ANTHONY CABOT

CHAIRMAN JAMES: Mr. Cabot.

MR. CABOT: Madam Chairman, members of the
Commission, I want to thank you for the opportunity to be able to
speak to this Commission about the growing Internet gambling
phenomena. One of the disadvantages of following three other
lawyers is much of what I had to say has already been covered.

CHAIRMAN JAMES: Pull it a little closer.

MR. CABOT: Much of what I had to say has been
covered. But perhaps in a few simple areas I can give some more
insights, or at least my opinions.

The first thing that I want to stress to this
Commission is I think this issue is the most important issue that
this Commission will face. Let me explain why. We have a
tendency I think to look at things from the here and now. Here
and now, gambling on your computer is not that big of a deal.
Here and now, more people will watch television than use their
computer. Here and now, more people will visit casinos or do
lotteries than will gamble online. But here and now is not going
to be here and now for long. What we're seeing in this industry,
and I'm not talking about the Internet gambling industry, I'm
talking about the Internet industry, is a convergence of
technologies. This is not about net heads. This is not about
computer nerds sitting in their den, playing gambling games over
the Internet.

In five years, the technology that we know now as
your home computer will be incorporated into your television.
We're seeing it already. We see Web TV by Microsoft. We see
Microsoft investing in cable companies. We see a fight over the standards for digital television between the computer industry and the TV industry. That's because five years from now, maybe ten years from now, the television that you have in your living room will have Internet access. Just as today we don't know, a lot of people don't know, their cars are controlled by computer chips, five years from now or ten years from now, you'll be sitting in your living room not knowing that your television is controlled by a computer chip and that you plugged it in the same way that you're plugging in your TV now but it has Internet access.

You don't know it's the Internet. All you know if you have this universal box in your living room that has these tremendous capabilities. You can shop on it. You can compare goods on it. You can access libraries on it. You can pull down recipes. You can do all sorts of amazing things with this new box that's sitting in your living room. But you can also gamble on it.

And it's much more than saying you have the ability to play a slot machine on your home computer. In ten years you'll have the ability to play an unregulated slot machine in your den, on your television, interactively. That is what we're talking about. So when people start talking about these fantastic numbers that Internet casino gambling can generate, whether it be five billion or ten billion or 60 billion, which is outrageous, we're talking about the five to ten billion in numbers, you generate them not by the person playing on their home computer. It's by the people who in five to ten years from now will be playing on their television sets.
With all the promise that I think the Internet brings, for all of its capabilities, it's going to be major challenge, to people like you who help make policy and to people like the Assistant Attorneys General on the last panel who enforce policy. Well, it's not the first technology that has traversed international borders. It is something that has some unique characteristics. It's incredibly cheap, it's interactive, video and audio, and it provides the opportunity for people to exchange digital cash.

And we talk about the here and now. Here and now, we're talking about credit cards, like some of the other panelists had talked about. We're talking about funds transferred through Western Europe. Tomorrow that's not going to be the case. Five years from now, the way you're going to exchange cash over the Internet is through smart card technology, stored value mediums. So that anybody who has one of these little cards can swipe that card and they can exchange cash over the Internet, literally digital cash.

So it's not the here and now that's important. It's what's happening in five to ten years, and why this is an extremely important issue for this Commission. And the Internet is going to be simply nirvana for criminals. Imagine this scenario in the year 2005.

A person wants to buy drugs. They get their smart card, this little stored value medium and they buy their drugs with the smart card. The drug dealer gets the stored value, transfers it to an Internet casino operating off of a boat floating in international waters, who then transfers it to a European bank under the guises of winning. They convert it at
the European bank into some type of bearer bonds which they use as securities to make a loan that goes back to the United States. They money flows back. They have the perfect money laundering scheme.

I want to emphasize, people say, look, it's better to regulate this industry than to prohibit it. Well, that may be the truth and it may not be. But one thing that I think has to be made perfectly clear here, and I think it was in reference to a question that Commissioner Bible raised, is that it's no easier to impose regulation on people as it is to impose prohibition. The best that you could possibly hope for when you impose regulation is that people will voluntarily comply with it. If a person says I'm not going to be subjected to regulation over the Internet, there's little more you could do than you could if you try to prohibit that person from dealing with it.

Let me get into another topic. I think it was in my written comments, so I really want to emphasize. What we're dealing with here in contrast with what Alan was talking about is not a national issue. This is an international issue. Because we have a situation today where national governments have almost as much frustrating of a time enforcing national policy on the Internet than states have in enforcing state policy. The only way that we can respect the sovereignty of states, of communities, of nations, to enforce their public policy with regard to Internet gambling or other issues, pornography, bank fraud, whatever the case may be, is through international cooperation.

It goes beyond, in reference to Frank's comment, it goes beyond protecting the welfare of the players. A lot of
public policy in this area has little to do with protecting the 
patron and a lot to do with what a particular community or 
particular state feels about the morality or the social 
consequences of legalizing gambling. The only way that we can 
protect a state like Utah or Hawaii that says we're not going to 
have any gambling whatsoever in our state, it's a policy that 
should be respected, is to have international cooperation. The 
only way we can protect the policies of a state like Nevada, my 
home state, where we say we're going to have gambling, where 
we're going to regulate it stringently, to assure that it's fair 
and honest, is to have international cooperation, cooperation 
which assures that nations which license Internet casino 
operators will put into place those types of procedures that 
respect the sovereignty of other countries, of other states, to 
assure that states can continue to maintain their overall public 
policy in this area.

So in this light, in conclusion, we really need to 
start working today. You folks need to start working today 
towards beginning the dialogue on an international level, to 
start addressing the public policy issues raised by Internet 
gambling as a subset of a much larger issue and that is, public 
policy concerns with child pornography, with bank fraud, with 
respect to intellectual property, to come to some kind of an 
international consensus on how we're going to deal with these 
issues. Thank you.

CHAIRMAN JAMES: Thank you, Mr. Cabot.