HARNESS RACING QLD

Date:	**16 June 2009**
Commercial Advisory Committee Meeting Date:	**19 June 2009**
Submission By:	**M Godber CEO**
Subject:	**Product Co Agreement Review 2014**

The basis of the case for Harness Racing in the review of the Product Co Agreement.

1. Review of 1999 Decision

This was not based on market share but a set percentage for each code based on them committing to a minimum amount of product each year. In the case of Harness Racing it was 4 race meetings per week. (Thoroughbred 8.5 meetings, Greyhounds 7 meetings.)

Current percentage is:

Thoroughbreds	76.0%
Harness	14.5%
Greyhounds	9.5%

The Greyhounds ~~consider they were unfairly treated in 1999 and~~ intend to argue strongly for a market share distribution in the future.

2. Market Share – Share of What?

While market share sounds a logical method for distribution, it in fact carries with it a large number of issues that when taken together illustrate that market share has as many if not more flaws than other systems. The issues created by adopting a sole market share model are:

- What is market Share? Is it the gross code betting taken by UNiTAB including all Australian and international racing, is it limited just to all Australian racing, or is it market share defined by Queensland product only. All three will produce quite different results.

- The term market share implies equal opportunity for all three codes to compete on a level playing field. Clearly this is not the case. Harness & Greyhounds are not allowed on Saturdays (the best betting day), galloping is moving to night meetings at the expense of Harness interstate which has nothing to do with Queensland Harness Racing but could affect its market share. The same can apply to other codes.

- Aside from producing more product in the form of TAB meetings codes have little control over their market share and their turnover can be radically affected by factors outside their control.

- Factors such as Sky coverage, timing of meetings, lead in times and whether a meeting is on Sky One or Two will influence turnover and therefore market share.

- In the fight for market share the only winner could be UNiTAB, it would keep the three codes poor as each code will endeavour to increase its share by racing as many meetings as possible. The end result will be more races, for lower stakes and smaller fields as the codes fight for domestic market share.

3. **Other States Funding Models**

A totally market share driven model has many flaws which has resulted in most states rejecting it as the sole factor in a funding model.

Victoria	Current agreement to 2012 Fixed percentage 50% Variable percentage 50% Under the new agreement fixed share for Harness Racing is 15.25% which is about their market share.	
NSW	Fixed percentage	
	Thoroughbred	70% approx
	Harness	16% approx
	Greyhounds	14% approx
WA	Current code split since 2004 has no relationship to market share.	
	Thoroughbred	59%
	Harness	28.5%
	Greyhounds	12.5%

It is under review this year with proposed changes due to be implemented in 2010/11. The current market share split (average last 5 years) is:

Thoroughbred	64%
Harness	20%
Greyhounds	16%

NEW ZEALAND

Was on a fixed percentage but has changed over the past three years to a market share/fixed mix.

SA

Payout based on the previous year's market share. Market share defined as local percentage, plus total Australian percentage divided by two.

2009/10 likely

Thoroughbred	70.2%
Harness	14.3%
Greyhounds	15.5%

Comment

One of the fundamentals underpinning funding in most Australian states and New Zealand is to ensure the development of Thoroughbred, Harness and Greyhound racing.

In the case of RWWA this extends to be "in the interests of the long term viability of the Racing Industry (3 codes) in Western Australia". The corollary is that the funding formula must reflect these objectives.

Similar sentiments form part of the Product Co Agreement.

"The Role and Objectives of Product Co"

"The primary objective of Product Co is to encourage animal racing by acting as agent for the Queensland Racing Industry in its relationship with TABQ.

Product Co is to act in the best interests of the Queensland Racing Industry rather than individual Codes or individual Queensland Racing Entities.

The directors of Product Co are to act in the best interests of Product Co and the Queensland Racing Industry, rather than individual Codes or individual Queensland Racing Entities.

Product Co will receive the Produce Fee as agent for the Queensland Racing Industry.

Product Co will distribute the Product Fee in accordance with the provisions of clause 4 of this agreement."

"Allocation of Funds as Between Codes"

"The distribution of income of the Queensland Racing Industry on and from the Effective Date and during the term of the Product and Program Agreement is to be made in accordance with the following fixed distribution percentages (the Distribution Percentage):"

Thoroughbred Code	*76.0%*
Harness Code	*14.5%*
Greyhound Code	*9.5%*

Unfortunately, the role and objectives of Product Co do not go so far as to directly state as is the case in RWWA or NZ where there is an obligation to underpin the long term viability of the three codes. However, there is a clear obligation to act in the best interests of the Queensland Racing Industry overall and not just one code. The industry has operated on the 76/14.5/9.5 formula for 15 years and any major change to this formula would have a dramatic adverse affect on one or more of the codes which it could be argued is not in the overall interests of the industry as a whole.

The fact that the majority of states do not distribute on market share indicates that it is not a universally accepted method. The concept of viewing the development of all three codes and the maintenance of their viability as a primary function of any distribution is certainly not new. The primary conclusion of reports into distribution of funds from wagering jurisdictions have almost always concentrated on the need to be even handed. While market share, be it national, international or domestic state, is an option it is one of a number. In terms of formula we are not dealing in absolutes. Significantly, market share is not even in a majority when considering the various formulas used in Australia and New Zealand.

The difficulty with market share in a Queensland context is that the three codes do not control their own destinies and are at the risk of decisions by Sky Channel (owned by Tabcorp). Any one decision can significantly affect market share, be it:

- Coverage of a race meeting
- Timing of a race meeting (start & finish times)
- Allocation to the main channel or the projected second channel
- Lead in times for races

Conclusion

HRQ has a case which can be put to maintain a fixed distribution to the benefit of all the industry (three codes) based on:

1. Maintenance of the long term viability of all three codes.
2. While there is no absolute formula universally adopted by all states the majority include a significant portion of fixed distribution or are wholly fixed.
3. The Queensland percentages have been in place since 1999 and the three codes have set their operations to take account of these returns.
4. The lack of control over the distribution of the racing product through Sky makes a purely market share formula extremely risky for all codes.
5. There are other measures of the three codes which would produce different results to market share but better reflect the codes contribution to the Queensland economy. The recent Economic Impact Study of the contribution of racing to the Queensland economy showed a contribution from the three codes of:

Thoroughbred	68.8%
Harness	19.6%
Greyhounds	11.6%

Source: The economic impact of the Racing Industry in Queensland. IER Pty Ltd.

This measure takes into account much more than just wagering and it could be argued is a better reflection of the codes size scale and contribution.

6. The fixed percentage also covers situations such as EI or a greyhound equivalent. A formula based on the previous year's market share would cripple a code in the year after an outbreak. More importantly the outbreak in 2007 will affect the ability of the horse codes to fill fields and therefore maintain market share when the 2007/08 foal crop comes through to racing age. This point needs to be made to the galloping code.

Having considered all the information, HRQ could put a strong case for the retention of the current formula for the UNiTAB wagering payout. However, taking into account that a number of the formula's elsewhere have an element of market share the best position would be to argue:

1. UNiTAB distribution to remain at:

Thoroughbred	76%
Harness	14.5%
Greyhound	9.5%

2. Racefields income and any other new forms of income through Product Co to be on a market share (HRQ would be significantly better off under this part of the model).

A fallback position would then be:

1. Either a percentage of UNiTAB distribution (say 80%) or a set amount (say 2012 distribution) be at the set percentages and the balance along with racefields and any new forms of income through Product Co to be on market share.