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**FRANK MILLER**

CHAIRMAN JAMES: We will begin with Mr. Frank Miller, and again welcome.

MR. MILLER: Thank you, Madam Chair, members of the Commission. It's a pleasure to be here before you. A little background about myself before I get into my remarks and share with you some of my views. I spent the last 16 years of my career in the regulation of gaming. I'm the former director of the Washington State Gambling Commission which is the third or fourth largest in the country. I served in that capacity for the last six years. Prior to that I was deputy director and I started my career in the Attorney General's office in Washington State. I'm also the past president of NAGRA, vice president and member of the board. So I've been involved in the regulation of gaming for a lot of years, in the law enforcement side especially.

I just returned from a NAGRA conference actually yesterday in Norfolk, Virginia and I can tell you this topic of Internet gaming and regulation versus prohibition is one that is really buzzing. I had a lot of discussion with my colleagues, many of whom are in the Attorneys General office for many states here, represented on this panel as well. And there are different views on this issue and I want to share with you mine.

Mine are based on experience. Mine are based on years of dealing with the issues. They're also based I guess from the standpoint that I come from a state that was committed to regulation. I want to stress that to you. Many states want gambling, many don't want to pay for the regulation that's

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1 necessary to do it correctly. We did in Washington, although we  
2 were much smaller than some of the states here but certainly we  
3 had a pretty good model.

4 One of the points I'd like to stress is that we're  
5 talking here about an issue, Internet gaming, that I'd never  
6 experienced before. I used to tell my staff, I don't want to  
7 waste any money on regulating this activity because I didn't  
8 think we could do it. This was two, three years ago. I said the  
9 best way to regulate is put an ad in the paper and simply say  
10 play at your own risk.

11 As I've gotten more involved in the last couple of  
12 years and had different people from the state involved in this  
13 issue and seen what's happened, what really struck me is that  
14 this is a real industry. It's growing. It is growing  
15 dramatically. I just believe that the issue of prohibition  
16 versus regulation really has to be looked at in light of one's  
17 public policy. What this Commission has the ability to do is to  
18 help formulate that public policy in all areas of gaming, and  
19 I've worked in many of them, from Indian gaming to everything  
20 else. This is a new animal that you're dealing with that doesn't  
21 just exist here in Nevada or Washington or Mississippi or New  
22 Jersey. It exists all over the world. What makes it so  
23 difficult is it can be brought into your home without us having  
24 any ability to stop it. So the question is what is the public  
25 policy that we're going to try in this country to get to in the  
26 area of Internet gaming. The public policy has to be, as it is  
27 with all other types of gaming activity, the protection of the  
28 general public, the general welfare, health and safety of our  
29 citizens.

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1           How do you do that best in this issue? Do we do it  
2 by prohibition? Do we do it by regulation? As I speak about the  
3 two options and the obstacles associated with both, I would hope  
4 that you would look at the term regulation, not so much as  
5 expansion or authorization, but I'm going to give you a new  
6 concept and that is control. To control you can do sometimes far  
7 more limiting things than you can do with prohibition, as you  
8 know.

9           So if the public policy is protecting the health and  
10 safety of our citizens, specifically I might add, children  
11 underage participation, problem gamblers. And I am a member of  
12 the board, the Washington State Council on Problem Gaming, so I'm  
13 very involved in that issue as well. Or just general fraud and  
14 consumer protection, how do we best achieve that? Through  
15 prohibition we know that we can make it illegal. The bills  
16 before Congress today, not only go after the suppliers of the  
17 activity, they go after our citizens for participating.

18           I think it's safe to say that the greatest deterrent  
19 and the intent of those bills is to use fear to get people to not  
20 play basically. I'd like to stress this point. We were talking  
21 the other day about this. There's no intimidating factor here  
22 for you to participate in Internet gaming. There's no  
23 intimidation associated with this. If you want to get involved  
24 in illegal gaming today in states, like bookmaking or other  
25 activities that are not authorized, you have to go out and you  
26 have to basically find it. That is intimidating. It's a little  
27 more difficult than what we're facing with Internet gaming.

28           With this activity, you go to your den and it's  
29 there. No one is watching you. No one is intimidating you.

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1 It's much easier to get to. As such, I believe it's because of  
2 that very nature we need to look at this from a different  
3 perspective. Prohibition will go after the players and the  
4 suppliers. It will have a limiting effect.

5 I also believe it may have somewhat the opposite  
6 effect from what the parties behind it are intending. Let me  
7 share with you why. I have worked with other governments around  
8 the world on this issue a little bit. I'm starting to get  
9 involved in this. It is very real. There are many governments  
10 that would love to license these activities, are doing it right  
11 now. They get revenues they never have seen before. Our laws are  
12 not going to extend down to the Caribbean. We can stop our  
13 citizens here. We can't stop them from beaming it in.

14 Australia has just gone in and taken a very pro-  
15 active approach and actually Queensland just adopted a very  
16 thorough regulatory program. But the bottom line is prohibition  
17 will really result in these activities going off shore and coming  
18 back into this country. Companies that want to abide by the law  
19 will be out of the activity. Those that remain in will not care  
20 about problem gaming. They will not care about underage  
21 participation by children. And they will not care about consumer  
22 protection. I believe the difficulty in enforcing a prohibitory  
23 type of law against those entities, against our own citizens  
24 ultimately, having the resources to do it. It's nice to pass a  
25 law but I've been involved in too many years in this issue where  
26 there are many laws on the books, especially on the federal  
27 books, and it's very tough sometimes to get the assistance you  
28 need as a state official to carry out those laws.

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1 I only point that out to say that we may enact  
2 prohibition, but it doesn't mean it will be enforced rigorously.  
3 It's tough to do it. So with those obstacles in view, it's my  
4 opinion that the policy that we're trying to achieve, namely  
5 protection of our citizens from the items I mentioned earlier,  
6 may not be best achieved. This may not happen.

7 By contrast what does regulation or control allow? A  
8 policy of regulation or control allows limits to be put in place.  
9 It allows jurisdiction to put over these entities. It allows the  
10 regulatory bodies to say who can play, who cannot play. It  
11 allows the regulatory bodies to say what the limits will be. It  
12 allows background investigations. It pushes those entities that  
13 would normally come into the legal market out. They can't  
14 compete. It is a difficult concept to grasp because it seems  
15 like we're expanding. But through regulation you can have  
16 limiting effects.

17 My point is, through regulation, you can have  
18 control, just like we've done in other states. We don't have the  
19 same level of gaming, for example, as in Nevada or Mississippi or  
20 New Jersey. You have control and that's on the ways in which you  
21 regulate. You can also put in, for example, waiting periods,  
22 verification systems to find out who it is that wants to play at  
23 this site. That's one of the ways you can keep children off of  
24 this I believe. The same with people with problem gaming.

25 Those are the two options. The key then becomes how  
26 do you then form a model. There's no perfect model that would be  
27 regulatory body. I believe you need a federal/state partnership.  
28 It's a scary term for many on this panel, I realize. Federal  
29 involvement in gaming has been a fear of many. I think in the

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1 area of Internet gaming, if it ever comes down to this, and  
2 chances are it won't, but if it ever does come down to this,  
3 because it is so international, in and of itself, we need the  
4 federal/state partnership. We would have a licensing standard.  
5 And you have states coming into this program working with the  
6 federal government to tax it, to control it, to regulate it, to  
7 remove the fraud, to remove those parties that will do it in  
8 violation of the standards set up to regulate it.

9 I can envision this going beyond the U.S., to  
10 international partnerships, with countries that want to control  
11 this arena with Australia, with countries in Europe. Ultimately,  
12 just look at the last three years, what's happened in this  
13 industry. When I used to say, don't worry about, no one will  
14 ever play, I was wrong. They're playing and they're playing in  
15 quite large numbers I might add. It is a real industry. It  
16 needs to be addressed.

17 I would encourage you to keep an open mind on this  
18 issue. Finally, I will conclude with one statement. Regulation  
19 is not expansion here. Regulation gives the government the  
20 ability to control. Thank you.

21 CHAIRMAN JAMES: Thank you.

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