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PGRI Introduction: This could be the breakout year for Internet Gaming in the U.S. (Though many of us have been saying that for years now!) Internet gaming has launched in Delaware, Nevada, and New Jersey. Now that the ice is broken, we can hope and expect that other states will see the benefits to regulating this industry. The pressing issue now is to determine the forms of regulation and taxation that will be applied to the i-gaming industry. Different interest groups (state governments and their lotteries, commercial casino gaming operators, Tribal gaming operators, and off-shore operators from jurisdictions like Antigua, Gibraltar, Malta, et al.) have their own set of objectives, and no interest group is likely to get everything it wants. Legislators are struggling to forge a regulatory model that is politically feasible and actionable.

Geoff Freeman was appointed to the position of President and CEO of the American Gaming Association in June of this year. In his role as chief executive of the AGA, Mr. Freeman is the leading advocate for the commercial gaming industry and is responsible for positioning the association to address regulatory, political, and educational challenges and opportunities.

He is preceded at the AGA by Frank Fahrenkopf, who stepped down after leading the organization since its founding more than 17 years ago. Mr. Freeman brings seventeen years of association leadership and public affairs experience to the AGA, including successfully guiding a wide array of complex industry issue campaigns, reshaping and repositioning industries, and helping to pass key legislation.

This is a genuinely pivotal time in the industry. In past years, the AGA opposed online gambling. The AGA now supports the regulation of online gambling. The question remains, though, how the regulatory and taxation frameworks will align with the interests of the various factions which benefit economically from the online gambling industry.

For more information about the AGA and the global gaming entertainment industry, visit www.americangaming.org and follow the AGA on Twitter and Facebook.



Paul Jason, Public Gaming: *The AGA represents the interests of the land-based casino gaming industry. Up till 2012, the AGA opposed internet gambling. Then the AGA switched to supporting it. Why the switch?*

Geoff Freeman: Every brick-and-mortar business, from Barnes and Noble to Nordstrom, has had to confront the question of what the Internet means to their traditional way of selling their product. Gaming is no different. And, like bookstores and clothiers, it has taken the gaming industry some time to grow comfortable with Internet sales. Today, most of the gaming industry has embraced the notion that the Internet can be a complimentary channel to our brick-and-mortar facilities. That perspective is fed by successful online efforts overseas, recent developments in several U.S. states and the enormous demand among the gaming public. The AGA's position is a reflection of our industry's intellectual evolution on this matter and the reality that the Internet cannot be slowed – the Internet is fundamentally affecting the way that all consumers behave.

What about Sheldon Adelson and his campaign to oppose the proper regulation of internet gaming? I hope and expect that everyone would see through his self-serving efforts to force the players to come to land-based casinos instead of giving the consumer the right to choose where to play.

THE CASE FOR REGUALATING AND TAXING INTERNET GAMBLING

By Geoff Freeman

Online gaming is a pressing issue that affects millions of American consumers, major businesses and the U.S. economy. With so much at stake, I recently testified before the House Committee on Energy and Commerce (Subcommittee on Commerce, Manufacturing, and Trade) to deliver a clear message: the attempted prohibition of online gaming simply does not—and will not—work.

Under the Unlawful Internet Gambling Enforcement Act of 2006 and the Wire Act, the federal government has tried to crack down on operators running illegal offshore gambling sites. This attempted prohibition has failed by every measure.

Last year, before a single state legalized online gaming, Americans spent nearly \$3 billion—or nearly 10 percent of the entire worldwide online gaming market—on illegal, unregulated offshore gaming sites. In other words, prohibition has succeeded only in creating a thriving black market that places consumers at risk. Moreover, the failed attempts to squeeze the Internet back into the bottle from which it came prevent law-abiding U.S. companies from innovating and prevent states and localities from creating jobs and reaping much-needed tax revenue.

In New Jersey—one of three states that have legalized online gaming in the absence of federal action—50,000 people signed up for online gaming sites in the first week it was available. Furthermore, estimates show that 100 million individuals will gamble on their mobile devices by 2018.

The writing is on the wall: the encroachment of the Internet cannot be stopped and neither can consumer demand. Anyone who doesn't believe that online gaming is here to stay should ask Blockbuster if streaming movies online was merely a fad. The simple question that policymakers must answer is: Are we going to regulate online gaming or pretend that we

can wish the Internet away?

Fortunately, there is a solution. Where prohibition has failed, legalization, oversight and a strong regulatory regime can accomplish the following: *Protect consumers from unscrupulous operators and fraudulent games; Shrink the unregulated black market and provide for the safe, controlled, pragmatic development of the regulated transparent market; and Provide law enforcement agencies with a willing partner for cracking down on underage gambling, criminal activity and illegal operators.*

Congress has the chance to enact strong regulatory standards that provide a uniform set of protections for consumers while respecting states' rights to choose what is in their best interests. The technology exists now to allow regulated online gaming that can preserve the integrity of the games to protect consumers, prevent underage play, promote responsible gaming, and provide law enforcement officials the tools they need to identify fraudulent and criminal activity.

Countries and jurisdictions such as the United Kingdom, France, Germany, Italy, Denmark, Spain, Belgium, Australia, Switzerland, Sweden, Hong Kong, Japan and Canada—as well as Delaware, New Jersey and Nevada—are already using these technologies to effectively protect online gamers. If and when we choose to join them, we have the potential to generate more than \$26 billion in tax revenue while bringing more than 22,000 jobs to the United States.

Responsibly extending gaming into the online world is a natural progression. Millions of Americans are already gambling online illegally and will continue to do so—no matter how many times governments try to prohibit it. Instead of benefitting shady offshore operators through pretend prohibition, American consumers deserve an online gaming market that is safe and well-regulated. ♦

G. Freeman: My job is to represent that which I believe to be in the best interests of the industry. In this instance, it is clear that prohibition of online gaming has not – and will not – work. One way or another, Americans are going to gamble online. A prominent principle of our industry is the power of regulation. Internet gaming is no different. The consumer deserves to have a safe and secure online gaming option. We strongly encourage the creation of regulatory standards that protect consumers, ensure the integrity of the games, exclude bad actors and enable governments to collect reasonable taxes.

It would seem that we are in agreement that online gaming should be regulated. The point of potential difference is over how to regulate it, and which governmental authority decides how to regulate it.

G. Freeman: I think that is a good point to begin the dialogue. Instead of focusing on differences, let's clarify the points of agreement. On the central issue of the need for proper regulation, for instance, our interests and our advocacy positions are aligned. Prohibition is not the best approach for anyone: not for the players, not for the government, not for business, and not for the general public.

As you know, I was not around for the initial stages of this debate. Since those early days, the conflicts between different interest groups have created a lack of communication and perhaps bred a skepticism of others' motives and agendas. There may have been an unwillingness to consider the others' points of view. And that just results in the gridlock of inaction. We need to be open to the possibility that communication and perhaps some compromise can produce mutually agreeable, win-win-win solutions. I think we are now moving towards that more productive dialogue, forging a more communicative relationship that will form the foundation for action plans that serve the interests of the public.

I would submit that there is nothing wrong with the system that has prevailed for decades in which states have the right to determine the regulatory and taxation framework for all gambling. And the U.S. Department of Justice clarified in December of 2012 that applies to internet gambling as well. And yet, the AGA has promoted a federalization approach to regulation.

G. Freeman: I appreciate that perspective. At the same time, I would encourage your readers to consider the formative experiences

of gaming manufacturers and brick-and-mortar operators. Commercial casino operators and manufacturers alike are abiding by the rules of hundreds of different jurisdictions in the United States. If you're a manufacturer and trying to ship equipment to various casinos across the country, literally hundreds of different rules apply. This creates huge amounts of duplication, huge amounts of paperwork, huge amounts of inefficiency. As you know, the AGA has long supported states' rights to determine public policy. And we still do. We respect the fact that some of these differences between states may be quite material and that the rights of states should be respected. We are contending, though, that there are many rules, regulations, business processes that could be standardized and streamlined without impinging on the rights of states. States would benefit hugely by working together to identify those areas where processes can be standardized. The cost-savings and efficiencies gained would be enjoyed just as much by the states as by businesses serving the marketplace. The fact that differences exist and that states should all have the right to determine their own regulatory and taxation policies does not mean that there aren't areas in desperate need of greater efficiency.

I would submit that this dynamic, the potential for streamlining and standardizing regulations and business processes where possible, is even more compelling as it applies to internet gaming. Again, we do respect states' rights. We are encouraging states to work together to identify those areas where the needs that serve this industry do not unnecessarily vary from state to state. There's no reason why each state should re-invent the wheel when it comes to countless business, auditing, and monitoring processes. Much of this can be standardized, making it much more efficient for the states to implement as well as for businesses to comply with.

The way you describe it does not involve the federal government.

G. Freeman: The online gaming industry would function better with the engagement of the federal government. The online gaming industry needs a framework that facilitates and supports an inter-state marketplace. States want to preserve their autonomy and they can do that while also working together, and possibly working together along with the federal government, to create a regulatory infrastructure that supports

an i-gaming market that is not constrained to a single state's borders.

It should be recognized that the federal government has always been involved in most matters of inter-state commerce, and to very good effect. It's why this country functions so efficiently. All the same principles apply to the Internet gaming industry as apply to all other industries. The federal government enforces rules and regulations that produce a smooth, friction-free, efficient form of commerce. As regards to gambling, states do need to preserve the right to determine their own public policy. But perhaps that should not preclude the federal government from assisting in the process of ensuring logistical efficiencies that operate across state boundaries.

That does make sense. The need to create standards that reduce redundancies and inefficiencies is quite logical. The concern on the part of lotteries and state legislators would be that the desire to impose technological and procedural compatibility and efficiency might be conflated with imposition of regulations that don't pertain to that so much as protecting the interest of particular interests groups like casino operators. Casino operators may prefer that states apply a tax rate that is lower than the margins commanded by state lotteries, for instance.

G. Freeman: It is true that the casino gaming sector would want to protect its interests just like Lottery would want to protect its interests. That reality, though, is not a bad thing. It is in fact a good thing. Lotteries deliver a tremendous value to their states and to 'good causes.' Casino gaming operators also deliver a tremendous value to states in the form of employment, capital investment and economic development, and of course, by paying taxes. The AGA contends that the interests of both sectors can and should be protected. Inter-state commerce should be rationalized. Tax rates and other costs of doing business should also be rationalized to enable business to grow and prosper. The economics of the gaming and gambling business are quite complex. The capital markets need to have some visibility into a future that is rational and predictable, and provides an environment in which businesses can co-exist and prosper and invest in a long-term business plan. The consumers and the government need the same thing as business needs. It is in everyone's interests to work together to create that kind of a healthy, vibrant business environment for online gambling. ♦