



Speech by

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TAB QUEENSLAND LIMITED PRIVATISATION BILL

Dr WATSON (Moggill—LP) (Leader of the Liberal Party) (10.40 a.m.): It is a pleasure to rise in the debate on the TAB Queensland Limited Privatisation Bill 1999. At the outset, I indicate that the Opposition will be supporting this Bill. In my contribution I intend to speak about some of the economics factors associated with the Bill and the delay with respect to the Bill's introduction into the House. My colleagues the member for Toowoomba North, Mr Healy, and in particular the member for Crows Nest, Mr Cooper, who did so much during our term of Government to get the TAB into the position of being able to be privatised, will speak about issues associated with the racing industry in particular. Other members will also be making their contributions along those lines. I place on record my thanks to the Premier and acting Treasurer for allowing me access to Treasury officials. Although I do not see him here today, Tony Bellas, the Assistant Under Treasurer, and his team, which has done so much work in this area, need to be congratulated. I worked closely with Tony on the privatisation of the QIDC and Suncorp and their merger with Metway. He is a competent Treasury officer who deserves his position as Assistant Under Treasurer. I think he has demonstrated that yet again.

I wish to speak briefly about the background to this Bill, the time it has taken to get it here and some other economics-related aspects. As I indicated earlier, when we left Government the member for Crows Nest had essentially reached a very tight agreement with the racing industry and others in terms of privatising the TAB. Everyone recognised that it was in the Queensland racing industry's interests to get on with the job. From Queensland's and our point of view, it has been disappointing that—and I understand that political processes within the Labor Party have to be gone through—it has taken so long to reach this point. More importantly, the delay will cost Queensland taxpayers money. When we left Government we were in what could broadly be described as a rising market. If we had been able to privatise the TAB last year, we would have been able to issue the prospectus and the shares into a rising market. At the moment, the market is heading the other way, and I will make some more references to that in a moment.

When pricing share floats, one of the things that stockbrokers and financial advisers look at is the general strength of the market and the economy. In the 14 months longer than it should have taken to reach this point, the market has gone up and is now falling back. These are not my observations solely; they are also the observations of experts in the area whose job is to look at this on a day-to-day basis.

For example, a week or so ago, Michael Knox from Morgans released a paper in which the All Ordinaries Index was modelled and in respect of which he made the following points. He looked at Australian 10-year bond yields and their association with the All Ordinaries Index. According to his model, the value of the All Ordinaries Index will be lower in the future. He states—

"The normal seasonal pattern for the Australian equities market to decline from the end of August until the end of November ... Such regular seasonal correction is likely again this year. We believe that when this correction is finished, the Australian All Ordinaries Index would have tracked down towards appropriate value."

He made the following point also—

"The closing high for the All Ordinaries Index in calendar 1999 was reached at a level of 3,145 points on 27 April. After correcting to 2,888 points on 28 May, the All Ordinaries then rallied to a second high of 3,127 points on 20 July."

However, the All Ordinaries Index has been correcting ever since, and Michael Knox and Morgans anticipate that that broad pattern of correction should continue until the end of November this year.

For example, if we look at Yahoo's financial page we can see in graph form that from September 1998 through to May 1999 the All Ordinaries Index rose, but since then it has been declining or stable. Given the rise in the United States Federal Reserve rate by 25 basis points this week and the 25 basis point rise prior to that, most pundits are now anticipating another 25 basis point rise in the United States funds rate later in September or October. Those rises suggest that people are worried about inflation. Therefore, the yield on fixed securities is rising, with the result that fixed securities are relatively more attractive than shares. Therefore, the share market will start to come off.

Unfortunately, we are now in that environment. With the correction in financial markets since the market high earlier this year, shares in Australia and probably overseas will probably lose about 10% of their value. That means that the market price set by the brokers when the TAB is floated will be that much lower than it would have been had it been sold, say, earlier this year, if we had gone through the process and taken the TAB to the market at that time. The procrastination from the ALP and its inability to make a decision in Government on this issue—one that was already set up by and delivered to it on a platter by the member for Crows Nest—have probably cost Queensland taxpayers \$10m or \$20m. It is hard to put a precise value on it.

The second issue associated with the delay concerns the fact that some of the TAB's competitors have now had another year in which to gain a competitive advantage. Interestingly, the bible about which the Premier speaks every now and then, the Courier-Mail, in last Saturday's edition in the business pages—

Mr Beattie: This is your bible.

Dr WATSON: No, it is the Premier's.

Mr Beattie: No, this is your bible.

Dr WATSON: The way the Premier was quoting it today, if it is my bible we must have the same religion. I noticed in the business pages a report on the New South Wales TAB and how well it was doing.

Mr Beattie: I saw that.

Dr WATSON: I am sure the Premier did.

Interestingly, it made a couple of points about the competitive environment that are important to note. The article stated—

"Managing director Warren Wilson said telephone betting had surged over the past year largely because of the introduction of Sky Racing to pay television in September. Since that time, the number of account holders has increased 30 percent and business has jumped 45 percent compared to the same period last year."

I know that members who go to the races and follow these kinds of things well know that the returns to the TAB in New South Wales and Victoria are higher than the returns in Queensland. Part of that is because they have a bigger pool, and part of the reason for that bigger pool is telephone betting. It is interesting that in New South Wales that area has jumped quite substantially in the past 12 months. Again, it has put the Queensland TAB slightly behind its competitor there.

The other thing that article said about that is that the market share of telephone betting rose from 12.3% to 15.7% last year. It says that telephone betting is becoming more important and there is this competitive advantage for a privatised TAB in New South Wales. The other thing that is going to be a growing part, in my belief, in the future is Internet betting. The New South Wales TAB has indicated that it now has around 8,000 punters who have Internet betting accounts. I expect this is going to be increased significantly in the future. This will also mean an increased requirement—and I will get back to this in a moment—for capital and investment in that area. Again, the New South Wales TAB has probably got somewhat of a jump on others in terms of the competitive market.

The important thing about this is that the delay has meant that one of the privatised Queensland TAB's major competitors has had a 12-month head start on it. It does not matter how good the management is—

Mr Cooper interjected.

Dr WATSON: Yes, they have.

It does not matter how good the management is, the Government cannot give a quality competitor 12 months' advantage and expect the Queensland TAB to be up there with it. Not only

could the delay have cost the Queensland taxpayers an amount of money because we will not be able to sell it for as high a price in the market as we could have, but it has also meant that the Queensland TAB has given one of its major competitors a significant advantage in that time.

Finally, this is perhaps not a particularly significant concern at this stage, although it depends upon how long it takes for the Government to get to the point at which it privatises and actually gets the shares to the market, and one of the reasons—

Mr Beattie: You know that the timetable is for the prospectus at the end of October.

Dr WATSON: The end of October.

Mr Beattie: And the float in November.

Dr WATSON: Provided there are no delays.

Mr Beattie: If you help us through today, there won't be.

Dr WATSON: That is why we are supporting the Bill, because I think it is important that we get it through. The Government is not going to have any delays from us. As I said to the Premier when he spoke to me about it, we are going to facilitate getting this Bill through; we think it is important.

As we get closer to the Y2K millennium bug issue, there is going to be some kind of pressure on stock markets. I refer to a 10 August comment by Dr Edward Yardeni, chief economist and global investment strategist for Deutsche Bank. He has stated his predictions on Y2K economic scenarios. His fourth scenario, which he says has a probability of 40%, is for a major global recession lasting 12 months or perhaps longer, real GDP down 2% to 3%, the stock market down 30%, a flight to quality, and deflation.

As we get closer to the year 2000 with those sorts of issues coming up, they are going to start to impact on the market yet again. The longer that the Government delays the privatisation—and I hope the Premier is right that there will not be any delays after this Bill is passed, that everything will go according to plan and it will be floated in November—the more the stock market is going to be concentrating on those sorts of phenomena and the less it will concentrate on other things. It is unfortunate from Queensland's point of view that we have taken an extra 12 months to get to this point.

From the coalition's point of view, we thought that it was important that the TAB be privatised. The reason we thought that was, I guess, for some strong business and economic reasons. First of all, there was no doubt that the gaming market in general in Australia was becoming more competitive. We saw that originally in Victoria with Tattersall's and TABCorp down there, and I think all of us recognise that. We also saw the issue in the Northern Territory and what it is doing.

If business is going to survive in a competitive market, then it must have the flexibility to compete. There is no way that we can give the same kind of flexibility to a Government corporation—even a GOC—that a privatised corporation has. So we thought it was important that, if we were going to have a competitive TAB in the future in Queensland, it had to have the same kind of business and economic flexibility as its competitors have. I am sure that, belatedly, the Government has come to realise that. I see that that is one of the kinds of things that the caucus briefing note addressed in terms of the reasons for accepting Cabinet's decision of 15 March to privatise the TAB.

It is also important, as I mentioned earlier, to take into account some of the technological changes that are occurring. I mentioned Internet betting and those sorts of things. I think it is important to understand that the technological changes that are occurring in the economy are going to significantly affect the ability of any firm to compete if it cannot match that technological change. To do that, a company needs capital and capital injections. Again, as we faced competitive pressures on Suncorp and QIDC when we became the Government, if this Government is going to allow organisations such as that to compete, then they have to have significant capital injections. It is very doubtful these days whether the general taxpayer is going to be prepared to see their taxpayers' dollars going into supporting essentially business organisations, such as Suncorp, the QIDC or the TAB. Capital injections are risky and ought to come from the people who are willing to take the risk, and that is not the general taxpayer; that has to be the potential investors.

If the TAB is going to be part of a changing gambling environment in Queensland, one which is much more highly technological, and it is going to require the capital investment to be competitive, then of course we must give it the flexibility to raise the necessary capital and raise the necessary risk capital to compete in that market. That is the major reason that we ought to be, and we are, supporting the privatisation. If we do not do that, we end up with a depreciating value of public assets.

Of course, what we see when we do not and cannot put risk capital into enterprises is the value of the public assets declining. That was what was going to happen with the TAB in Queensland. As the New South Wales TAB became privatised and as the Victorian Tattersall's and TABCorp become more efficient and effective in their competitive markets, the value of the TAB in Queensland if it remained a

Government owned corporation was simply going to decline. I suspect that in the past 12 months or so its relative value has declined from what it was when we were in Government. We are not going to get as much for it. If the Government delays it for another 12, 15 or 18 months or two or three or four years, its value will decline further.

The Government has the same kind of problem with Tarong. It is very similar. We talked about power in question time today. Tarong is the same example. If the Government does not allow that Government owned corporation—Tarong—to go and invest and develop in terms of the extra power plants, we are going to have in Tarong the same kind of thing we would have had with Suncorp and the QIDC had we not privatised them, the same thing we would have had in the TAB—a stranded public asset which was declining in value over time.

Mr Beattie: What is your solution?

Dr WATSON: The Premier has to make a decision.

Mr Beattie: I know what we can do. I want to know what you would do.

Dr WATSON: What the Premier has done is delay and delay and delay. Tarong has had its information in to the Government for months now, but the Premier has been sitting on it. The longer he sits on it—

Mr Beattie: Can I just say this very plainly? There is something that has changed in that in recent times. That is why that is happening. There has been no delay.

Dr WATSON: I understand that other things are going on with gas and so on. However, the important thing is that, if the Government does not allow Tarong to go ahead and develop, it is going to have a stranded asset there. In five years' time that \$2 billion is going to be zero, yet the Premier is delaying. It would be the same if we had just let Suncorp and the QIDC go. It will be the same with the TAB. Down the track we would have an asset which the public had paid for but which, because the competitive market had changed, in the end would be worth nothing.

Mr Beattie: But you also know the gas issue.

Dr WATSON: I know about the gas issue and those kinds of things. Either the Government allows Tarong to go ahead, invest and put on the extra generation or it says no. If it says no, in five years' time it will not be worth anything. A \$2 billion asset will be worth nothing. It is a general principle. In a competitive environment, when decisions are delayed and capital is not put in, the value of the public asset falls. That is one of the other reasons we want to get the TAB Bill passed. We are not going to stand in the Government's way of getting the best value for the taxpayer.

Mr Beattie: I knew you were a nice guy.

Dr WATSON: We are about helping Queensland. We are about encouraging the current Government. We can think of a much better way to help Queensland—we would not have those delays if we were in Government—but we will encourage the Government to keep going. I must admit, when I first saw the Bill I wondered whether I had the whole Bill.

Mr Beattie: You were thinking of Suncorp-Metway.

Dr WATSON: That is right. I had in mind the whole privatisation process. The fact that the TAB is already a GOC has made the process so much simpler. With the Suncorp-Metway merger and privatisation process, there were so many options that all had to be included in the Bill. We still had to get to the point of going to a market. Metway was under competitive attack from a competitor.

I was surprised at the size of the Bill, but I find it fairly straightforward. As the Premier has acknowledged, the critical parts have really been taken from the Suncorp-Metway privatisation and facilitation Bill. I note that the Scrutiny of Legislation Committee's report mentions the kinds of restrictions of that. They are the same kinds of restrictions that were thought important from a public policy viewpoint when we were in Government through the QIDC-Suncorp-Metway process. I think they are appropriate in this Bill also. As I said, from what I can see it is basically a straight copy of the Bill that we introduced, and we support that.

The Minister for Tourism, Sport and Racing is not in the Chamber, but a couple of things he has said in the past on gaming are worth mentioning. One of the problems the current Minister said we had when we did the gaming machine review was that we did not give the TAB in Queensland a monopoly on gaming machines. When there was a chance to give the TAB a monopoly on Internet gaming, this Government chose not to do so.

If the Minister were serious in his criticism of the coalition for not giving the TAB a monopoly on gaming machines, then he, being such a vigorous Minister, would have ensured a monopoly for the TAB in relation to Internet gaming. The Bill was passed when we were in Government. The current Minister would have known that the regulations were being done and he would have known that there was a chance that the Internet gaming licence would have been given. I would have thought that this strong Minister would have insisted, given his past rhetoric, that the TAB get a sole Internet casino

licence. I am surprised that someone who was so passionate about what the coalition did failed to grasp the opportunity when it came to the first Internet gaming licence.

When it came to gaming machines, we wanted a competitive market. When we were in Government we wanted to make sure when we introduced licensed machine operators there was actually a competitive market for that licence, because we believed that the clubs and hotels got the best deal when they had a competitive market in which to contract with licensed machine operators. In that original legislation we set a limit of 40% on the number of machines any one machine operator could have. I noticed recently that the TAB in Queensland has taken over the machines that Golden Gaming had. With its original 20% and the 15% of Golden Gaming, the TAB now has 35%.

Mr Beattie: We agreed to that.

Dr WATSON: And I think that is appropriate. One of the things that surprised me when we were about to give licences for licensed machine operators was that there were seven people competing for them. I think an eighth one came along with TABcorp a year after. I think that is good for clubs and hotels.

Mr Beattie: We think some more may go out of the market.

Dr WATSON: I think there probably will, too. I suspect we will get down to three or four—a couple of major players and a couple of niche players in that market. The important point is that we as a Government set the parameters but did not actually choose the winners. We allowed the competitive marketplace to get to the point where they are actually delivering the services to the clubs and hotels. We did not choose who they were.

One of the things people did not want was the Queensland TAB to be a monopoly provider—at the time the clubs and hotels did not even want it to be a provider—because its record in delivering PubTAB and ClubTAB was so poor.

One of the good things about competition in the licensed machine operator market is that the TAB has actually improved. From the information I get back from clubs and hotels, the TAB is performing very well. That shows what a competitive market can do. Because it is performing well, it has been able to take over Golden Gaming and get a larger percentage of the market. Good luck to it. By competing in that market, it is better prepared for competition when it is privatised. It is nice to be in a competitive market because it gives experience in dealing with competitive markets. Not only did the Minister for Tourism, Sport and Racing fail to take advantage of the Internet gaming licence process to give a monopoly to the TAB—I think it would have been inappropriate to do that—but also the mechanism we used has put the TAB in a far better competitive position in the normal wagering area.

As I have said from the outset, the Opposition will facilitate the passage of this Bill. I will make some minor points. I raised some sections of the Bill with Treasury. One relates to the alteration of the Gaming Machine Act. Tony Bellas and David Ford have been good enough to not only talk to me but also send across a briefing note.

Mr Beattie: I talk to you. Why would they not talk to you?

Dr WATSON: They were good enough to follow up on my concerns.

Mr Beattie: We always do that. You know that.

Dr WATSON: It was done in a good natured way. I point out to them and to the Premier that I think it is not good legislative process to put an alteration to an Act such as the Gaming Machine Act into a Bill dealing with privatisation of the TAB. Because it is not essential—in fact, it is not even part of the privatisation of the TAB—I think most people would not be expecting those amendments to be in a Bill which is directed to privatising the TAB. That sort of Bill should not contain irrelevant amendments, such as amendments to the Gaming Machine Act. I think that is poor legislative practice.

Mr Beattie: I will respond later.

Dr WATSON: Yes. I understand the reason for it, and I do not object to the reason, but I do think it is poor legislative practice. It would have been much better if it had been done through different gaming machine amendments or even in a Treasury SLUMP Bill or something like that. That would have been the more appropriate place to do it, rather than in a Bill on TAB privatisation. I do not think that, in general, people will be looking to the TAB privatisation Bill for a change to the Gaming Machine Act. I understand that Parliamentary Counsel is much better these days at consolidating Acts and all that sort of thing, but I still believe that this is poor legislative practice.

The Premier has now circulated an amendment that will be introduced at the Committee stage. It is an amendment about which I spoke to the Premier and the Treasury. The amendment takes away from political parties and companies the ability to participate in the privatisation and the float of the TAB. The amendment does not allow political parties to participate in shareholding of the privatised TAB until seven days after the first annual general meeting.

As to the reason behind this, we have already seen some of the issues that have arisen in the last couple of weeks when political parties or members have become involved in gaming-type operations. I believe that it sends a poor message to the community when political parties are in any way tied up with the privatisation, the float, the issue of licences or, in this case, wagering through the TAB.

The amendment is also reasonable. For example, in relation to investments, it does not preclude them forever. All we have to do is make sure that it is a fair process and that the market has all the information necessary to evaluate the performance of the TAB and that everyone has a fair go at getting shares.

Mr Sullivan: And then put a bit of distance between them.

Dr WATSON: Yes. I am glad that the Premier has taken up this issue, because I believe that it is better that this is bipartisan rather than my introducing a similar amendment. It says, "You cannot participate in the float. You cannot participate in the company for a reasonable time after", but after the first annual general meeting, when there is enough information in the market, there is no reason then for a political party—

Mr Beattie: You know we accept this.

Dr WATSON: I know that. I have already said that.

Mr Beattie: That happened once, that you were reasonable, and this is it.

Dr WATSON: The Premier did it last week, too.

Mr Beattie: You mean I've done it twice?

Dr WATSON: Yes. It just goes to show how reasonable I am.

It is an important matter of principle that we should not participate in any way in the float process. But once the thing is in the market, and if a political organisation has sufficient expertise or money to be able to invest in a publicly listed company, it should be free to do so, but it should do so only in cases where it cannot be seen to have privileged or private information.

As I said right from the beginning, we are very pleased to be able to support the passage of this Bill. We believe that it is good for Queensland. It is going to be good for Queensland racing. My colleagues on this side of the House will talk a little more about the relative merits of this privatisation versus what we would have done, and the position of the racing industry in general.
