QUESTION/ANSWER SESSION

CHAIRMAN JAMES: I'd like to open it up for questions and discussion from our Commissioners, as well as a dialogue among yourselves, if there are things you'd like to bring up at that point.

COMMISSIONER BIBLE: For each of the three panelists who will be most familiar with the Kyl bill, if that bill becomes law will it work?

MR. CABOT: The Kyl bill would set policy for the United States. It will only work if it's backed up by the federal government. What I mean in particular is the federal government has to start working with the Caribbean countries, with other countries where these gaming operators are located, to work on international treaties, to effectuate the extradition of the operators to the United States. Without that, you have the situation where these Internet operators will be able to operate unimpeded.

It will force law enforcement at that point to try to come up with other means, not to arrest them and bring them before the court for justice, but just to frustrate their activities, by doing things, like Joe said, where you try to interrupt the financial transactions between the player and the site. Or you try to regulate the Internet service provider by having them cut off service to sites. Or you go and try to regulate advertising to prevent the advertising of the sites in the United States.

But all those are frustration techniques because at that point you will not be able to get at the operator.
MR. MILLER: Commissioner, I think in my view it's somewhat of a political solution to a difficult problem. I don't think it's a difficult vote necessarily to say prohibit. I do believe it's going to require an extreme commitment from the federal government to go out and prosecute. And that's the term I'm going to use because that's the remedy that's allowed in that bill, that's prosecution. It's going to require an extreme commitment, not only for the companies obviously -- you can't get the companies that are off shore, number one, but the citizens are going to be playing. So it's going to go toward the citizens that are here. In my view, it's not a great solution. It will have a deterrent effect. I don't think it works.

In my view, Internet gaming is clearly illegal in this country today and certainly there are thousands of sites available for you to choose, not originating here but outside the U.S. and the Kyl bill will have no effect on that whatsoever in my view.

MR. KELLY: It would have serious constitutional issues. I can't think of any other issue which has united the Cato Institute, the ACLU and the Heritage Foundation on one side. I don't think it will pass the constitutional challenges. Assuming it does, I'm trying to imagine how seriously the Justice Department would enforce it.

John Russell who seems to be the chap whose always cited from the Justice Department as a spokesperson for comment on Internet gambling has emphasized that he doesn't want to go after the five dollar bettor. Of course, admittedly this was the same John Russell who said in January, 1998 that nothing would be done about Internet sports betting. Two months later, of course,
there were 21 individuals named as defendants in criminal complaints. But I don't think it would survive a constitutional challenge.

COMMISSIONER MC CARTHY: Yesterday one of the witnesses suggested that there's already technology being developed that could intercept an Internet conversation where a bet was being placed. It's believable, with the number of technological innovations that are constantly going on. If that were true, what would prevent the federal government from identifying a winner and instantly attaching, under some right of some federal statute, attaching those winnings, whether it would be analogous to the forfeiture laws or whatever it might be, something that would have a reasonable chance of standing up under a constitutional test.

MR. CABOT: Let me take a shot at that. I mean basically any communication over the Internet is the transmission of zeroes and ones.

COMMISSIONER MC CARTHY: It's the transmission of?

MR. CABOT: Zeroes and ones. Any transmission over the Internet is basically a transmission of electronic data in the form of zeroes and ones. It all has to go through things called routers which basically direct the traffic through the Internet. Technically a router can be set up that you can intercept and look at all those zeroes and ones and decode them if you want. The problem you have is that that type of substantial interference in communications just will not work under our constitution and won't work under our system of how we feel government should interact with its citizens, because it's an amazing intrusion into persons' privacy.
COMMISSIONER MC CARTHY: If it's by definition a crime to use the Internet for that purpose, how would we describe that as an invasion of privacy?

MR. CABOT: Today, for example, it's illegal to use the telephone to consummate a drug deal. But you can't randomly go through and intercept telephone conversations trying to find ones that may deal with drug dealing. I think those same very, very fundamental principles have to apply to the Internet.

COMMISSIONER MC CARTHY: I'm talking about trying to tie into the wire of a company that's sited overseas, and intercepting calls going into the company, not into private homes or offices.

MR. CABOT: That's much easier. Because what you can do is if you get a court order, the Kyl bill is suggesting, an Internet service provider that provides the communication links is told to cut off service to a particular Internet site, then they have to do so. That's fairly simple, for an Internet service provider to cut off service to a particular site.

The problem you have is you've got hundreds of Internet service providers and you have literally hundreds of gaming sites. So you have this, what I think to be a very, very difficult proposition of making that system work. From a technological standpoint, you're right, they can do it. From a practical standpoint, it's going to be very difficult.

COMMISSIONER MC CARTHY: I'm not sure you'd have to do it with every overseas casino operator or whatever the form of gambling was. I think you'd have to do it with a handful of them and make the penalty sufficiently heavy so that everybody would understand the potential.
MR. CABOT: The penalty is only that your service is cut off. If I'm the off shore operator, I have to come up with a new address. And then hope that the federal government doesn't catch up with me.

COMMISSIONER MC CARTHY: I can see the lack of control over the foreign operators. The only way you could possibly control this is by taking the winnings of the people here and possibly attaching a penalty or something on top of that. I agree with what the panelists have been saying about we really can't control, very little control, even with international treaties, I'm not sure what kind of control would ultimately result over foreign casino operators.

So the only successful move might be against the bettors here who win.

MR. CABOT: I don't mean to dominate, but we have a situation where to get evidence that a person is gambling and actually receiving funds over the Internet, requires an amazing intrusion into their personal privacy that I don't think would necessarily be constitutional. The only way that I think a law enforcement agency can get the authority to basically tap their computer line is to have sufficient evidence to go to a judge to get an order allowing them to do so. And that's where you have the difficulty. You also have difficulties in convincing law enforcement that this is enough of a priority that they should be going after the home user.

MR. FARRELL: Just one point on that, if I may.

CHAIRMAN JAMES: Yes, please.

MR. FARRELL: The technology is there certainly to know where a packet is going and where a packet of zeroes and
ones are coming back to, but with encryption you will not know
what is in each of those messages. So if the overseas sort is
being serviced through a gateway of which you're only sending the
address of the gateway, you don't know which of the hundreds or
thousands of entities behind that gateway is actually being
served.

CHAIRMAN JAMES: Other questions for our panelists?
Any other points of discussion that you like to make
at this point?

COMMISSIONER MC CATHY: I guess I would just make a
general comment that nine members of this Commission come with
different perspectives to this problem, different backgrounds.
Some of us have pretty fixed positions and perspectives on this.
We're hearing a lot of testimony that at least a fairly good
percentage of people who gamble in America are pathological or
serious problem gamblers. And the social cost, as we're
beginning to hear and we can see it must be much more clearly
defined, but the social cost appears to be rather significant.
There's at least four and a half million pathological gamblers in
the country. Now, if we had four and a half million coke
dealers, we'd try to do something about it. I guess we do.
We're spending enormous amounts of money trying to affect Mexico
as a channel, trying to do many other things.

The testimony I seem to hear is this is just another
consumer activity. I don't care about a five dollar bet or a $50
bet, if somebody has got the money to do it. That's their
business. As long as they are not blowing their family apart or
embezzling from their employer or doing some other mischief where
the debt falls on other people that should not be responsible for
that person's severe misconduct and if the Internet -- there's a lot of domestic gambling that we don't sufficient disclosure or other things going on that allow that sort of thing to happen now and if the Internet adds to that, the conversation I'm hearing is how do we make this an easy business transaction, as though there's no negative outcome from all of this. How do we handle this as a computer problem, as a technological issue? I think we need something else, all of which I've said are certainly relevant comments. But we need something else because so far, I'm not convinced that we could really get sufficient controls to protect against the things you're talking about.

We've got data showing that there's been a tremendous growth in adolescent gambling. And we're hearing that this is not really that big a problem right now. Ten percent of the people in Australia are betting horse races from their homes now. So it's a sort of brushing off that goes on of these problems. I'm just a little bit concerned about that, that we're not getting the whole picture.

MR. MILLER: I'd like to comment on that, Commissioner. This country, we know gambling has boomed in the last couple of years. I look at when I first started my career where it was and where it is now and it's astonishing. No one thought it would take off the way it has.

I think we can certainly congratulate state lotteries for starting that.

COMMISSIONER MC CARTHY: Agreed.

MR. MILLER: As governments get addicted to those revenues, obviously they want to satisfy that addiction. The coke dealers or coke users are committing a felony, a crime. The
person buying a lottery ticket or playing bingo or playing blackjack in a casino or a slot machine is not committing a crime. It is entertainment. With this entertainment there's a social problem associated with it for a percentage of the players, problem gambling.

The final point and the point I hope you will consider is that gambling is alive and well in America. It's not going away. It is certainly a moral issue and I respect that, in those states that want to protect their policy. Believe me, I'm not one to promote gambling. But what I am saying is we have a new animal, a new type of gaming. It originates from off our shores. What is the best way to control it and to protect those most vulnerable in our society, children and the problem gambler and the person who chooses to play that has the ability to do it? My opinion is the best way to do that is to control. We get the control through regulation. Through that regulation you can set the limits I believe to protect many more than you can with just a mere prohibition. That's my opinion.

CHAIRMAN JAMES: Would anyone else like to respond?

MR. FARRELL: On the basis that this is a gambling device on technology, you can do all those things I talked about, of allowing players to set betting limits that can be enforced, having enforceable self-exclusions and so forth. So there is that advantage as well.

If you don't regulate it, then they will deal with people who will not be interested in their welfare. And just on another point regarding the Kyl bill, where it was mentioned that someone from Australia was smirking and hoping it went ahead, we don't see it that way. We see the Kyl bill as potentially the
mechanism which will leave a whole huge amount of unmet demand in
the U.S. to be serviced by people near the U.S. who don't offer
the same regulatory standards as we do and we do see that as a
threat, a threat to our level of regulation.

COMMISSIONER DOBSON: Going back to the discussion
with Mr. Bell about teenagers and children, I just saw a
demonstration two weeks ago of pornography on the Internet,
especially with regard to children. The point of it was how they
cannot avoid it. They absolutely cannot avoid it. It's not a
matter of rebellion or seeking it. If they punch toys, one of
the options that comes up is sex toys. If they punch horses, one
of the options that comes up is bestiality. If they punch up
literature, Little Women, they get child pornography. You cannot
avoid it. So the notion that somehow we have even minimally
protected children against pornography on the Internet is just
crazy.

What hope do you have, what possibility do you have
to suggest for protecting children and teenagers from gambling if
that becomes accessible to the home through the Internet?

MR. MILLER: Commissioner, this is one that I have
struggled with, because that is, I think, one of my primary
focuses, children. It's there now. I first got my computer two
years ago. I used to give them to my staff and say use them, I
don't need one. So I finally went down and bought one for my
kids and now they're experts on the Internet. But I'm there with
them. I'm going to help them when they were on that Internet and
do the best we can to control their usage. But if it is
controlled and limited and regulated we can put in provisions to
keep children from playing, like number one, verification, like a
24, 48 hour waiting period. If you want to sign in and register, we're going to verify you. Put the burden on that company to verify your age, where you work, are you employed, this and this, to make sure that kids don't get access. That's one possibility.

COMMISSIONER DOBSON: Would it not be occurring with regard to pornography? In fact, the American Library Association, ACLU, all oppose such restrictions for the schools or anybody else. They want absolutely total access by children to anything on the Internet.

MR. MILLER: That's a crime in my mind and a different area. But when it comes to gambling, all I'm saying to you is, your question was how can we minimize the impact on children gambling, I believe waiting periods, I believe registration, I believe verifying who they are will go a long way in keeping children from participating in this activity at least. I not sure the suppliers of pornography out there really want to do that right now. That's what prohibition will do again.

MR. CABOT: Commissioner, I have a little bit different take on this than Frank. I still think that the best you can ever possibly do with regulation is to create parallel universes. A universe that's regulated where they potentially put in these types of controls to keep children off, but there's always going to be an unregulated universe on the Internet. That unregulated universe could be populated by unscrupulous people who don't care about whether the person on the other end of the computer or the other end of the television is a minor, whether they have bet limits or not bet limits. There's always going to be that danger.
The best you can ever hope for, and I don't care if it's pornography or gambling, is that parents take control of their kid's computer because it's always going to be there. And there's little or nothing government can do about it.

MR. FARRELL: What you were talking about, of course, are Internet sites which are unregulated. Now, as time goes by we all hope that content regulation of Internet sites will become available through standards such as picks and so forth and regulated sites will be enforced to label their sites in accordance with picks. Unregulated sites won't. Hopefully eventually we'll have a situation where you have a choice and a far better way of screening out particularly unlabeled sites. You can enforce regulated but you can't do it against the unregulated.

COMMISSIONER DOBSON: I don't care how you do it, it's not being done now.

MR. CABOT: I think the point is you can't.

MR. FARRELL: Because they're all unregulated.

COMMISSIONER DOBSON: It's one thing for kids to find pornography on the Internet and it's another thing to find child pornography, the most egregious stuff where children are being actually abused. That's available to any kid who spends enough time on there. Now, if we can't control that, how are we going to control this?

MR. KELLY: If I could just give my opinion. A gaming license is difficult to get in Nevada. You have to show suitability. It's much more difficult in New Jersey wherein using legal gobbledygook you have to show suitability by clear
and convincing evidence. In Great Britain it makes Nevada and New Jersey seem like a model of due process.

Now, if the Internet gaming is regulated, and license to prove suitability is expensive and if the operator negligently allows a child to gamble on the Internet, the license is susceptible to being cancelled which would be very, very expensive. I don't think you'd ever be able to eliminate underage use of the Internet. But if the operator's license doesn't allow this, he or she is subject to the loss of the license.

There's another issue and that is this is a nightmare in the back of my mind.

CHAIRMAN JAMES: Let me just ask one quick question for clarification. If that operator loses the license, how difficult would it be for them to come up on another website?

MR. KELLY: I'm talking about, say, if the operator gets a license to operate Internet gaming in the state of New South Wales or Victoria and if the regulators find that the operator was negligent in allowing children to use the Internet for gambling purposes, the license might be cancelled.

CHAIRMAN JAMES: But then how difficult would it be for them to get back on the Internet within a matter of hours, days?

MR. KELLY: But not the license. If you were going to bet $500 that red would show up in roulette, would you like to make the bet with an operator that is licensed and has a track record such as New South Wales or Victoria or would you like to make the bet for $500 that red would show up with some operator that's just shown up, that has no track record and you don't know
where they're operating from and you don't know if they're going
to pay if you win?

CHAIRMAN JAMES; I just would ask the question again.
You've lost the license, how difficult would it be to get another
one in another country, another city and to get back on there?

MR. KELLY: If you're going to apply for a license,
you have to show suitability. You have to put your entire life
before the regulators who are going to investigate you. If your
license was cancelled because you negligently allowed children to
use the Internet gambling, I think it would be all but
impossible.

Just one last point. There's always the nightmare
that I have of an adult losing alot of money on the Internet and
then of course saying it wasn't me, it was my little kid who
managed to get into the Internet and therefore, I shouldn't be
held to the loss of this money because it was my child using the
Internet.

COMMISSIONER DOBSON: Madam Chairman, final
assessment. All five speakers have made the case that you can't
prohibit this, that it's coming and it cannot be prohibited. If
it can't be prohibited, it can't be regulated. That seems like a
truism to me.

CHAIRMAN JAMES: Would anyone like to respond?

COMMISSIONER DOBSON: Unless they volunteer to
cooperate.

MR. FARRELL: We've always said, when people log on
they'll have the choice of the regulated and unregulated product.
The purpose of regulating is to provide people with the choice of
playing the person they know who is not a criminal and they know
who will pay them and is not rigging every game. If you do that, our experience is that the operator who is unregulated goes back to a level of insignificance. That's the purpose of regulation.

MR. MILLER: Commissioner, I'll only add that having spent 15 years. No longer. Now I'm in private practice. But having been there 15 years I can tell you regulation works very, very well. The whole issue here is that I think the fact that it's prohibited now, if we do prohibit it, my whole point is through regulation you get to control it. That's how you achieve the objections that you're espousing, to control it, not through simple prohibition. It is prohibited today and it's starting to flourish.

CHAIRMAN JAMES: Thank you.

COMMISSIONER BIBLE: One final question. If you regulate, there's an implicit cost to that regulation that has to be assumed by the provider. If you regulate, typically taxation can't be far behind. So then the provider then is subject to both regulation and taxation which becomes a cost of their business. Doesn't that then allow the unregulated, if this is such a pervasive medium, the opportunity to offer better wagers, better odds, greater prizes?

MR. MILLER: I think that's a legitimate issue. I think as in any market today that we have seen over the years, and I'm sure you've seen it too, Commissioner, that if you have, in any market in any state, the unregulated has a hard time competing against the unregulated environment for numerous reasons, safety, protection of the public, confidence. I believe the same would hold true ultimately in the Internet arena as well. I think consumers are smart enough to know that they're
going to play in an environment where they're protected especially when they're giving their money to an unknown entity, especially if an entity is located in this country where you have authority and control to regulate as opposed to one that's off shore where there's no authority.

COMMISSIONER BIBLE: How do they even identify themselves as being subject to some sort of regulatory structure?

MR. MILLER: I think if this country would set a policy of control through regulation. We would mandate, number one, location, jurisdictional location or submit the jurisdiction of this country, mandate inspections. You'd mandate on site visitations. You would have a list of those groups that are licensed and regulated by this entity we developed. I think they would be self-sufficient through taxation, of course. It shouldn't cost the taxpayer a dime for this issue. But I believe it's through that program we can once again best serve the public at large.

MR. CABOT: To a large extent I disagree with some of these comments. I think that when you do have a parallel universe with regulated and unregulated, that there are different ways that a person who is unsuitable will try to legitimize his site. He could do it by going to a country that has a much more lax standard. But he could also do it in a number of different ways.

For example, he could associate himself with a famous country and western singer and call himself the Kenny Rogers Casino where you are relying on the credibility of the person who is fronting for your casino. I'm not suggesting that that casino has any problems. I'm just saying that people will in the future
try to legitimize unregulated sites in other ways to attract persons to play it. I don't see that unregulated world going away. It may be minimized but it will not go away. It will always be available in some form or another. And it may be available in a form simply to service those persons, who because they're underage or because they're compulsive gamblers aren't allowed on the regulated sites. But there's always going to be an unregulated universe.

CHAIRMAN JAMES: Thank you very much. With that, I'd like to thank our panelists and will ask that you stay very close in touch with the Commission as we go out and complete the rest of our work. We would like to depend on your expertise and would ask that if you, throughout the rest of the year, have additional information, please submit it.