initial period with a view to considering whether HKJC should be allowed to operate soccer betting for a longer period.

Proposed Operational and Regulatory Framework: A Broad Outline

14. We propose that the operational and regulatory framework for authorized soccer betting should include the following elements:

(A) An Independent Special Commission to Regulate the Conduct of Soccer Betting

15. An independent special commission (tentatively named the Gaming Commission) composed predominantly of non-officials would be set up for the purpose of regulating the conduct of soccer betting and enforcing the licensing conditions. Specifically, the Commission should mainly be responsible for setting detailed guiding rules on how different aspects of the authorized soccer betting operation should be monitored and supervised in accordance with the prescribed conditions laid down in both the legislation and the licence. This arrangement seeks to ensure that the operation of authorized soccer betting is consistent with our gambling policy and is in the overall public interest.

16. The Gaming Commission would also be made responsible for handling public complaints relating to soccer betting. This would bring in an element of public scrutiny over the conduct of soccer betting, thereby enhancing the transparency and accountability of the overall regulatory regime.

17. The above institutional structure is similar to the Hong Kong Lotteries Board which was established and licensed under the Betting Duty Ordinance to conduct Mark Six lottery in accordance with conditions specified in the licence. With the establishment of the above independent commission, we propose to subsume the conduct of Mark Six lottery under this commission. This would serve to ensure consistency in regulatory and supervisory standards. We therefore propose to abolish the Hong Kong Lotteries Board, revoke the licence

granted to the Lotteries Board for Mark Six lottery, and grant a new license to HKJC for Mark Six lottery.

18. We have also considered the idea of putting betting on horse racing under the Gaming Commission so that it could take a comprehensive view over all the major authorized gambling outlets in Hong Kong. However, we decided not to pursue this idea for the time being. The reason is that the HKJC has been providing betting on horse racing and all the racing infrastructure for about 30 years on the basis of a direct licence under the Betting Duty Ordinance without any major problems. Unlike the Lotteries Fund (financed by 15% of proceeds from Mark Six lottery), the HKJC has also been autonomous in allocating the surplus proceeds from horse racing bets (after betting duty and its operating costs) to charities. We therefore see no imminent need to subsume horse racing under the purview of the proposed Gaming Commission in this exercise.

(B) Distribution of Proceeds

Payouts to Punters

19. The licensed operator would be allowed to offer fixed odds games² which are the main products being offered by illegal operators.

Betting Tax

20. We propose to charge a betting duty on the basis of “gross profits” (total turnover minus payouts) of authorized soccer betting, as opposed to “turnover” as in the case of “pools betting”. This is in line with mainstream international practice in respect of taxation on fixed-odds games. The actual duty rate could be decided later, having regard to the Government’s fiscal considerations, the impact of the duty on the operator’s competitiveness vis-à-vis its illegal counterparts, and the non-profit nature of the authorized betting operations in Hong Kong.

2. “Fixed odds” games are games where the punter’s winnings are determined by the odds prevailing at the time when he/she places the bet, unaffected by any subsequent bets or changes in odds. This contrasts with “pools betting” where a punter’s winnings are determined by the size of the total amount of money staked on the event(s) (the “pool”). Both Mark Six and betting on HKJC’s races are “pools betting”.

Requirement to Contribute a Specified Amount to a Dedicated Fund for the Purpose of Conducting Research and Public Education on Problem Gambling, as well as Providing Treatment and Counselling Services for Problem and Pathological Gamblers

21. We would include in the licensing conditions for the operator a requirement that it should contribute to a dedicated fund set up for the purpose of conducting research and public education on problem gambling, as well as providing treatment and counselling services for problem and pathological gamblers. We will consider pitching the amount of funding at a certain percentage of the proceeds of authorized soccer betting. This proposal seeks to address a long-standing problem relating to gambling in general, and to minimize any negative impact which could arise from the authorization of soccer betting.

(C) Licensing Conditions

22. We propose to include in the licence on soccer betting the following major terms and conditions:

(a) Duration of licence

As mentioned above, the licence should last for five years. This is to facilitate regular review of licensing tenure and conditions.

(b) Means of taking bets

There would be a maximum number of betting outlets. Betting through telecommunications means such as telephone and the Internet would be allowed.

(c) Types and number of soccer matches on which betting are allowed

Only matches not involving Hong Kong teams would be allowed. This is to prevent match-fixing in Hong Kong, which is detrimental to the healthy development of local soccer in Hong Kong. We also see no imminent need to authorize betting on local soccer matches from the gambling policy perspective, given that there has yet been any strong and persistent demand for betting on local matches in the illegal

soccer gambling market.

The operator would have some flexibility in determining the types of fixed-odds games, the types of non-Hong Kong matches and the number of soccer matches available for betting. This proposal is made having regard to the extensive and changing types of matches and games on which bets are taken in the illegal gambling market, and the need to ensure the operator's competitiveness against its illegal counterparts.

(d) Protecting minors

Persons aged below 18 would be strictly prohibited from placing bets, entering any betting premises and opening betting accounts. The licensee should take reasonable and effective measures to avoid taking bets from the underage.

(e) Prohibiting credit betting

Credit betting would be prohibited, so as to prevent excessive gambling in Hong Kong. This is consistent with the way in which horse racing betting is operated in Hong Kong.

(f) Restricting promotion and advertising

Suitable restrictions would be imposed on the promotion of and advertising on soccer betting so as to minimize the effect of encouraging the public to gamble (all promotion and advertisement on unauthorized gambling is strictly prohibited under the Gambling Ordinance)

(g) Preventive measures against pathological gambling

The licensee would be required to adopt suitable preventive measures against pathological gambling, such as displaying notices at the gambling establishments (e.g. betting outlets) informing punters of the risks of gambling, and how to seek help on problem gambling.

(h) Punitive measures against non-compliance

It would be made clear that non-compliance with certain key licensing conditions could result in certain punitive measures such as suspension or revocation of the licence, or a fine for breach of specific licensing conditions, etc.

23. The above licensing conditions seek to ensure that authorized soccer betting would be operated in a manner that could generate the desired benefits while protecting punters' interests and keeping the negative impact of gambling to a minimum.

Details of the operational and regulatory framework

24. We would draw up the details of the operational and regulatory framework for soccer betting with a view to introducing the necessary legislative amendments into the Legislative Council and specifying the detailed licensing conditions in early 2003.

IMPLICATIONS OF THE PROPOSAL

B 25. The proposal has economic, financial and civil service, as well as sustainability implications, as set out at *Annex B*.

26. The proposal is in conformity with the Basic Law, including the provisions concerning human rights. It has no productivity or environmental implications.

PUBLIC CONSULTATION

27. We published a consultation paper on the Gambling Review for public consultation from 22 June 2001 to 5 October 2001. During the consultation period, we received more than 7,000 written submissions and 83,000 collected signatures. We also held briefings for the Legislative Council Panel on Home Affairs and the 18 District Councils, and attended a number of public forums on the relevant issues. Subsequent to the consultation, we conducted and commissioned a number of opinion surveys to gauge the views of the public on, inter alia, the issue of authorization of soccer betting. We also commissioned two opinion surveys after the World Cup Finals 2002 to obtain the updated

feedback from the community on the subject. In the past few months, we met with all the major opposition groups and carefully considered their views in the course of drawing up the above proposals.

PUBLICITY

28. A press conference will be held and a press release will be issued on 26 November 2002 to announce the Government's decision. A spokesman will be available to handle media and public enquiries.

BACKGROUND

29. The Government's gambling policy is to restrict gambling opportunities to a limited number of authorized and regulated outlets only. Illegal soccer gambling activities have become increasingly widespread since the 1998 World Cup Finals. Against this background, the HAB has conducted a review (the Gambling Review) and identified several possible options to tackle the problem, namely -

- (a) updating the Gambling Ordinance to combat cross-border gambling activities;
- (b) stepping up enforcement against illegal gambling; and
- (c) providing authorized and regulated outlets for soccer betting to combat illegal gambling.

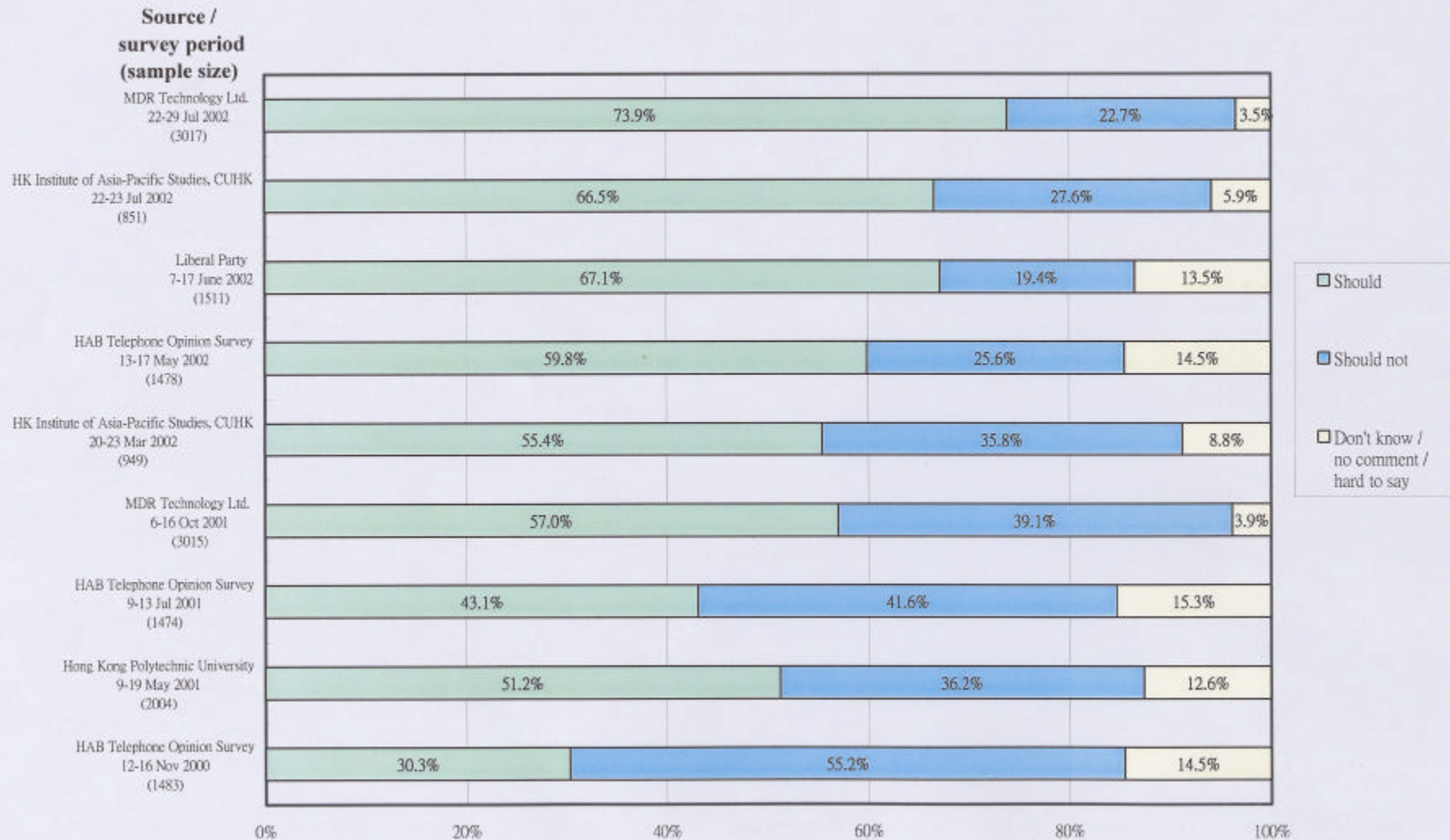
A public consultation was conducted from June to October 2001 to gauge the views of the public on, among other things, the above options. While the respondents were in general supportive of (a) and (b), there were highly divergent views on (c). We announced in March 2002 that we did not consider it appropriate to rush to a decision at that juncture. Instead, we would closely monitor the development of illegal soccer betting and the enforcement situation, particularly in the run-up to and during the 2002 World Cup Finals held in May and June 2002.

ENQUIRIES

30. For enquires, please contact Ms Esther Leung, Principal Assistant Secretary for Home Affairs, at 2835 1484.

Home Affairs Bureau
November 2002

Should the Government provide authorized outlets for soccer betting?



FINANCIAL AND CIVIL SERVICE IMPLICATIONS

Assuming that we would impose a tax on the proceeds of soccer betting, the proposal would bring additional recurrent revenue for the Government. Although it is difficult to quantify, we estimate that the duty proceeds from authorized soccer betting activities would bring in steady recurrent revenues for the Government.

2. The extra workload arising from the need to develop and implement the operational and regulatory framework for authorized soccer betting, to service the gaming commission, as well as the proposed pilot programmes for counselling, treatment and education on problem and pathological gambling, would be absorbed within the responsibility of the existing subject officers responsible for gambling policy in HAB. This is not expected to have any significant impact on staff morale. The financial implications arising from this proposal would be absorbed within HAB's operating expenditure envelope.

3. To the extent that the provision of an authorized soccer betting outlet would divert part of the existing demand for illegal soccer betting into the regulated avenues, this would enable the Police to spare less dedicated enforcement resources on soccer betting, and focus their resources more on major bookmaking syndicates and other more serious crimes. The exact impact however is difficult to quantify.

ECONOMIC IMPLICATIONS

4. The proposal would have positive social and economic implications. The authorization of soccer betting on the basis of the proposed operational framework would divert betting money from illegal soccer gambling into the regulated channel, hence reducing the negative social consequences of illegal gambling. The public resources in enforcement against illegal gambling could also be much reduced. The imposition of a betting duty on the gross profit of legal soccer betting would bring additional revenue for the Government which should benefit the community at large. Moreover, the proposal to require the licensed

operator to contribute a specified amount to a dedicated fund for the purpose of conducting research and public education on problem gambling, as well as counselling and treatment services for problem and pathological gamblers would bring about positive social benefits. The proposal could also result in an increase in employment opportunities in terms of additional staff employed by the licensed operator of soccer gambling.

SUSTAINABILITY IMPLICATIONS

5. The sustainability assessment reveals no major implications. Nevertheless, in addition to the economic implications, we have also considered carefully the social impacts of the proposal. Whilst the proposal seeks to address the need to tackle the rampant illegal soccer gambling problem, public education about the risks of gambling and treatment services for pathological gamblers and their families are an integral part of the proposal to alleviate its negative impacts on the society.