

LC: Betting Duty (Amendment) Bill 2006

Following is the speech by the Secretary for Home Affairs, Dr Patrick Ho, in moving the second reading of the Betting Duty (Amendment) Bill 2006 in the Legislative Council today (April 26):

Madam President,

I move that the Betting Duty (Amendment) Bill 2006 be read the second time.

In 2002, the Government amended the Gambling Ordinance to combat the unauthorised activities of offshore bookmakers in Hong Kong. In 2003, we amended the Betting Duty Ordinance to authorise football betting to combat illegal football gambling in Hong Kong. Today, the Government has decided to reform the duty system for horse race betting. This is the third time since 2002 that we have introduced major reforms to the authorised betting system.

The main objective of the reforms is to combat illegal horse race betting activities more effectively, while maintaining the Government's revenue from betting at a steady level. We propose to amend the Betting Duty Ordinance to convert the horse race betting duty system from the current turnover-based duty system to a new system similar to the duty system for football betting: In other words, a system based on the net stake receipts (that is, betting turnover minus payout). The reforms will provide flexibility for the Hong Kong Jockey Club (HKJC) to adjust the odds in response to the changing market conditions, thereby diverting bettors from the illegal gambling market to the authorised channels. We have also taken the opportunity to rationalise the regulatory regime for horse race betting.

We briefed the Legislative Council Panel on Home Affairs (the Panel) on the proposed reforms to the duty system for horse race betting on May 13, 2005. We also attended a special meeting arranged by the Panel on June 24, 2005 at which deputations of concern groups were invited to express their views on the proposed

reforms. In October 2005, we consulted the Football Betting and Lotteries Commission on the proposed reforms and met with the major opposition groups.

If the proposed reforms to the duty system for horse race betting is supported by this Council, it is anticipated that HKJC will be able to capture part of the existing turnover of the illegal horse race betting market by diverting the demand back into the authorised channels.

The Bill

Let me brief Members on the contents of the Bill.

(a) Basis of duty revenue

Firstly, under the new duty system, which is no longer based on turnover, a single set of duty rates will be applied to the net stake receipts (gross profits) irrespective of bet types. A progressive marginal duty system will be adopted, with duty to be charged at 72.5% of the net stake receipts up to \$11 billion, increasing by half a percentage point for increases of every \$1 billion in the receipts up to \$15 billion, and at 75% for the receipts exceeding \$15 billion. The above rates largely reflect the Government's share of the racing receipts vis-à-vis HKJC at present.

(b) Betting duty on overseas bets

Secondly, under the new system, there is a discount (at no more than 50% of the lowest marginal rates for local bets) for the betting duty charged in relation to overseas bets designated by the Secretary for Home Affairs (i.e. qualified bets). The discount rate may be lowered in individual jurisdictions (for instance, for qualified bets from Macao, there will be a betting duty discount at 40% of the lowest marginal rates, i.e. 29% of gross profits).

(c) Guarantee of betting duty revenue

Thirdly, to ensure that the Government's revenue from horse race betting would

remain stable during the first few years, HKJC has to guarantee that the duty payable during each of the three years from implementation would be no less than \$8 billion plus the amount of duty in respect of any qualified bets. The \$8 billion guaranteed minimum is more or less the same as the betting duty that would have been paid by HKJC for the year 2005-06. A review would be conducted two years after implementation of the new duty system to see if it produces desirable results and whether it should continue.

(d) Provision of rebates to high-value bettors who have suffered losses

In addition to the above proposals, we propose to allow HKJC to provide rebates to high-value bettors who have suffered losses in order to increase its competitiveness against illegal bookmakers.

Proposed measures to rationalise the regulatory regime

We also propose to take the opportunity to rationalise the regulatory regime for horse race betting in order to bring it broadly in line with authorised football betting and lotteries. The specific proposals are as follows -

(a) The authority to authorise the conduct of horse race betting should be transferred from the Chief Secretary for Administration to the Secretary for Home Affairs (SHA).

(b) There should be a general licensing system for horse race betting whereby SHA could, by issuing a licence to a company, authorise the company to conduct fixed odds betting or pari-mutuel betting on the results of, or contingencies relating to, horse races. We propose that one licence for horse race betting should be granted only to HKJC.

(c) The functions of the existing Football Betting and Lotteries Commission should be expanded to include advising SHA on the regulation of the conduct of betting on horse racing; as well as compliance with licensing conditions by the licensee. We propose to rename it as the Betting and Lotteries Commission (the Commission).

(d) The operational and regulatory regime for betting on horse races should basically follow that for football betting and lotteries. Specifically, we propose that any licence for authorised horse race betting activities should include a number of mandatory conditions. These conditions seek primarily to prevent underage/excessive gambling. The conditions include:

(i) the licensee shall not accept bets from any person under 18 years of age; nor shall it allow admission of persons below 18 years of age to its betting premises;

(ii) the licensee shall not accept bets on credit or accept credit cards for settlement of betting transactions;

(iii) the licensee shall not pay dividends or rebates on bets to juveniles;

(iv) the licensee shall not advertise horse race betting on television or on the radio from 4.30pm to 10.30pm; advertise in ways that would exaggerate the likelihood of winning or suggest that betting on horse races is a source of income or viable way to overcome financial difficulties; or target those under 18 years of age in their advertisements; and

(v) the licensee shall be required to display notices to remind punters of the seriousness of the problem caused by excessive gambling and provide information on services available for problem and pathological gamblers.

(e) We also propose that the existing Appeal Board under the Ordinance should be tasked to decide appeals lodged by HKJC in addition to those lodged by the licensees of football betting and lotteries.

Similar to authorised football betting and lotteries, we also propose to provide that SHA could issue Codes of Practice as and when appropriate. This would enable SHA to prescribe detailed guidelines on the licensing conditions and to consult the Commission on the contents of any Code of Practice before it is issued.

I know that some Members and gambling concern groups may query the need and rationale for reforms and worry that the reforms would create new demand for horse race betting. Some people may attribute the decline in turnover of horse race betting to economic downturn, shift of punters' interest from horse race betting to football betting or even the poor management of HKJC rather than the competition from the

illegal betting market.

According to a survey on Hong Kong people's gambling activities commissioned by the Government in late 2005, the public participation rate in horse racing has declined, but betting on horse racing is still one of the most popular gambling activities in Hong Kong (25% public participation rate), indicating a persistent demand. Survey results reveal that many people who participate in illegal gambling are also engaged in betting with HKJC. We need to put in place a proper regulatory system which would enable authorised horse race betting to effectively retain the demand for authorised horse race betting, and divert the demand from the illegal into the authorised and regulated channels. I believe that the proposals put forward by the Government today would help combat illegal bookmaking activities on horse race betting.

Some people may think that the proposed reforms are inconsistent with the Government's gambling policy. For example, to allow HKJC to provide rebates may encourage gambling. I would like to point out that the Government has not changed its standing gambling policy, i.e. restricting gambling opportunities to a limited number of authorised and regulated channels. The spirit of this policy is not to encourage gambling, especially illegal gambling. Regulation of horse race betting can help to uphold this policy. We do not consider that the proposal of providing rebates will encourage gambling because rebates will be available to high-value bettors who have suffered losses only. On the contrary, the proposal will divert illegal betting to authorised betting channels, which will help to combat illegal betting. Provision of rebates by HKJC will increase the risks faced by illegal bookmakers, thereby undermining their competitiveness against HKJC. As our policy is not to encourage gambling, we have incorporated a number of measures into the legislative proposals, licensing system and regulatory regime to minimise the negative impact of authorised horse race betting on the community.

I note that although the survey results indicate that there has been a fall in the participation rate in horse race betting among both the general population and youth, the number of young people participating in gambling has slightly increased. It is for this reason that we have taken the opportunity to reform the regulatory regime of

horse race betting by bringing it broadly into line with that for authorised football betting. As I have mentioned, we will introduce a licensing system with a series of licensing conditions (prohibiting underage betting, credit betting, etc.) seeking as far as practicable to minimise the adverse impact of gambling on the community.

We will strengthen measures to prevent and address gambling-related problems, particularly on publicity and educational measures targeting underage persons and parents. We are planning to launch a special publicity and education campaign on gambling-related problems to prepare for the possible increased demand for gambling, for example, during the World Cup in mid-2006. We are also evaluating the effectiveness of the services provided by the two counselling and treatment service centres for problem and pathological gamblers with a view to mapping out the long-term model of services. We will solicit more financial resources for the Ping Wo Fund for these purposes as and when necessary.

I believe that the proposals put forward by the Government today, together with the on-going enforcement actions by the Police and the measures to prevent and ease gambling-related problems, can effectively combat illegal gambling, divert the demand for horse race betting into the authorised channels and alleviate social problems arising from such activities.

For the reasons mentioned above, I hope that Members will support and pass the Betting Duty (Amendment) Bill 2006 as soon as possible. Thank you.

Ends/Wednesday, April 26, 2006