



AMERICAN GAMING ASSOCIATION

**Written Testimony of  
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Submitted to the U. S. House Committee on Energy and Commerce

Subcommittee on Commerce, Manufacturing, and Trade

Hearing entitled:  
"The State of Online Gaming"

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Chairman Terry, Ranking Member Schakowsky, Members of the Subcommittee:

Thank you for inviting me today to testify on behalf of the members of the American Gaming Association on this important issue.

The commercial casino-entertainment industry represents an increasingly important driver of economic growth and job creation in the 23 states in which we operate. Last year, our members operated and supplied more than 500 resorts that support more than one million jobs in the United States.

Our industry accounted for \$125 billion in consumer spending last year and generated nearly \$9 billion in state tax revenues that support vital public services.

Today's hearing on the state of online gaming is extremely timely.

I know the Chairman Emeritus of the Energy & Commerce Committee, Congressman Barton, has introduced legislation to rationalize the regulation of online gaming.

We appreciate such leadership on this issue – and the opportunity to discuss the important need for consistent and effective regulatory standards that protects consumers, ensures the integrity of online games, gives law enforcement agencies the tools they need to combat illegal operators and provides Americans with access to an online gaming marketplace they unquestionably desire.

The experience of the past years has yielded one crystal clear conclusion: Prohibition simply does not work.

The federal government has tried the prohibition approach through legislation – specifically the Unlawful Internet Gambling Enforcement Act of 2006 and the Wire Act – and through multiple Justice Department crackdowns on offshore operators, as well.

What was the result of these attempts at prohibition? Last year, before a single state authorized legal online gaming, Americans spent nearly \$3 billion on illegal, unregulated offshore gaming sites. To put that into further context, Americans accounted for nearly 10% of the entire \$33 billion worldwide online gaming market in 2012.

In other words, rather than “prohibiting” online gaming, recent attempts at prohibition have created a thriving black market and driven its economic benefits offshore. This should come as no surprise to a country where sports betting takes place in every corner of the country, despite an ostensibly blanket government prohibition.

The fact is that Americans are currently spending billions on illegal, but easily accessible online gaming sites. These sites operate in the shadows, with little consumer protection against cheating, money laundering or underage gambling.

In fact, it’s fair to argue that prohibition has given these shady operators the best ally they could possibly imagine by blocking principled gaming companies from competing in the market. Legitimate, strictly regulated operators respect the law and have licenses at stake, while illegal operators always find ways to circumvent the law and offer little to no regard for consumer protection.

Rather than pursuing more futile attempts at prohibition, the American Gaming Association supports strong regulation and oversight of online gaming that respects states’ rights to pursue what is in the best interest of their residents.

Make no mistake: online gaming is here to stay. The government cannot put the Internet back in the bottle. As we saw with Blockbuster and the advent of online movies, industries must adapt to consumers or be left in their wake.

And, where prohibition has failed, a strong regulatory regime will succeed in achieving several critical public policy goals:

- It will protect consumers from unscrupulous operators and fraudulent games;
- It will shrink the unregulated black market and provide for the safe, controlled, pragmatic development of the regulated transparent market;
- It will provide law enforcement agencies with a willing partner for cracking down on underage gambling, criminal activity and illegal operators;
- It will bring over 22,000 gaming jobs to the U.S., rather than sending them overseas, and generate over \$26 billion in tax revenue.

The legal landscape for online gaming in the U.S. has changed significantly since the last time this subcommittee held hearings on the issue in 2011.

Most importantly, in December 2011, the Justice Department changed its interpretation of the Wire Act stating that it only applies to sports wagers made over a wire transmission. If you look back to 1961 when the Wire Act became law, it was enacted to prevent someone from calling a bookmaker to place an illegal wager on a sporting contest.

So with the Justice Department's new interpretation, the door has opened for states to authorize regulated, intrastate online gaming if they so choose. It is also important to point out that prior to the Justice Department's interpretation change there were no online gaming prosecutions under the Wire Act, even though we know an estimated 10 to 15 million Americans were gambling billions of dollars through offshore online gaming websites.

The American Gaming Association continues to believe that Congress should enact strong minimum regulatory standards that would provide a uniform set of protections for consumers while respecting states' rights to choose what is in their best interests. In the absence of federal action, however, states are moving forward.

So far, three states now offer legal, regulated online gaming – Nevada, Delaware and New Jersey. A dozen more states are also looking at introducing online gaming in a safe, secure, regulated fashion. Many will have initiatives related to online gaming under consideration in 2014. And there is enormous pent-up demand – last week it was reported that 50,000 people signed up for New Jersey’s online gaming sites in the very first week it was offered.<sup>1</sup> Juniper Research estimated that 100 million individuals will play games on their mobile devices by 2018.<sup>2</sup> Are we going to regulate this behavior or pretend that we can eliminate the demand?

The gaming industry respects the rights of states and tribal nations to introduce online gaming on their own timetables, consistent with the desires and preferences of their residents. At the same time, the American Gaming Association believes that any effective regulatory regime must include certain standards, such as:

- The establishment of player identities to comply with the standards of the Bank Secrecy Act;

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<sup>1</sup> Fund, John. “A Roll of the Dice.” National Review Online. 5 Dec. 2013. Web. 6 Dec. 2013. <<http://www.nationalreview.com/article/365559/roll-dice-john-fund>>

<sup>2</sup> Davy, Lee. “Mobile phone gamblers to increase by 100M people in the next 5 years.” CalvinAyre.com. 6 Dec. 2013. Web. 6 Dec. 2013. <<http://calvinayre.com/2013/12/06/business/mobile-phone-gamblers-to-hit-164m-by-2018>>

- The use of age-verification technologies that have proven successful in other age-sensitive industries;
- The creation of a transparent record of all transactions to ensure the integrity of games and prevent illegal activity;
- The use of geo-location technologies to ensure online gaming is restricted to jurisdictions where it is legal;
- The aggressive deployment of tools that promote responsible gaming and provide help for those with gaming problems.

More than 100 jurisdictions worldwide allow regulated online gaming and many of them incorporate these technologies and processes to protect consumers, prevent underage play and provide law enforcement officials the tools they need to identify fraudulent and other criminal activity.

Financial institutions, web-based retailers and many other industries also employ the same, or similar, technologies to ensure the safe, responsible use of their products.



Opponents of online gaming suggest that expanding this option will open a Pandora's Box threatening the young and vulnerable members of our society. I respect this point of view, even as I respectfully disagree. I believe we can use technology to put effective protections in place for these individuals. In fact, this is where, as an industry, we are completely aligned, whether or not we agree on online gaming.

Other countries -- including the United Kingdom, France, Italy, and Canada -- are already using technology effectively to protect online gamers, as are three U.S. states. Contrary to what some opponents of online gaming claim, the sky has not fallen in these regulated markets.

Growth of the Internet into wider and wider areas of our lives always raises fears of the unknown and predictions of dire consequences. Just a decade or so ago, millions of people thought it was unsafe to purchase products online. Now, Cyber Monday has eclipsed Black Friday as the busiest shopping day of the year.<sup>3</sup>

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<sup>3</sup> Hsu, Tiffany. "Cyber Monday was biggest online shopping day ever, data firm says." Los Angeles Times. 3 Dec. 2013. Web. 6 Dec. 2013. <<http://www.latimes.com/business/money/la-fi-mo-cyber-monday-records-20131203,0,7572388.story#axzz2mdMSIZQz>>

Responsibly extending gaming into the online world is a natural progression for our industry. Millions of Americans are already gambling online illegally and will continue to do so, no matter how many times we try to prohibit it. Millions and millions more would like to do so legally and responsibly.

Americans will always gamble — offline, online or in whatever new form will be created tomorrow. And, as countless studies show, 95% will do so in a responsible manner.

The American Gaming Association believes the best protection for consumers of online games is through strong and effective regulation that respects states' rights. We look forward to working with Members of this Subcommittee and other congressional leaders to achieve this goal.

Thank you again for inviting me and for holding this important hearing. I look forward to answering any questions you might have.

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