



Race Track Industry Program

WEDNESDAY, DECEMBER 8, 2004

Morning Session 2

**IT'S 10:00 P.M. (IN EUROPE)
DO YOU KNOW WHERE YOUR PLAYERS ARE?**

Moderator:

Alan Marzelli, President and Chief Operating Officer, The Jockey Club

Speakers:

Maurits Bruggink, Executive Director, International Federation of Horseracing Authorities

Andrew Harding, Chief Executive, Australian Racing Board

MS. WENDY DAVIS: Before we start our esteemed panel here we do have one more presentation to make. And this is our Race Track Industry Program Alumni Award. And this year our award goes to someone who is really well-versed in racing.

He has been an assistant racing secretary, racing official, a marketing director, he's even been a newspaper handicapper at one point in his life; he's been to a number of racetracks; worked at Tampa Bay Downs, Arapahoe Park, Commodore Downs, Louisiana Downs; he's well traveled.

He then went to Penn National and held a number of executive positions with both Penn National, Penn National Gaming, before accepting the position of president and CEO of Equibase.

By now you might be able to guess that our Alumni of the Year Award is going to Phil O'Hara. Which — I understand Phil wasn't going to be here at this meeting this morning until the boss said this was a mandatory meeting, and we didn't have anything to do with that, Phil. But we're glad you're here this morning. Phil, come on up.

(Applause)

But you know, where did this all start? You've had a lot of jobs, you've done a lot of wonderful things, but obviously Phil's a graduate of the Race Track Industry Program. So I went back into history a little bit.

You can see that these are verified documents here. These are actual notes from club meetings when Phil O'Hara was the president of the Race Track Industry Club. So he got a lot of experience running our organization when we were all students.

Things like, "money spent on the racing party last Saturday," was \$144.00. The chicken cost the club \$67 and the booze came to \$77. These are official minutes.

(Applause)

Here's something else. Ideas to think about, here's our list. "Turf Paradise Trip, Charity Day, making Bud the official beer." It's really here. "Spring break trip to Las Vegas, Santa Anita and Los Alamitos, Kentucky Derby Party and jobs in California."

So early on, Phil was really active in getting the rest of us organized and on our way in the racing business. Phil was president of the club — and can I say the year? 1979. And the rest of the executive council is not too shabby.

Director of sales for Cal-breeders sale, the executive director of the Jockey Club was treasurer at that time, we also have the assistant general manager of Golden Gate Fields and a harness racing secretary. So you did a good job leading a good group.

Phil, it's great to have you.

(Applause)

MR. PHILIP T. O'HARA: I'm kind of dumbfounded right now. It's very few times I've ever been at a loss for words. But I'd say the one thing that I did do while I was here was we did make Bud the official beer.

(Chuckles)

Anyway, I've worked with Al Marzelli for about six months now and I know that he's really very conscious of time and we work on schedules, so I'm going to make this brief and just say, thank you very much.

(Applause)

MS. DAVIS: So I'm going to double duty here this morning and I'll also introduce the moderator for our next panel. The panel is, "It's 10:00 p.m. (In Europe) Do You Know Where Your Players Are?" And Alan Marzelli has kindly agreed to moderate this panel.

Alan is the president and CEO of the Jockey Club, but for today's panel, the hat he's wearing is as vice-chairman of commercial affairs for the executive council of the International Federation of Horse Racing Authorities.

That's a mouthful, Alan, those must be some big shoes to fill. So to keep on schedule, I will turn this over to Alan and thank you very much for overseeing today's panel.

(Applause)

And loaning us a little time to give an award.

MR. ALAN MARZELLI: Thank you, Wendy. I know Phil's been difficult to deal with to begin with, and nobody knows that better than Janice, and he's going to be impossible now after getting this award. So thanks for taking 10 minutes of our panel and we won't make it up, and thanks for making Phil impossible.

But in all seriousness, congratulations, Phil, well deserved, and glad to have you on board.

It is a pleasure to be here again and in particular to be sharing a panel with two friends and distinguished colleagues who have traveled a long way to be with us here today. Maurits and Andrew, thank you for coming, and we look forward to hearing your perspective on today's subject. I commend Doug and Wendy and their staff for once again including the topic of the betting exchanges and off-shore wagering in this year's Symposium, and presenting an international view on the subject.

These are critical issues facing our industry, not only here in North America but throughout the world of racing. We're indeed fortunate to have with us today two gentlemen who've been closely monitoring the evolution of betting exchanges and off-shore wagering sites, and I think together they'll be able to provide an interesting global perspective on the problems we face in these areas.

Maurits Bruggink is the director of public affairs for the International Federation of Horse Racing Authorities. That is a mouthful, so from now on I'll just refer to it as IFHA. The Federation's offices are located in Paris where Maurits commutes to each week from Brussels.

Andrew Harding is the chief executive of the Australian Racing Board, and he literally came halfway across the world from Sydney, Australia, arriving at 1:30 this morning to be with us here today.

So thank you both very much.

(Applause)

As an aside I should mention that Maurits delivered a presentation on leakage and cross-border betting at the Jockey Club's Roundtable Conference back in August, and we received a great deal of positive feedback afterward from those in attendance that did not realize the magnitude of this problem.

I have to say it came as a surprise to me that people who make their living in this industry didn't realize that these problems are international in scope and pose a devastating threat to our business.

Before we begin on that subject though, I'd like to say a few introductory words about the IFHA for those of you who may not be familiar with it. The IFHA was formed in 1966 in Paris. Today it consists of 61 racing authorities from 55 countries, and its members meet in Paris each October. The IFHA's affairs are governed by an executive council consisting of 12 representatives from each of the three main racing regions around the world; Europe, Asia and the Americas.

D. G. Van Clief, David Willmot and myself represent North America, Carl Hamilton, chairman of the Jockey Club Information Systems, serves as a technology adviser to the executive council.

The objectives of the IFHA are to promote horse racing and breeding and the integrity and prestige thereof, and to foster and develop exchanges — and by that we don't mean betting exchanges — between various racing authorities.

The Federation seeks to accomplish these objectives through the establishment of the International Agreement on Breeding, Racing and Wagering, which is maintained by the IFHA as a means of promoting the harmonization of breeding and racing worldwide.

Now, last year in response to the expansion of cross-border betting and the growing threat of online bookmaking operations and betting exchanges, the IFHA hired Maurits as its first full-time employee and created the office of public affairs.

The office is funded by a special assessment paid by each of the members plus a special annual contribution split equally among the three major racing regions. North America's share is paid for by the Breeders' Cup, Woodbine Entertainment Group and The Jockey Club.

Now, during this year's annual general meeting of the IFHA, horse racing authorities of 50 countries agreed on two basic principles to be respected concerning the provision of cross-border betting services.

First, no one should be permitted to offer betting possibilities on races without having the express agreement of the racing authority staging the event or the rights holder of the racing data and pictures.

Second, no one should offer betting possibilities to people living in countries where it is forbidden by law.

These principles are embodied in Article 28 of the previously mentioned international agreement. Maurits will tell you more about Article 28, about what transpired in Paris two months ago, and about what has happened since then. He will also tell you about some future action plans.

I can tell you he's well-suited for this challenging position. He is an attorney, speaks five languages, has more than 15 years of experience as a government relations practitioner. And in that capacity he has advised numerous European industry associations.

Andrew, who in addition to his duties with the Australian Racing Board serves as secretary general to the Asian Racing Federation, has been widely quoted regarding his passionate stance against betting exchanges. And if anyone was in Paris this year they know what I mean.

In fact, the Australian Racing Board which Andrew chairs has been called Betfair's most vigorous opponent. The Australian Racing Board is justifiably concerned about the integrity of its product maintains that betting exchanges represent the greatest threat to racing in the world. And it has campaigned ferociously against them since the Australian federal government announced in July that it would not legislate against betting exchanges, thus enabling Betfair to continue operating in Australia without a license to do so.

Like Maurits, Andrew is an attorney and very familiar with regulatory issues pertaining to horse racing. If you're an operator of a racetrack in this country, or anywhere in the world for that matter, the next 50 minutes should be an educational experience for you. There are people and organizations the world over that share your beliefs and concerns and they stand ready to help you.

In this country over the past year or so we've read and heard a lot about the changing landscape in which handle rises and purses decline. That changing landscape is a result in part of certain advances in technology that play to the weakness of our underlying technology infrastructure, an archaic infrastructure that prevents us from properly controlling and managing our business.

I've said many times before, wagering security, wagering systems and the changing landscape of our business are inextricably linked and they must be addressed together. There's no question that the concept of betting exchanges as they are currently constituted in the UK and off-shore wagering sites throughout the world pose both an immediate and long-term threat to the economics and integrity of thoroughbred racing on a worldwide basis.

A viable solution that is in the best interests of the industry stakeholders in all racing nations must be sought and developed as quickly as possible.

Maurits and Andrew will now shed some light on how we're attempting to do that. And we'll start with Maurits. Maurits, welcome.

(Applause)

MR. MAURITS BRUGGINK: Ladies and Gentlemen; thank you, Alan, for the kind words about me and the five languages that I speak. In order not to make you feel too uncomfortable I decided that my today's presentation will be in English.

(Chuckles)

Let me first say something more about our organization. Until now we have been known more particularly for other matters, for harmonizing rules regarding racing matters in particular, like rules on racing, international movement of horses, and the use of medical substances.

But with rapidly growing new technologies and cross-border betting we have created this global office to deal with these matters and to fight unauthorized betting.

The next slide shows a bit about the organization itself. Alan said enough about that. So we move on.

As mentioned, cross-border betting is developing rapidly, which is due to changes in business, technology, politics, regulation, and betting exchanges are a perfect example of these rapid changes.

I just mention Betfair which is a company, the market leader in betting exchanges. It's a company that didn't even exist five years ago, but which has now a total volume of betting which is estimated at 3.5 billion UK pounds per year, which is roughly \$5 billion U.S. a year, so it's about the speed of developments.

Twenty percent of this business is estimated to be generated abroad. And although there is more and more cross-border betting there are still great differences in national legislation and regulation on betting. We have total prohibitions in Islamic countries, prohibitions of betting that is; we have state monopolies in countries like Japan; we have a single license system like in France or in Hong Kong, and we have the federalized systems like in Australia and the U.S.

In the vast majority of countries worldwide, betting is not subject to free-market principles, and in most countries cross-border betting is forbidden. The exceptions to this rule are on the one hand the U.K. and Ireland that do have a great horse racing industry and where the market is more or less liberalized, and we have on the other hand also the soft jurisdictions normally without any horse racing industry itself, but that do allow cross-border betting while exported.

There are also big differences in legal systems with respect to, on one side the countries that allow pool betting, pari-mutuels, it's still 90 percent of the total betting volume globally, and the ones that allow bookmaking, the ones that allow both to exist.

And some countries also allow betting exchanges. And betting exchanges to our opinion are only allowed in the U.K. and in Ireland. But despite all the regulatory differences that exist in the world, all the racing authorities in the world agree on what should not be permitted with respect to betting, cross-border betting.

Alan already mentioned the two principles, and if I want to translate them into what it means to the U.S. it would mean first that foreign betting sites should not accept wagers from U.S. citizens because U.S. law simply does not allow it.

And secondly, betting sites that offer bets on U.S. races should pay an appropriate fee to the racing authority that hosts the event.

At the moment there's a growing number of companies that do not respect these rules, and hence our action program. Let's give some examples. Sportsbetting.com is an English language Web site, according to what we know, based in Antigua, Bermuda, and it takes all kinds of sports bets, including on horse racing.

It does not pay for the use of the racing data that you find on this Web site and it does not — there's no part of the betting revenue that flows back into the racing.

Same applies to another example, Worldsports.com, and as far as I understand, the Jockey Club is very pro-active in chasing all those Web sites that do not pay their contributions and pay fees for the use of the data.

Another example Mrbookmaker.com, it's a multi-based Web site. It offers bets not only on U.S. races but also on races in the U.K. and in France and other countries. And it offers the possibility to any punter with an account, a bank account in Europe, to bet each day in the week on U.S. races.

It actively promotes, Mrbookmaker.com that is, that it can offer better returns to punters, which we all know is possible because they don't make a contribution to the racing authority that stages the event, and therefore they can offer better deals to punters.

And this potential loss of revenue for U.S. racing will only increase through sites like Mrbookmaker.com, if your simulcast images are distributed more and more, which is the case, and also because, of course, the abolition of the 30 percent tax on foreign betting.

I just want to show you one example of how things could work very correctly; that is I took an example Ebetusa.com. It's a USA-based site, takes online bets which are fed into commingled pools; and as you can see at the bottom of the page — actually, I don't know whether you can all see this, but it mentions Equibase, a company. So this is a company that pays for the use of the racing data upon which it bases its business model.

Now, in the future we would also expect companies like this, should they decide to use simulcasting on their Web site and Webcasting, rather, to pay also for the images.

Seems a good moment now to move to betting exchanges, which are undoubtedly one of the more successful but also controversial forms of Internet betting. As I said before, they're to us only allowed in the U.K. and Ireland, and perhaps some soft jurisdictions.

They offer or they work, they operate on the basis also of Irish and U.K. bookmakers' licenses. Now let me shed some light on the three main points of controversy on betting exchanges.

First of all, there's the lack of cross-border control on cross-border betting, concerns about funding and the concerns about corruption of races. The first controversy caused by betting exchanges is that it takes bets from people living in countries where it is forbidden by law.

I just take two of the most known betting exchanges as an example. This slide that you see here is actually the Web site of Betfair, and it shows, you can see in these little columns with all the countries, it shows that you can open up an account with this Web site from many, many different countries in the world, and of which many, many actually forbid their citizens to use off-shore betting Web sites.

Same applies to Betdaq, another example; Betdaq is the world's second biggest betting exchange. It's an Irish company, and you just see here I picked an example of countries that's listed; Japan, for example. In Japan, Japanese citizens are not allowed to bet off-shore, and it's still possible for a Japanese citizen to open an account with Betdaq.

If you want to try to open an account from the U.S., that's the next example, it's difficult to see, but there if you try it — I tried it yesterday under the name of John Smith, basing in Tucson. It says, "Registration from this country is not permitted."

Again, the same applies for Betfair, that's the next transparency. Betfair also gives the message, if you want as a U.S. citizen, if you want to use betting exchanges, it says, "No no, you're not allowed." This is probably nothing to do with the intellectual argument of the case, but rumor says that, well, these betting exchanges don't want to get into litigation with the U.S. authorities and frustrate a possible floating of the company.

Well, whatever may be the case, many of my members' countries' racing authorities are very annoyed by betting exchanges, but also other betting Web sites that do take bets from their citizens where it is not allowed.

No doubt Andrew will elaborate a bit more on that, on the situation in Australia, as an example. Second controversy I'd like to point out is relating to the funding of the industry and for that I've produced a kind of small chart of statistics. You see on

one column, you see the funding of our industry. And these are, by the way, all official figures from the racing authorities, handed in by the racing authorities.

And you can see all the statistics on our Web site plus statistics, many more statistics also on other countries, all our racing nations.

So what you can see from the first column is that total betting revenue of a country, and the second column is the percentage of that betting volume that is reversed, returned back to racing.

And the biggest revenue source for racing is still a percentage of betting as related to the betting. In the case with the U.K., I've picked the number given to us by British racing authorities, BHB, on bookmaking only, so there is a pool.

Sorry for not mentioning the pool but it is still a very small number in the U.K. So you can see from the figures that the return to racing from bookmaking is considerably less compared to the return to racing from pari-mutuels, and all the other countries that I mentioned here are basically pari-mutuel-based systems.

So what about betting exchanges?

Basically, the return to racing by betting exchanges is as much as parties, being the racetracks and betting exchanges, would agree upon, whatever they agree upon.

But experience learns that so far all the proposals by betting exchanges are based — on the return to racing is based — is a percentage of the commission that betting exchanges take from winning bets. And these commissions are between three and five percent of the winning bets. So of that three to five percent there's a percentage that would then go as a commission to racing.

Without going too much into detail about the simulations of how this works, the countries that do operate the betting exchanges have given us the figure that we talk about, roughly about 0.2 and 0.3 percent of the betting turnover that flows back to racing.

So you can already understand for most of the countries that operate pools, this is a very, very unattractive system to — very unattractive proposal. You can also, of course, consider as U.S. racing to accept a fee on the bets placed on U.S. racing through betting exchanges — I'm sorry U.S. — and this is a road taken so far only by South Africa.

But most of the racing nations' authorities don't reject this idea basically for principal reasons against betting exchanges and also for the small funding that is involved.

The third concern about betting exchanges is something we've all read about in the newspapers, that's about the potential corruption of races, and this is then the

result of the possibility that betting exchanges offer, that is to bet on horses to lose.

I won't go there into much more detail on that; Andrew surely will do so. Just to clarify, as an international horse racing community, federation, we don't have any specific position for or against betting exchanges, but like any other betting operator, we want them to obey the two basic rules that we've explained down here. And it seems that with betting exchanges this is not really the case.

In order to fight all unauthorized and undesired forms of betting, particularly remote betting, we have developed an action plan. I just want to mention one or two items of our action plan, what we're doing to fight them.

First of all, the key focus of our action plan is the protection of our intellectual property rights of the data, the racing data, the images and of the wagering possibilities that these images and data offer.

We have to introduce globally the concept of pay-for-play, very much as the audiovisual industry, for example, is doing. And this is what we are promoting, this idea, pay-for-play. Now, on the national level you already have protection; we are trying as an international organization to seek international protection of, particularly, international betting transactions.

We've already made representations to international organizations, and there are a great number of them, and most relevant ones based in Geneva and a part of the United Nations on world intellectual property rights organization, for example, that could establish treaties, adopt treaties between all the nations that have force of law, and that would enable us to enforce our data rights globally.

We are also talking to some national governments, but obviously the very soft jurisdictions that decide not to obey international rules and practices will be difficult to convince of our views.

But there are other ways of also, in these cases, to enforce our ideas, and I'll mention a few of them.

First of all, a number of countries have already successfully banned international transactions with betting Web sites through credit cards, so the credit card issue is: Do not take bets from or do not take financial transactions from these sites.

Now, that has happened successfully in the U.S. here, it has happened successfully in Japan, Hong Kong, and we are trying also in other countries on an international level to convince the credit card issuers only to deal with those Web sites that are — have been authorized to do so.

Another route which is more drastic is through Internet service providers, and particularly the international backbone structure, is to simply block any traffic with undesired sites. Now, the Internet has a view of being very free flow of information,

but still — the Jockey Club in Turkey is my big example, has been able to persuade the authorities to block traffic flowing into Turkey from betting Web sites.

We are also in the process of developing a seal of approval, that's a seal that Web sites, good Web sites can use, Web sites that have paid for their racing data and that have paid for and that do the contribution to the racing.

And it's also assigned to all those good Web sites that do pay us, who don't let go of all the bad guys. And a final example is communication; this is being here, talking to you, explaining our views and how important this is. But it's also about explaining to the policymakers, explaining to the media, it's explaining to the consumers what this is all about.

For that we have developed a very nice new Web site, with many, many interesting pieces of information, course classifications, handicappers data, statistics as seen from all the racing nations, and also we have a portion on headlines, news on betting legislation and policy in the world, and this site, I must thank very much the Jockey Club Information System that has helped in developing the site.

I hope you'll visit this site to learn more about cross-border betting and to keep up to date with our action plan.

Thank you for listening. And I'm now passing on the floor to Andrew Harding of the Australian Racing Board.

Thank you.

(Applause)

MR. ANDREW HARDING: Thank you, Maurits. Mr. Chairman, Ladies and Gentlemen. It's indeed quite a pleasure for me to be here for you today. For as long as I've been with the Australian Racing Board I've heard many good things of the Symposium. Indeed, on a personal note I have to say that addressing an audience such as this with the international reputation that this Symposium has is quite a step up from some of the earlier engagements that I had in my role with the Australian Racing Board.

I remember when I first started with the Board I was asked to speak to a Chamber of Commerce meeting in a little place called Tugalua.

I arrived at the appointed hour, went through the back of the town hall onto the stage and very disappointingly the audience consisted of only one person. Nonetheless, flushed with youthful enthusiasm I proceeded with my speech, gave it. Was packing up my papers and about to leave when a fellow shot up his arm.

"Please don't go," he said, "I'm the second speaker."

(Applause)

I'm going to use the time that I've been given today in two ways. The first is to show you a shortish film that my Australian colleagues have produced, which explains in fairly clear terms, I believe, the Australian Racing Board's position, indeed the Australian racing industry's position across the country on betting exchanges. We can start with that thanks, Bob?

(A tape was shown)

(Applause)

Thank you very much, Ladies and Gentlemen.

I'll keep my comments now fairly brief. You've seen that very starkly described Australian attitude, you've seen also that we're not alone, many other countries share our view that betting exchanges are fundamentally incompatible with the best interests of our sport.

But wearing my Asian Racing Federation hat as secretary general, can I just briefly summarize what I think are the key international considerations for racing.

First is integrity, and the documentary has gone into great detail about that. Public support for racing depends on its trusting that racing's done fairly.

Now, if you encourage people to make money out of horses losing then you strip that away. I don't think that you can seriously hope to sustain racing into the future as a sport that people have confidence in if you allow exchanges.

Now, racing is a business, so we have to look at the commercial considerations also. I've heard Alan Marzelli this morning talk of this concept that you've coined in America; "Handle up, purses down." Let's apply that to the circumstances of betting exchanges.

Betting exchanges say that they can, even with their commission structure, deliver the same level of financial returns to the race industry, or better. Now, that's just fanciful. We've had independent economic advice on this, and one set of economists — they all come to the same conclusions, but one set of economists put it in these terms, that that was simply implausible.

A task force established by all of the Australian state territory governments to examine betting exchanges came to the conclusion that the increase in handle that would be required just to see the Australian racing industry's revenues held neutral would be in the order of 17 times.

I mean, that's — that is, to go back to the quote that I took from the other set of economists, plainly implausible. And let's consider that that consideration, that consideration of the betting exchange financial model is compounded by the first

consideration. Because as one of the big people interviewed in that documentary put very plainly, we exist in a very competitive environment.

Racing competes amongst itself, against other betting opportunities, betting on other sports, against other gambling opportunities, and then beyond that, other entertainment opportunities. We've estimated, or rather it's been estimated for us by our economists, that only a five percent reduction in public confidence in racing as a result of integrity concerns would see our revenues in Australia fall by 33 percent, and of course if that became endemic, if that became fixed in the public mind that racing wasn't straight, then that would be compounded by even greater values.

So what are the options? Now, one that I've heard is, "Well, there are problems but we're not sure that we're going to be able to beat them so let's join them."

Now, that might have some superficial appeal, but in my view it is an illusory option.

Consider: If you establish betting exchanges in this country then you have to, I think, accept all comers, so you'll be inviting a circumstance in which your own exchanges, for example, if you establish them, are operating on a basis that charges commissions that actually covers the cost of staging the races that those bets are being wagered on, and they'll be competing with other exchanges, other exchanges that charge commissions that they don't make a return to racing.

In those circumstances how can the, "If you can't beat them let's join them" option truly work? And of course then there is the problem again — we keep coming back to it — of integrity. If you allow exchanges in, then the integrity problems become entrenched. So what's the conclusion?

The story's told of a young priest, in his first parish, and he's summoned to the bishop's house to have breakfast. And his nervousness is made even worse by the fact that the housemaid serves him a rotten egg. He's picking at it very gingerly. And the bishop says to him, "How's your egg?"

And he says, stuttering, "Well, it's quite good — in parts."

Betting exchanges really do fit into the category of the young priest's egg. You can, if you want to, look for some compensating features. But the stark reality is that on a gain and loss equation, they are fundamentally flawed.

There is nothing that betting exchanges can offer our sport and there is every threat that they pose to it.

Thank you very much, Ladies and Gentlemen.

(Applause)

MR. MARZELLI: Thank you, Andrew, thank you for that powerful video and powerful message. Nobody ever said Australians were shy. And I guess if you're going to come halfway around the world you might as well stick the landing net, and I think you have. So thank you.

We'll get to some questions in a moment, and these gentlemen have come from a long ways, so I'd like to just acknowledge them one more time before we do.

(Applause)

And equally important, the reason that they've come this far is the rest of the world does view this as a serious, serious problem and the rest of the world is taking action, the rest of the world is looking to America for support and looking to America for leadership. Not against one company, not against one form of wagering, but against threats to the economic and integrity underpinnings of our sport. So we'll take questions now, thank you.

Anybody? Yes, please?

MR. TOM DEACON: Tom Deacon from the Ontario Horse Racing Industry Association. I think most of you know Ontario's a province in Canada.

My question to Andrew Harding. It seems to me in what I fully agree with Mr. Marzelli is a very effective video presentation that you have given us, that you're hanging your hat in the main on the fact that through Betfair, and I presume other betting exchanges, you're able to bet on a loser in effect.

If the betting exchanges were to — whereas, I should add, it seems to me that the fundamental problem was identified not only by yourself but by Mr. Marzelli, and that is that these exchanges are contributing nothing to the provider of the product.

I understand recent jurisprudence in Britain has said that the data is in the public domain and so therefore the only thing that can be protected is the signal. And I guess in effect they're pirating the signal, I'm not sure.

But my question to you, sir, is: If they were to stop allowing wagering on a loser, and confine themselves to what we're all accustomed to doing, and that is betting and trying to win, what does that do to your campaign? At minimum it would seem to me it requires you to change your thrust somewhat?

MR. HARDING: Thank you very much. It's a very good question. I think what we're dealing with here is the concept of an exchange. If you were to make the change that you're proposing, then you're no longer talking about an exchange; and frankly, from the operator's point of view it is not a business or model there that they can work to.

The exchange works for those people that are behind it because they take no risk. They're matching bets, that's what they pride themselves on doing. They're taking

a bookmaker's license but they're not actually the bookmaker. They're allowing the world at large to become the bookmaker; I mean, that is the essence of the exchange.

If you move to the circumstances that you've described then really we're just dealing with another bookmaker operating on the 'net, and Maurits has given examples of those. And as you say, for those types of operations the issue is the racing industry's return, the integrity issue just doesn't arise, you're quite right.

And in responding to that funding threat that those operators do pose, part of the solution that we have hoped would come to pass would be effective in the protection of the data rights.

I wouldn't be as pessimistic as that about the most recent developments in the United Kingdom. The more recent advice from the British Horse Racing Board, whether it's British "stiff upper lip" or whether it — and I hope it is the latter — reflects the more recent legal advice that they've taken, is that they're quite confident they can still prevail. And let's remember that the legal question that was asked in the United Kingdom, or rather the European Union, only applies to the circumstances of the law that's been promulgated by the European Union.

It's database directed, it's not a limiting decision so far as copyright law more generally is concerned.

MR. MARZELLI: Thanks. As it relates to U.S. racing, if the issue of integrity is taken away as Andrew said, you still have the issue of economics. And what we found in the last year in the NTRA's wagering task force, when they analyzed the effect of "handle up, purses down" is that that three to five percent royalty rate that is being passed on to secondary pari-mutuel wagering operators is an inappropriate rate for this industry. It has created a spread between the takeout and that rate that allows them to arbitrage and rebate back to customers, and thereby take those customers away from the live venue.

If you look at the economics of a betting exchange, their commission is three to five percent on winning wagers, and the deal that they've struck with the Jockey Club in the UK and are seeking to strike with the British Horse Racing Board is 10 percent of that.

Now, who in this room that operates a racetrack can survive on three-tenths of one percent? I know the tote companies can't, so how can a racing operator survive?

We had a question here?

MR. CARLOS KHOUZAMI: Yes. I'm Carlos Khouzami. Andrew, I just want to add something to your answer.

I believe that betting exchange can get rid of most of its bad side; you know, they can pay more, they can be more regulated, whatever. But there are two things that they will never be able to get rid of, and those two things are what harmed us.

First thing is exactly to play on the losing horse. In fact as Andrew was telling, but I believe it's really important to make it very clear, it's substantial that a betting exchange is like the stock exchange; when you sell the stock because you're thinking that it's going to go down, so you think this stock is going to lose.

And that's exactly what's you do when you — I was just saying that in fact the real problem is that the practice of betting exchanges exactly equal similar to what we have in the stock exchange. When you sell the stock, which means when you lay a bet, it means you're thinking that the stock is going to lose part of its price, it's going to be the losing stock.

And that's exactly what's happened in the betting exchange whenever you lay a bet; it means they think that the horse is going to lose. So if the betting exchange could decide not to allow people to bet on losing horses it means they're just changing their model, they're not a betting exchange company anymore but an Internet bookmaker, what Andrew said, and I believe that should be made very clear, no way that betting exchange company change that matter of fact.

The second problem clearly is that they will never be able to offer high return bets like exotic bets or whatever, because there is no centralization of the amounts, and so it's just a person against another. And so we're reduced to simple exactas, and I don't believe they can offer anything like a trifecta.

Which means also that if their model becomes dominant they can destroy the market, because part of the bettors will not be able to find the kind of bets they like to play on.

So all the other things can be changed, they can pay, I believe, more, it's just a decision they can take to charge their customer more, but there are two harming things they'll never be able to exchange because it's totally linked to the model they adopted. Thank you.

MR. MARZELLI: Thank you, Carlos. We got three international views for the price of two. Any other questions? Yes? All the way in the corner.

MR. NIALL WASS: Hi. My name's Niall Wass, I'm from Betfair. I'm the director of marketing and business development with responsibility for international development. I'm not going to take too much of your time because I'm going to be sitting on the end of the next panel and I'll be happy to answer more questions for you then. I just wanted to highlight a couple of points from some of the guys' points this morning.

I think I really had three points which is about cross-border trading, about integrity, and about funding. First of all, and as I think was demonstrated, Betfair does not take U.S. bets at this point in time, and we've made that a specific objective.

Secondly, what I'm hearing from the guys on integrity is if they are saying integrity is paramount, which we all agree it is, and that's certainly one of our core values as well, is it not better to have a scenario where all transactions, all people are registered and recorded in a detailed audit trail, with agreement with the authorities, between the authorities and the regulator, just as Betfair has with the U.K. Jockey Club, so that any malpractice is easily caught?

Or what I'm hearing is it's actually better to have a situation where anonymously you can bet on horses to lose. And let's be frank, it's always been possible to bet on horses to lose. All you have to do on a six-runner race is back the other five. And if it is indeed true that exchanges are such a threat to integrity, why would the person who has primarily been responsible for insuring us in the U.K., where the most experience has been, which is Paul Scotney, the security director of the U.K. Jockey Club, has totally rejected this argument.

I'd just like to give you one quote on that, and this is actually from a radio interview he did in Australia about two months ago, so it should be familiar to one of the gentlemen on the stage, which is, "For me they, the betting exchanges, are a great help. The one message I would say is that they're not the threat to integrity that people are saying they are. That's just not true."

Okay, now this is the guy who's responsible for integrity in the U.K. I could go on; and the executive director of the U.K. Jockey Club, Chris Foster, has also said, "We've developed a memorandum of understanding which has the effect of opening the window wide to which betting account holder is betting what and when. This very powerful transparency of betting transactions not only provides the reason why we are able to bring forward more cases, but more importantly and perhaps for the first time provides the prospect of an effective deterrent to future malpractice."

I'll just finish off by answering the funding question. And unfortunately there was not enough time in the agenda for us to present but I have in front of me the funding that the U.K. has had from horse racing levy; over 1996 to 2003 it's been flat at \$100 million from '96 to 2000. Betfair was launched in 2000. Since then the compound annual growth rate between 2000 and 2003 is 22 percent, it's now \$185 million.

Betfair made 11.9 million pounds in profit last year, and 7.4 million of that to the British Levy Board. This will be 13.3 million in 2004. We're still quite small related to the other big bookmakers.

So I think without going into too much detail that the three major issues around cross-border betting, while we don't do it, the reason Betfair is here is that we would like to engage with the industry. We have always said there is a way for us

to get the right funding model and we will happily work with whoever is prepared to talk to us on that.

One of the comments was, "Well, it's only two to five percent of commission."

Well that's true. But the model in the U.K. doesn't have to be the same model for the U.S. Plus you'll also find that the average revenue per user or the takeout per race is actually much higher on an exchange than it is through other forms of betting.

So I'll be delighted to take more questions after the second panel, I just wanted to give some initial feedback to the guys there.

MR. MARZELLI: Thank you. I think we've evolved from question and answer to point and counterpoint.

Andrew, before I close up, would you like to respond, or Maurits, any closing thoughts?

MR. HARDING: I'd certainly like to say something but I'm happy to go after Maurits.

MR. MARZELLI: Both Andrew and Maurits will be around for the next couple of days and be available to answer any questions you have off line.

MR. BRUGGINK: Well, I can say some points. The first point is offering betting possibilities to citizens, to people living in countries where it's forbidden by law. That clearly is a rule that all the racing authorities in the world adopted, and that rule is simply not respected by any betting exchange, and I have pointed that out in my presentation. And that is one of the reasons where I can say a lot of racing authorities, basically all of them except in the U.K. and in Ireland, say, "Go out of my country, don't offer wagering possibilities to my punters."

So indeed in the U.S. that is different for whatever strange unknown reasons, there appears this refusal on the Web site. But for all other countries, and I can name a whole list of countries of racing nations that don't want betting exchanges, they'll say no to betting exchanges, and betting exchanges simply don't take no for an answer.

So they continue to offer the wagering opportunities to the citizens. So that's one point that I can clearly say that's a common point by all the racing authorities in the world, and that is not shared apparently by any of the betting exchanges.

Then on the corruption, I'll leave that to Andrew; and funding, well, my knowledge from all the racing authorities in the world, and betting exchanges have approached all of the racing nations, or many racing nations in the world, and none of the racing nations so far thought it even remotely interesting even to get into a discussion with betting exchanges.

Don't forget we're not comparing a situation in the U.K. with the rest of the world. The U.K.'s a different market where you have bookmakers, where the return — as I showed in my transparency — the return of bookmaking to racing is already much lower than any pari-mutuel system, so how would you not want to convince someone who runs a pari-mutuel system and who gets five, six, eight percent back to racing, how would you want that guy to convince, to adopt the betting exchange model? And we're talking here about point something percent? So that's the experience of the world racing authorities.

MR. HARDING: Thanks Mr. Chairman. I'm not sure if I can thank the gentleman in back for his question, but that seemed to be more points of argument.

But to take the corruption issue; the comments by Mr. Scotney are significant; I think their greatest significance is their isolation. Mr. Scotney is in, one might say, splendid isolation both within his own country and internationally. Seems to me that we really have a very interesting choice of interpretations to place on the development in the United Kingdom so far as race fixing and betting exchanges are concerned.

Over the last three months we've seen 30 people arrested; 80 races initially and suspicion of race fixing that's increased to over a hundred now. The City of London police, the top fraud investigators in the country, describe the corruption they're uncovering as huge.

Now, two interpretations that I think to offer, one, that British racing has always had that problem, or that betting exchanges have created it. Now, Mr. Scotney can take his pick.

So far as the funding is concerned I think that Maurits has explained it far more eloquently and usefully.

Thank you very much.

MR. MARZELLI: Thank you both. Just a couple of closing comments because I see our next panel pacing in the back of the room. I appreciate you all staying and listening and hope you found this educational, entertaining, and more importantly, hope that you walk away from here knowing that the worldwide racing community considers this as a major issue going forward, no matter what side of the argument or the discussion you are on.

It is a problem that we must solve as a world. Not as one racetrack, one state, one nation, but as a world. And I hope you saw today that both Maurits and Andrew represent a conglomeration of racing authorities that are committed to sticking together and providing leadership on this subject, and a country that is taking the lead in terms of dealing with the problems head on.

Again, thank you for coming and Andrew and Maurits will be here to answer any questions you may have for the next couple of days.

(Applause)



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