
18 Policy for new technologies

Box 18.1 Key messages

- Current use of internet and interactive gambling by Australians is negligible, but is expected to grow strongly.
- Online gambling offers significant potential benefits to some consumers and scope for commercial returns.
- On the other hand, online gambling also poses significant new risks for problem gambling. It represents a quantum leap in accessibility to gambling, and is likely to involve new groups of people in gambling.
- Risks to minors, a major concern for many, are potentially less significant where there are properly licensed sites — given screening requirements, ease of monitoring of accounts and the inability to access any winnings.
- It is not clear that liberalising internet gambling would involve significant tax losses.
- The Commission considers that, regardless of what regulatory approach is taken, there are strong grounds for governments to pursue palliative measures, such as:
 - warning people of the hazards of offshore online gambling;
 - providing information on the internet about gambling help services and gambling sites which meet consumer protection criteria; and
 - making available or promoting software for providing consumers with greater control over their gambling.
- However, there are also grounds for regulation of internet gambling, along the lines of regulations applying to other gambling forms. The Commission considers that there are ways of controlling online gambling sufficiently to exercise such regulations.
- Prohibition of online gambling would clearly reduce gambling problems associated with the internet, but would also eliminate any benefits of the technology.
- Managed liberalisation — with tight regulation of licensed sites to ensure integrity and consumer protection — has the potential to meet most concerns, as long as the approach is national.
- Uncertainty about the magnitude of the possible impacts of internet and Interactive gambling, would normally suggest a more gradual implementation of liberalisation, but this may not be feasible given the nature of the technology.

18.1 Introduction and framework

Technological changes are having a rapid impact on the ways in which gambling services are delivered. New technologies such as the internet and cable and digital television allow the delivery of gambling services into the homes of consumers. These new technologies pose fresh challenges for regulation, harm minimisation and taxation, with concerns about youth gambling, exacerbated problem gambling, supplier integrity, and an eroded tax base. On the other hand, these new gambling technologies also offer the potential for gains to consumers and businesses.

These competing effects have made it difficult for governments to determine the appropriate policy response. The Western Australian Government, for example, stated:

The emergence of broadband interactive technologies such as the internet and Pay TV has a number of far-reaching implications for gambling in Western Australia. These include both new market opportunities for existing industries in the State and new sources of competition; with associated threats and opportunities for tax revenue. However, the potential for interstate and international gambling operators to sell their products directly into Western Australian homes also poses a particular dilemma in that it directly challenges the State's firm policy stand prohibiting access (outside of the casino) to electronic gaming (sub. 76, p. 56).

Central to the debate is whether the downside risks can be effectively controlled by regulation and/or technology.

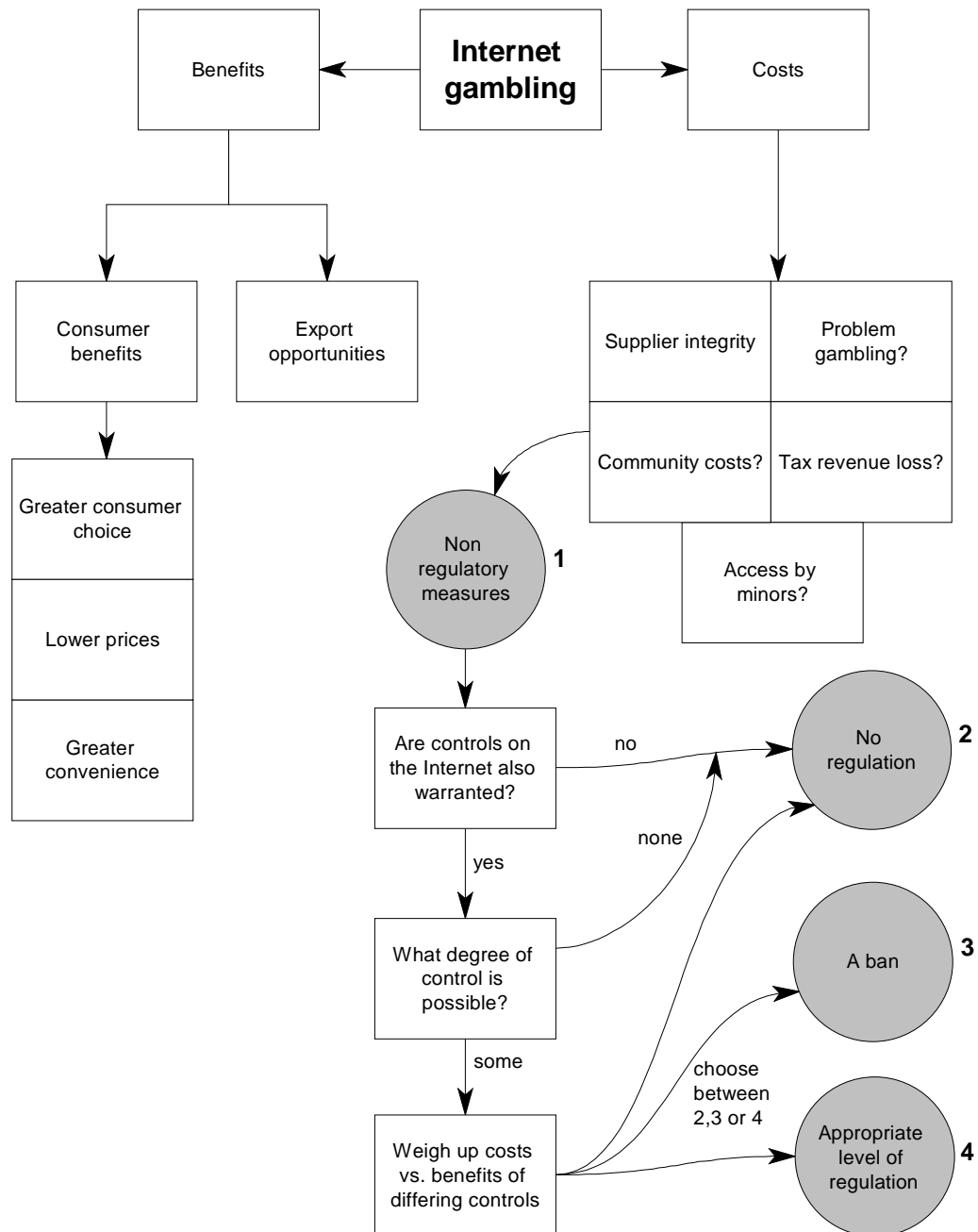
Figure 18.1 illustrates the relevant issues in assessing the role of the new gambling technologies, on which the structure of the chapter is based. Firstly, the chapter presents background information about internet and other interactive gambling (section 18.2) and explores the benefits associated with these new technologies (section 18.3). It then examines the costs which may arise from expanded gambling using these technologies, and what non-regulatory 'palliative' measures might partly address these concerns. It also assesses whether the costs are important enough to warrant regulatory controls on internet or interactive TV gambling. However, quite unlike other existing forms of gambling, these technologies poses special dilemmas for regulators wishing to control it, and so critical policy relevant questions are:

- to what extent can internet or interactive TV gambling be controlled?; and
- what are the costs associated with control, both for interactive gambling as a consumer good, and for internet users and other operators as a whole?

Finally, drawing on the Commission's views on the previous questions, we consider regulatory options, including prohibition of gambling using these technologies (as is

proposed in the United States) and current regulatory responses by state and territory governments.

Figure 18.1 Assessing internet and other interactive technologies for gambling



18.2 Background

What is internet gambling?

A few years ago, the buying and selling of goods and services over the internet seemed a futuristic notion. Now the proliferation of the internet is changing the way we communicate, bank, shop and are educated. Gambling, too, is undergoing significant changes.

Internet gambling is a form of interactive gambling. Interactive gambling involves gambling through a communication channel such as a computer terminal, television or telephone. Telephone gambling is not new — TABs have had telephone betting facilities available for over 30 years. But gambling through a computer terminal by accessing the internet is a new and growing mode of interactive gambling.

The internet is a network which connects groups of smaller computers used by millions of individuals and organisations around the world. It is a delivery mechanism which makes possible the exchange of information and ideas in a manner not possible via traditional electronic and print media. For gamblers, the internet enables them to place bets directly from a computer terminal in their own home.

To gamble on the internet a personal computer, modem and internet access from an Internet Service Provider (ISP) are required. Gambling sites can be accessed on the internet by using a search engine or by typing a known address. A web search for 'internet gambling' on the Alta Vista search engine for example, yields about 7000 hits (as at 11 October 1999). However, many of these are not genuine internet gambling sites, but provide information about internet gambling or other aspects of gambling, such as problem gambling services. Evidence from internet directories of gambling sites suggests that in October 1999 there were around 500 internet gambling sites where people could win or lose money while gambling online (table 18.1). A recent study suggested that there were 700 online gambling sites run by about 200 different companies (based on Faust 1999).

To make a bet, a gambler must first register and establish an account with the gambling service provider. The account is debited when a gambler places a bet and credited when a gambler wins a bet. The account must be funded prior to betting. Funding of the account can be by transfer from a credit card, cheque, money order, or direct bank transfer.

Table 18.1 Internet gambling sites

October 1999

<i>Gambling type</i>	<i>Source 1</i>	<i>Source 2</i>	<i>Source 3</i>	<i>Source 4</i>
Online casinos and games	..	35	179	443
Online (sports) betting	..	28	..	143
Online lotteries	..	11	63	39
Slots and video poker	50
Total	497	74	242	675 ^a

^a Some sites offer multiple forms of gambling so that the total number of online gambling sites will be less than the sum of the individual numbers. Only sites which offer gambling for money stakes are included in the above counts. The data for source 1 does represent a true estimated total for gaming sites, since duplicate sites are not counted twice.

Source: The sources are www.internetcommission.com (source 1), www.wheretobet.com (source 2), www.gamblinglinks.com (source 3) and www.gambling.com (source 4) accessed on 11 October 1999. Other than the first source, these are commercial sites which receive commissions for listing, and are not comprehensive.

Two distinct types of gambling are available on the internet — virtual online gambling and gambling on a separate physical event. Virtual online gambling includes software-generated games such as slot machines, blackjack, roulette and baccarat. This form of gambling exists only in the virtual arena — the games are not played physically in a gaming room and the outcome of the event is determined by a random number generator on the operator's server. These games are either played 'on site' using the gambling provider's server or by downloading software which communicates results to the host. Generally the software gives the gambler the option of playing in *practice mode* (not for real money) or playing *online* (for real money).

Alternatively, gamblers can use the internet to place bets on separate physical events such as horse and dog races and football, cricket and tennis events that take place on a *real* race track or playing field. Or they may use the internet to place bets on lotteries, where there are physical draws. Unlike virtual gaming, this form of gambling is a new *mechanism* for placing wagers, rather than a new form of gambling per se.

Who are the providers of internet gambling services?

The first internet gambling sites were launched in 1995. They provided slow casino-type games with simple graphics. Since then, advances in internet speed, security and graphics have enabled the industry to boom. The development of Java-based software allows players to gamble directly from their web browser without having to download large files onto their computers (Frost and Sullivan 1999).

The majority of internet gambling providers are smaller companies, licensed by local governments — often in the Caribbean or South America — and largely unregulated. However, the place where a site is licensed typically differs from the location of the server that contains the computer programs, which may be different again from the location of the ultimate owners of the sites (table 18.2). The computer servers and owners tend to be based in western countries, particularly North America.

Table 18.2 Traces on some typical internet gambling sites^a

<i>Name</i>	<i>Internet address</i>	<i>Licensed</i>	<i>Ultimate owner</i>	<i>Domain server/s location</i>
Casino Australia	www.casinoaustralia.com	Netherlands Antilles	US	Canada, US
Casinos Australasia	www.casinosaustralasia.com	Vanuatu	UK	Australia
Australian Casino	www.australiancasino.com	?	US	US
Oz Gaming	www.ozgaming.com	Costa Rica	?	US
Kenny Rogers Casino	www.kennyrogers.com	Netherlands Antilles	US	US
Plus Lotto	www.pluslotto.com	Liechtenstein	Liechtenstein	Liechtenstein
Aces Casino	www.acescasino.com	Venezuela	US	US
Action Sports Wagering	www.actionssportswagering.com	Netherlands Antilles	?	Puerto Rico
Avalon Casino	www.avaloncasinos.com	Commonwealth of Dominica	US?	US
Cyberbetz	www.cyberbetz.com	Commonwealth of Dominica	US	Canada
Festival Casino	www.fecasino.com	Commonwealth of Dominica	Canada	Canada
Golden Jackpot	www.goldenjackpot.com	Venezuela	Germany(?)	Germany
Twinkling Casino	www.twinklingcasino.com	Antigua	Canada(?)	Canada
Lasseters Casino	www.lasseters.com.au	Australia	Australia	Australia
Centrebet	www.centrebet.com.au	Australia	Australia	Australia
Mega-Sports	www.megasports.com.au	Australia	US	US

^a Information about licences was sourced from each internet providers site or from www.internetcommission.com ; registrant details and the IP addresses for the servers were traced using a WHOIS program (www.swhois.com), supplemented by information on contact addresses and information provided by the online gambling sites. The location of the servers associated with the IP addresses were obtained using an IP address finder (www.mjhb.mdr.ca.us). The location of the ultimate owner is usually conjectural, except where a site explicitly indicates their final ownership (as in Casino Australia, CyberBetz, Lasseters and Centrebet). Details are correct for 13 October 1999.

In Australia a number of companies offer online racing and/or sports betting services. Centrebet (www.centrebet.com), for example, is one of the largest providers of internet sportsbetting services (box 18.2).¹ Lasseters Casino

¹ Other Australian online sportsbetting providers include: Canbet (www.canbet.com.au — Australian Capital Territory); City Index (www.cityindex.com.au — Australian Capital Territory); Mega-Sports (www.megasports.com.au — Australian Capital Territory); NSW TAB (www.tabnsw.com.au — New South Wales); Ozbet (www.ozbet.com.au — Western Australia);

(www.lasseters.com.au), Australia's first online casino, offers virtual casino games (box 18.3).²

The cost of entering the market as an internet gambling provider is small compared with the cost of establishing on-site gambling services. Flatt (1998) for example, reports that the necessary equipment and software to develop a site can cost as little as \$US 135 000. And operating costs are similar whether a company has 50 or 5000 customers. For example, Internet Casinos Incorporated, one of the first online casinos, was developed for \$US1.5 million and employs 17 people. In contrast it may cost \$US 300 million to build and operate a resort casino which employs thousands. Further, the costs of updating games is also less costly on the internet than for *physical* forms of gambling. Machine replacement is not necessary; games can be updated with new software, and the fixed costs spread over thousands of users.

Who are the internet gambling users?

The Commission's *National Gambling Survey* (table 18.3) suggests that in 1998-99 around 90 000 Australians gambled on the internet (including casino games, sports betting and racing) — which amounts to 0.6 per cent of Australian adults. The surveys commissioned by the VCGA of gambling patterns in Victoria suggest an even smaller proportion (0.1 per cent). Their most recent survey (Roy Morgan Research 1999, p. 241) surprisingly finds no evidence of an increasing trend in internet gambling, although given the small number of participants this may be a statistical illusion.

Darwin All Sports (www.betthe.net — Northern Territory); and TAB Queensland (www.tabq.org.au — Queensland).

² On 3 June 1999, the Queensland Government issued the first interactive gambling licence under its Interactive Gambling (Player Protection) Act 1998 to GOCORP Ltd. This is the first licence to be issued in Queensland under its legislative and regulatory regime emanating from the Draft Regulatory Control Model for New Forms of Interactive Home Gambling agreed in principle by Gaming Ministers from all Australian jurisdictions in May 1997. However, controversy arose over governance arrangements and probity associated with GOCORP, but legislative and other changes have remedied these.

Box 18.2 **Centrebet**

Founded in 1992, Centrebet in Alice Springs has grown to be one of the largest sports betting providers in the southern hemisphere and one of the world's leading internet gambling operators. After the first 12 months of operation Centrebet's turnover was about \$1 million. Today, turnover is around \$3 million per week, with a third coming from overseas.

Licensed by the Northern Territory Government and regulated by its Racing and Gaming Commission, Centrebet pays a tax on gambling turnover of 0.5 per cent or over \$500 000 annually. It employs 25 full time staff and 21 casual workers and is a net exporter receiving over \$2.5 million annually from the losses of overseas punters.

Centrebet accepts wagers on diverse range of sporting codes and events worldwide that are sanctioned by a reputable controlling body. Betting is offered on such sports as Australian Rules Football, baseball, basketball, boxing, cricket, golf, Olympic and Commonwealth Games, tennis and ice hockey. All wagers are based on fixed odds and can be made in person at their office, over the telephone or via the internet. About 300 books are open at any one time.

Prior to betting a client must open a Centrebet betting account. Consumers must be over the age of 18 to bet and proof of identity is required eg. a passport or drivers licence. All deposits and winnings are credited to the account and wagers are debited. Deposits can be made using credit cards, money orders or cheques, telegraphic transfers, or by depositing money directly into Centrebet's account. Centrebet uses encryption technology on the internet and provides a password to account holders to ensure security of transactions.

The majority of Centrebet's clients are offshore — 20 per cent are from Australia, 20 per cent from the United States, 20 per cent from Scandinavia, 15 per cent are from Asia (predominantly Singapore) and 25 per cent are from other overseas countries. Centrebet observe their typical client as male, aged 25–36, who wagers between \$20 and \$50 per bet, about 10 to 12 times a year.

Centrebet's web site was launched in July 1996. Today, it is apparently ranked in the world's top 5 internet sites receiving 20 000 to 100 000 hits every day, or over 20 million hits annually. The site is fast and user friendly. It provides an editorial on each sports book and includes information such as the regulations and rules for betting and a link to tourist information on Alice Springs. In addition, gamblers can gain access to their full history of transactions over the internet.

About 30 per cent of Centrebet's business is carried out of the internet with 10 000 bets taken over the internet each week. In 1997, Centrebet sales over the internet accounted for 50 per cent of Australia's electronic commerce.

Sources: sub. 75 and www.centrebet.com.au.

Box 18.3 Lasseters online casino

Australia's first internet casino, Lasseters Online was launched in April 1999. The site offers a range of casino games including roulette, blackjack, poker, sicbo and slots. The online casino is available to international players and residents of Northern Territory. Lasseters plans to make online gambling available throughout Australia once a national approach to internet gambling regulation has been determined.

The site took \$5 million and two years to develop. In its first six months of operation it has taken over \$13.5 million in turnover. In addition, the revenue generated online has exceeded the returns from table games at its Alice Springs casino. This financial year Lasseters online is expected to contribute 37 per cent of Lasseters total revenue and 40 per cent of total profits.

Demand and growth for Lasseters online gambling products has risen above Lasseters targeted levels:

- Over 12 000 players are currently registered, of which 82 per cent are from overseas.
- Players are registered from 154 countries.
- Player's registrations have been nearly doubling each month since the site's launch. In September alone the site recorded turnover of \$4.3 million, a 70 per cent increase in players and more than one million visitors.

Lasseters predicts continued strong growth and a market worth \$100 million within the next two years.

Source: Information provided by Lasseters Casino.

Table 18.3 Internet gamblers in Australia, 1998-99

	<i>Casino games</i>	<i>Bet on the races</i>	<i>Sports betting</i>	<i>All internet gambling^a</i>
Number playing in last 12 months	58 266	17 738	16 881	89 787
Proportion of Australian adults (%)	0.41	0.12	0.12	0.64 ^b

^a This is less than the sum of the three types of internet gambling because some internet gamblers gambled on more than one form. ^b The unweighted proportion is 0.7 with a 95 per cent confidence interval of 0.4 to 1.0 per cent. The Commission also estimated the share of internet gamblers who were problem gamblers (based on SOGS 5+). This was 13.3 per cent, 0 per cent and 0 per cent for casino games, betting on the races and sports betting respectively. However, the standard errors associated with these estimates are very high, and it is not possible to be certain that levels of problem gambling among internet gamblers are statistically significantly different to other gambling forms.

Source: PC National Gambling Survey.

Internet gamblers tend to be much younger than other adults, with about 53 per cent aged 18 to 24 years (compared with only 13 per cent of other adults). Their mean age was 33 years compared with 44 years for other adults. They also had

significantly higher personal income, at \$39 000 compared with \$32 000 for other adults. Otherwise it was not possible to discover significant socio-demographic differences between internet gamblers and other adults.³

As internet capable computers and interactivity spreads throughout Australian society — including through digital television, it can be expected that the socio-demographic profile of internet gamblers will even more closely match the characteristics of the Australian adult population as a whole.

What are the future directions in technology?

The internet is still in its infancy and subject to rapid change. As a result it is only possible to speculate about what developments are possible for the delivery of internet gambling services.

There is likely to be an expansion in the types of gambling products delivered by the new technology beyond the traditional casino and poker machine games. One likely feature is an increase in the pace of gambling as more gambling modes become continuous. Instant keno and continuous lotteries, for example, are already available on the internet (figure 18.2) and a Perth-based company has recently signed a contract to manage an internet bingo product.⁴ One participant commented that network adventure games are difficult to convert to forms of gambling because they are not always a game of chance — players can control the odds by developing skill or by upgrading computer systems. However in the future, these problems may be overcome and network adventure games resembling *Doom* may be played for money. Finally, a significant number of virtual casinos also provide adult or pornographic content as either part of the gambling experience, or as a prize.⁵

Virtual reality may be used to make gambling online more closely akin to real-world casinos:

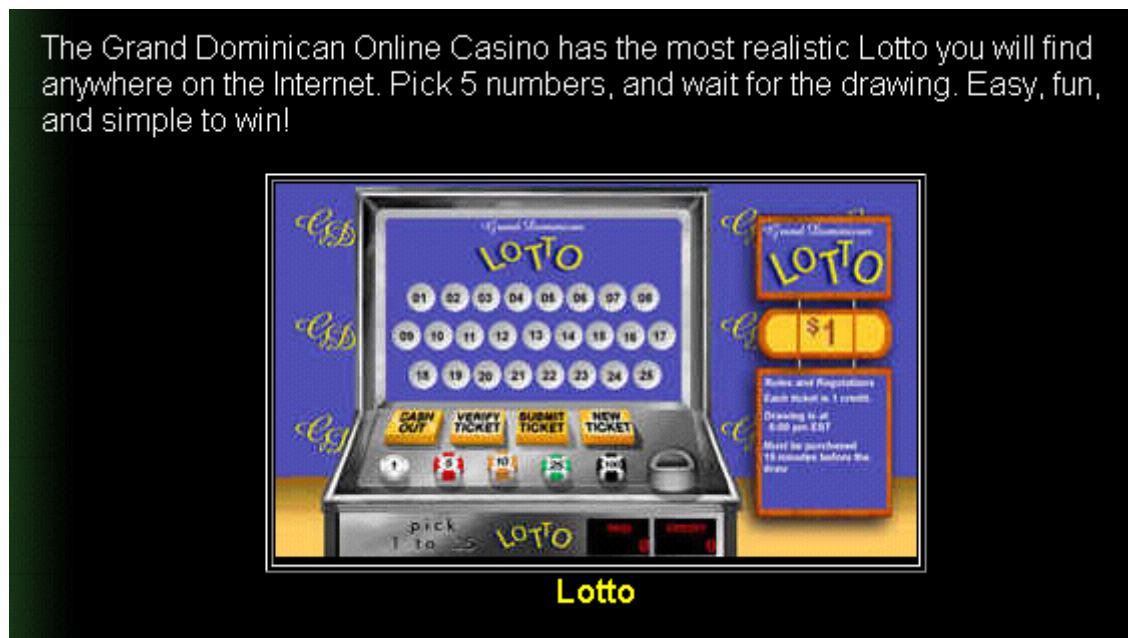
³ A logistic regression of internet use was estimated on a variety of socio-demographic variables, most of which were statistically insignificant (including education, marriage and work status). However, both age and income were highly significant. For example, the model suggested that a person with income of \$50 000 a year aged 25 years was about 60 times more likely to be an internet gambler than someone with annual personal income of \$25 000 aged 65 years.

⁴ Mitchell (1999, p. 80) and <http://www.it.fairfax.com.au/breaking/19990730/A627441999Jul-30.html> (accessed 25 November 1999).

⁵ For example, <http://play.at/astroncasino>, www.xxxsexcasino.com, www.asexysportscasino.com, www.vegasxxxcasino and www.adultclubcasino.com. Many more are listed at www.50hotcasinos.com. A number of these casinos share an internet protocol address with www.Australiancasino.com.

If you become bored with the comfort of your lounge room you put on the virtual balaclava, a glove and you vanish into virtual reality. You are no longer staring at your computer screen, you are walking into a casino but you have not left your lounge room. You stroll around your lounge room (accidentally kicking the cat) admiring the “casino construction”, play a few hands of blackjack, move onto a poker machine and then sit at the Keno lounge and strike up a conversation with the person in the chair beside you, another visitor to the casino who lives on the other side of the globe (Toneguzzo 1997, p. 27).

Figure 18.2 **Virtual Lotto**



Source: <http://www.granddominican.com/info5.htm>.

The new technology is capable of generating a range of safeguards to reduce the social harm of gambling (see later). Star City said:

... it is likely that some computer systems will be able to identify hand or finger prints as a way of accessing internet gambling. Parents would, therefore, be able to prevent their children gaining access to online gaming (sub. 33, p. 35).

On the other hand, the new technologies may create more manipulative environments for gamblers. It is possible that virtual intelligence will be used to influence the behaviour of the individual gambler in ways that are far more subtle than existing gaming machines. This reflects the fact that, through electronic trails, the new technologies are able to collect more information about participants than was previously possible in the gambling industry. A computer, for example could record the type of play (and if the person has used a membership card, look closely at the history of the play) and interact with the player accordingly. It could also

record the nature of that person's involvement with other internet services to build up a picture of their customer profile.

Internet and interactive gambling offers the prospect, therefore, of an infinitely flexible gaming machine in every Australian household.

Convergence of internet and TV technologies

In the near future with the spread of broadband cable and digital TV, it will be possible for gambling operators to bring a range of interactive products into consumers' homes through television. Interactive television can be provided by combining pay TV with a telephone modem (set-top box) to relay messages back to the service provider or by connecting a computer to a cable modem. Ultimately the distinction between TVs and internet-connected computers may largely vanish (Noam 1995 and News Limited 1998, p. 3).

McMillen considers that interactive TV gambling will become particularly important:

The greatest potential for commercial development and increased gambling participation is with interactive digital television. This already operates in the United Kingdom and is anticipated in Australia by early 2001. The capacity for the medium to develop and promote interactive sportsbetting will result in a rapid expansion of this form of gambling in Australia and other nations. If legalised, I predict that interactive television sportsbetting rapidly will become as popular as gaming machines are now (sub. D274, p. 8).

Products are already being developed in Australia to provide home television gambling. One example is a hand held interface (similar to a remote control) which allows a player to select a racing field, access tips, place bets, watch the event live and check account balances. Other possibilities are:

- betting while watching television sports programs — for example on the Australian Football League or the cricket (box 18.5);
- a television channel dedicated to displaying results and selling tickets in lotto and keno style games;
- simulated scratch tickets;
- the televising and simultaneous betting on roulette and other casino games; and
- connection of the TV to the internet so that the full internet network is available.

To the extent that these emerging TV technologies are based on globally *open* networks where there are potentially millions of global content suppliers (unlike existing TV content), then there are no essential differences between gambling on a

computer or that on a TV. However, where TV gambling services are provided from a closed network, in which service suppliers have to have a mandate from the Australian Government to supply content, then they are more akin to traditional gambling forms — such as TAB phone betting. In the latter case, some of the problems posed by internet gambling do not apply (for example, issues of controllability), while others, such as the probity of the services and harm minimisation remain relevant.

The remainder of this chapter emphasises internet gambling. However, the same issues would largely arise whether TVs or PCs are the delivery mechanism, and the same prudent policy approaches would need to be applied.

Access outside the home

While the household is where it is likely that most internet capable computers and interactive TVs will be located, it is possible that the internet or other forms of computer networks may still play an increasingly important role in the provision of gambling services in traditional gambling venues. For example, it is possible that instead of stand-alone machines dedicated to a given game, a venue might have a series of large-screen generic machines connected to an intranet which provides many game options on any given machine. This would provide consumers with instant access to new forms of games, and also facilitate games with interaction between players. It is conceivable that groups of venues may cooperate (for example, clubs or hotels) in developing a computer site on which they have game content, and then connect to this content remotely from each of their venues. The advantage to consumers of in-venue rather than home access to gambling is that they could combine computer network gambling with a social outing, a meal and other entertainment options, and also use computer technology (screen quality and size, sound) which would be prohibitively expensive at home.

The expansion of the internet into new areas outside the home (cafes, malls, and planes) will also raise challenges for regulatory authorities, and may blur the distinction between gaming and non-gaming venues. For example, should an internet cafe which promotes its internet gambling facilities be regarded as a gambling venue and be subject to the probity requirements of other gaming venues? What harm minimisation measures should be mandated for such venues? In section 18.9, the Commission suggests some options for policy which are not affected by *where* the network is accessed.

18.3 What are the potential benefits of interactive gambling?

For recreational gamblers the internet increases the accessibility of gambling products, and offers a greater choice of gambling services and suppliers, potentially at lower prices:

- Casino games, such as roulette and blackjack, which have high initial outlays can be offered more cheaply, because the internet avoids the high overheads associated with such games in casinos.⁶ For example, Lasseters online casino offers the European version of roulette with 36 numbers and only one zero.
- People can play at a pace they find comfortable, rather than one dictated by physical casino conventions (for example, in games like blackjack).
- Game variety can be much greater at any one time, while the internet also offers the scope for the rapid development of new games. This reflects the fact that to introduce a new game, an internet gambling provider only has to change some software, rather than re-configure machines in remote venues.
- Home-based sports betting — for example, on the Australian Football League — may increase the entertainment value of sports media.
- There are many people who are not highly mobile or are distant from gambling venues — the old, disabled and isolated rural dwellers — who may be able to enjoy gambling in their own home.
- It offers gambling to people who dislike the ambience of existing gambling venues.

While the major benefits of internet gambling are likely to go to recreational consumers, there may also be some other economic benefits — in terms of higher returns on resources in the economy. These arise from the higher productivity of internet gambling providers and their export potential — particularly if, as many suggest, Australian technology and probity regulation provide significant competitive advantages.

Perceptions of the commercial potential of internet gambling vary considerably. This in part reflects the infancy of the industry, as well as uncertainties in

⁶ Some participants suggested that gambling would cost more on the internet than physical forms (eg sub. 167, p. 4) because of the costs of the ISP. However, these costs are low relative to the costs of operating physical machines, and are likely to fall as telecommunications and cable technologies develop. It is already possible to obtain 100mb and unlimited hours a month of internet services for about \$30, which would exceed the required capacity of most internet gamblers. For those who were using the net anyway, the *marginal* costs of online gambling are even lower.

legislation, and the technology itself. Some see vast opportunities driven by growth in new markets and technologies. For example, International Gaming and Wagering Business (sub. 16, p. 4) estimate that internet gaming turnover will grow from US\$5 billion currently to US\$25.4 billion by the year 2000. Bell (1999, p. 3) estimates that the online casino segment of this market will have revenues of \$7.9 billion by the year 2001. Data cited by Mitchell (1999), Faust (1999) and Ledbetter and Viuker (1999) suggests that worldwide internet gambling expenditure (not turnover) amounted to around \$US 651 million in 1998, \$US 1.485 billion in 1999 and could grow to around \$3 billion (US) by 2002, even if the US Government enacts a ban.

McMillen and Grabosky (1998, p. 2) see emerging opportunities in Asia, America and Europe:

Notwithstanding the current Asian economic crisis, there are tremendous profits which await those entrepreneurs who can meet the gambling demands of the emerging Asian middle class, whose own governments may discourage gambling on their own soil. Similar market opportunities exist in America and Asia.

They also argue that Australia is in a good position to benefit from these commercial opportunities:

Australia can take the lead to foster an industry based on state of the art technology, and with a worldwide reputation for integrity. Australian policy makers can assist Australian entrepreneurs to maximise the upside potential of the new technologies, to minimise their downside risks, and to encourage competitiveness in Australian enterprise (p. 5).

Some argue that the benefits from internet gambling are already evident — Centrebet, for example, reported:

Centrebet is a technology-driven business and spends hundreds of thousands of dollars in the Northern Territory each year on state-of-the-art internet and software development. This has generated not only employment in that industry onshore, but has also opened up export opportunities, such as Octa4 in Darwin, that have piggy-backed their development work for Centrebet into new markets around the world (sub. 75, p. 5).

Other Australian online betting services are reporting significant increases in demand (Mitchell 1999):

- Turnover in the year to July 1999 was \$1.17 million on eBet's racing and sports betting internet site, which was 10 times higher than that achieved in the previous corresponding year.
- Takings rose to more than \$3 million in July this year for Canbet, up from \$1 million in July 1998 before it offered internet betting.

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- SportOdds, has generated 40 per cent of its revenue via its online gaming presence in its first five months of operation.

However, as noted in chapter 5, it is important not to count all the investments or employment in such a growing industry as if they were added economic benefits, when they largely represent resources displaced from other uses.

Other commentators, are more unsure about the commercial potential of internet gambling, because of current uncertainties in internet gambling legislation in the United States and elsewhere, and with the technology itself (discussed later). The Office of Strategic Crime Assessments (1998, p. 2) for example stated:

At a global level, technical difficulties, the lack of a uniform secure payment method, low consumer confidence and other problems are constraining the growth of internet commerce (and gambling).

However the predominant view is that, corresponding to growth in information technology and electronic commerce, internet gambling is a growth industry and has the potential to generate significant export earnings (see box 18.4) and consumer benefits. The advent of digital TV in the next few years, combined with the existing large number of cable TVs, suggest that there is also large scope for an expansion of gambling —probably as sports betting — on that medium too.

18.4 What are the costs of interactive gambling?

Participants in the inquiry raised a number of problems associated with interactive gambling in any unregulated market, including exacerbated problem gambling, accessibility of minors to gambling, supplier integrity, adverse community impacts and a loss of revenue. The Australian Institute for Gambling Research, for example, noted:

It should be emphasised however that online gambling is different from other forms of e-commerce, just as more conventional gambling is different from other industries. The potential social, economic and regulatory impacts are likely to be profound. Sportsbetting, although currently only a small part of the Australian gambling market, will experience dramatic growth especially after the advent of digital television in 2001. However, it would be erroneous to concentrate primarily on the potential economic benefits that might accrue if Australian licensed operators establish market advantage over other nations. It is imperative that the full social and economic costs and benefits of online gambling are effectively monitored to inform policy adjustments that will maximise community benefits and minimise costs wherever possible (sub. D216, p. 18).

Box 18.4 Growth in Information technology and electronic commerce

ABS survey data (1999) suggest that

- At May 1999, nearly 50 per cent of households (3.2 million) had a home computer, a 13 per cent increase since May 1998.
- Over 22 per cent of households (1.5 million) had home internet access in May 1999, an increase of 57 per cent (553 000) since May 1988. A further 684 000 households expected to get internet access in the next year.
- 5.5 million adults or 40 per cent of Australia's adult population accessed the internet at some time over the 12 month period to May 1999. In the previous year 26 per cent of Australia's population accessed the internet.
- Over 74 per cent of 18-24 year olds accessed the internet from any site (home or other) in the year to May 1999, compared with 49 per cent in the previous year. 53 per cent of people aged 25-39 accessed the internet compared with 34 per cent in the previous year. 39 per cent of 40-54 year olds accessed the internet (28 per cent in the previous year). People over 55 are least likely to access the internet — 10 per cent accessed the internet in the year to May 1999 compared with 5 per cent in the previous year.
- Couples with children account for 55 per cent of internet households — 36 per cent of households of the family type couple with children had internet access, 16 per cent of households of the type couple with no children had internet access and 13 per cent of households of the type single parent were connected to the internet.
- 5 per cent of Australians used the net for purchasing goods and service in the past year, corresponding to 650 000 shoppers.

However, a prior ABS survey into household use of information technology (1998d), suggests that interest by Australian consumers in internet gambling was relatively low, with less than 4 per cent of adults stating an interest in internet gambling services.

A report published by the National Office for the Information Economy (1998, p. 3) also notes the small demand for electronic commerce in Australia, but highlights its potential for growth:

The market for electronic commerce in Australia is still small, despite the intense interest and activity surrounding it. But predictions are that it will grow by a factor of ten by the year 2000, and keep on growing. The global market for goods and services bought and sold over the internet is around US\$3 billion per year; by 2000 it is likely to be \$US150 billion. Optus predicts that the value of Australian electronic commerce will be A\$2 billion by 2000.

The growth in internet use and commerce points to the future. In 1996 only 40 million people around the world were connected to the internet. By the end of 1997 that number had reached 100 million. Traffic on the internet has been doubling every hundred days. America's first on-line bookstore sold \$16 million worth of books and CDs in 1996; in 1997 it made internet sales of \$148 million. In Australia in 1995, two percent of Australians bought things over the net; in 1997, six percent of the population did so.

Problem gambling

While problem gambling is an issue for both venue-based and internet gambling the concern is that the characteristics associated with internet gambling make it a particularly troublesome medium. A key aspect of the risks of online gambling is the degree to which it increases accessibility:

- Access is 24 hours per day.
- Gambling can be slotted into very small periods, increasing convenience, but also of impulsive gambling. As noted by the Interchurch Gambling Taskforce, an office worker, might for example, try to double their paycheck on a whim during an office break (sub. 167, p. 4).
- There is no longer any issue of scarcity of machines (such as occurs through caps or venue licensing restrictions) — if a person has an internet-connected computer they have access to a myriad of gambling forms.
- Other than having determined a payment method, there are no conditions of entry, dress requirements, expectations of patron behaviour or capacity to exclude children. A person can be disorderly, drunk or on drugs, and play at the home casino — so long as they can guide their mouse or still push the keys on their keyboard.
- The technology is, however, relatively socially inaccessible at the moment, reflecting the differential receptiveness of people to computer technology, which explains why it is the young (and well-off) who currently dominate as internet gambling customers. However, this pattern of use will change. It can be expected that the majority of households will soon have internet capable machines. If 70 per cent of households acquire this technology in the next five years, this will imply that there will be about five million (home) casinos offering gaming machines, casino table games and other gambling opportunities in Australia — a massive increase in accessibility. As well, people will be able to access gambling opportunities from internet cafes or from hundreds of thousands of workplaces.
- Advertising of online gambling (whether deceptive or not) or inducements to gamble are much harder to control than for other media, again acting to stimulate demand. For example, a Commission staff member set up an email account for an under-18 year old with a well known free email provider (indicating the status of the client as a minor). Within days, unsolicited messages were received inviting the mail recipient to gamble at online casinos.
- Games can be multilingual, increasing their accessibility to non-English speaking people.

-
- Initial outlays to play casino-type games, such as roulette and blackjack can be very low, because of the greater productivity of online casinos.
 - Ease of use is high, because patrons can get help about how to play any game at their own pace, without the social stigma of displaying ignorance in a crowded casino.

Other aspects of internet gambling also pose problem gambling risks. The fact that all transactions are electronic, combined with the similarity of the games to non-cash computer games, may mean that people are less aware of the amount of money they are spending.

Online casino games — like gaming machines and roulette — are continuous forms of gaming, with high frequency low payoffs. As in their physical counterparts, such continuous forms of gambling present substantial risks for problem gambling — especially as these also tend to be the more popular forms of gambling. Online sports betting, at least as currently operating, is less likely to involve problem gambling.

For people with past problems on physical forms of gambling, the ready availability of internet gambling may also increase the risk of relapse, or force them to give up the useful aspects of internet technology for fear of relapse. This fear was voiced, for example, by one problem gambler speaking to the *Conference on the Responsible Service of Gambling Within the Club Industry* (August 1999).

Finally, while there may be substitution effects from other, more expensive gambling forms (this being the likely basis for concern about online gambling by many traditional gambling providers), it is also likely that online gambling will establish a new market, just as gaming machines introduced many women to gambling. This in turn implies that a proportion of this newly exposed group will develop problems with gambling. The Interchurch Gambling Taskforce considered that the characteristics of the people attracted to internet gambling would accentuate the risks:

This is due primarily to the fact that most problem gamblers are of a young age, and it is this younger population which are most internet literate and will take to the technology fastest (sub. D200, pp. 5–6).

Echoing these risks, many participants expressed concern that the greater accessibility of interactive gambling and its structural characteristics may increase the harm of gambling and intensify tendencies towards addiction (box 18.5).

Box 18.5 **Some views on problem gambling and the internet**

Internet and interactive gambling presents one of the greatest social threats ... to individuals, communities and government. The ability for innumerable gambling opportunities to be broadcast into every home at all times could result in devastating social and economic effects (Interchurch Gambling Taskforce, sub. 167, p. 2).

Technology has removed the reality check or natural barrier which going to the races, or waiting for a croupier, imposes. It enables opportunity to participate uninterrupted in a way which presents a constant, irresistible, financially devastating lure to many ... We have particular concern because of the ability of patrons to participate in their own home, making those individuals at risk of developing a problem even more at risk (Anglicare, sub. 110, p. 4).

Internet gamblers are as susceptible to becoming problem gamblers as those who prefer more traditional forms of gambling. (Australian Medical Association, sub. 53, p. 12).

Interactive home gambling poses a significant challenge to regulators, and to the community generally, given the potential for a rapid increase in problem gambling with increasing levels of accessibility of the internet, and the universal accessibility (within the next ten years) of digital TV and the increased potential for interactive home gambling (Xenophon, sub. 98, p. 9).

Shane Warne ambles back to his bowling mark, tossing the ball from hand to hand, contemplating how best to bamboozle the batsman with his next ball. Should it be a leg spinner, top spinner, wrongun', flipper or zooter, he muses? [In] a suburban home ... a young cricket fanatic is watching ... With a click of the television remote or the press of a couple of buttons, instantaneously he bets, just prior to its delivery, that Warne's next delivery will be a wrongun'. Warne delivers the ball but sadly for the young fan it turns out to be a standard leg spinner and his money is gone. Never mind. He can try again next ball, or the one after that (Senator Grant Chapman, sub. 23, p. 2).

The advent of internet gambling has opened up a whole new range of concerns. For problem gamblers it has the potential to isolate from their community, and from others who can warn of a potential problem. We agree with the Commission's view that (without harm minimisation measures and appropriate regulation) on-line gambling will pose significant new risks for problem gambling (Anglicare Riverina, sub. D227, p. 2).

...The AHA (NSW) believes that there is potential for online gambling to exacerbate problem gambling. The convenience and privacy of a home computer will replace the need to make a positive decision to get cash and get to a gaming location (sub. D208).

Ameliorating features

On the other hand, there are some features of internet gambling which may moderate problem gambling. While it is possible that internet gambling might take place in locations other than people's homes (such as cafes), it appears that the high growth market will be home-based internet gambling. Here, the demands of other

household members and their readier scrutiny of what a gambler may be doing may act as a brake on lengthy or hazardous gambling⁷:

... consumers who log on from home computers will find it impossible to escape yelling kids, barking dogs, and all the other distractions of the real world. Internet gambling thus offers a more wholesome environment than its real world counterpart (Bell 1999, p. 11).

Since cash is not used for transactions, there will be other evidence of gambling transactions that will be easier for other household members to detect (for example, credit card records and cheque clearances to a gambling venue).

Further, if the odds are better for internet gambling, because of lower tax rates and lower technology costs, then this implies that player losses will tend to be smaller for a given duration and intensity of playing, which could thereby reduce some of the harms.

As well, counsellors contacted by the Commission indicated that many existing problem gamblers were inherently social in nature, and liked to get out of the home to gamble in social settings (even if, ironically, they did so alone). If this is generally true, then this particular vulnerable group may not find gambling on the internet very attractive.⁸

Overall, however, the Commission considers it likely that (without harm minimisation measures and appropriate regulation) online gambling will pose significant new risks for problem gambling.

Accessibility of minors

Children are banned from physical gambling venues and this can be enforced by on-site gambling operators and staff. However, many participants expressed concern that internet gambling operators cannot determine the age of gamblers, so that minors could gamble online by using an adult's credit card:

We have all seen young teens hunched over machines in video parlours, oblivious to their surroundings. This behaviour, in itself, mirrors gambling addiction. While age rules apply in the more formal gambling outlets, I defy any computer, no matter how smart, to be able to detect if a minor is placing bets using their parents' credit facilities (Senator Grant Chapman, sub. 23, p. 6).

⁷ Of course, these distractions and demands do not apply to single person households.

⁸ Tabcorp noted that its research and experience on customer motivations suggested that participants at gaming venues are attracted by much more than just gambling (such as a meal and a social outing), and that gambling at home on the internet was more likely to appeal to a subgroup seeking a gambling opportunity only (sub. D232, p. 14).

In an online environment of anonymous identity, the ease with which teenagers and children can access internet gambling, coupled with their proclivity for gambling addiction, will exacerbate this worrying trend (Janower 1996).

A further concern is that minors will become more exposed (and culturally conditioned) to gambling in general via the proliferation of internet gambling:

Children will be present while adults gamble and will be more likely to develop gambling problems as adults (Wesley Community Legal Service, sub. 46, p. 11).

[A cost will be the] Potential exposure to children and others, with the cultural shift of children now being able to observe parents' gambling behaviour in the home (Interchurch Gambling Taskforce, sub. 167, p. 3).

Notwithstanding such perceptions, underage access is not an insurmountable problem with internet gambling, even in an uncontrolled environment. The motivation and capacity for unsupervised and *regular* gambling by minors on the internet is weak:

- A minor cannot make any financial gain if money is won (unless the parent endorses the gambling). A consumer under the age of 18 can only legally obtain a credit card as a secondary card holder on an adult's account. If a minor uses an adult's credit card or account details to gamble, the winnings are paid by cheque, or credited to the account holder and cannot be accessed by the minor.
- The minor would also need to know a password to access the gambling supplier.
- Gambling by a minor can be easily detected by parents. Money for gambling withdrawn from accounts or credit cards will be listed on account statements.

There will be a small group of technologically astute minors who will be able to gamble on the internet for money without parental consent. However, this is not a unique problem. Some children look like adults and can gain admission to casinos, TABs and hotels to gamble. Some venues act irresponsibly and admit underage clients. An ACOSS study into *Young People, Gambling and the Internet* (1997), revealed that from its sample there were 14 to 16 year olds who regularly placed bets at the races, and minors that occasionally or regularly played gaming machines in clubs. If anything, the statistics on youth gambling (chapter 16) suggest that current levels of entry to physical gambling venues is likely to be much more prevalent than their future access to online gambling.

It is also likely that some minors will engage in internet gambling with their parents' consent, as they do now with racing and scratchies. This appears to be less problematic than unsupervised gambling. Arguably, socially restrained consumption of gambling within a family environment — even if notionally illegal — may

potentially have the benefit of teaching responsible gambling (as in the case of alcohol consumption).

It is too early to assess the social impacts of minors' exposure to gambling via the internet and other interactive technologies. Minors are already exposed to gambling through advertising, and are largely aware of whether and how their parents gamble. Nevertheless, home-based gambling does represent an increase in exposure, which may further normalise gambling. Whether this is seen as an adverse outcome depends on complex judgments about community and family norms.

Community impacts

Internet and interactive gambling represents a new level of community accessibility to gambling. Its impacts on the nature of community and family life will depend on its uptake and use. It may have some desirable social impacts — for example, by making gambling a less socially isolating pursuit for some individuals. On the other hand, it may further reduce social interaction outside the family, and affect social values.

Uncertainty about such effects would suggest a cautious approach to liberalisation of online gambling. In part, however, the fact that existing online casino games are slow to play (and therefore often not as entertaining as their physical counterparts) and that a relatively small share of households have the technology for accessing the internet, provides a natural (if short-lived) constraint on the pace at which online gambling will grow over the next few years.

Supplier integrity

Integrity concerns about online gambling include security and privacy issues, as well as whether operators are providing *fair* games of chance.

McMillen and Grabosky (1998) list problems including:

- a gambling site on the other side of the world may or may not be legitimate;
- a gambling service provider may close down a site before paying winnings or returning deposits;
- credit card or account details provided over the internet may be intercepted by a hacker and used fraudulently; and
- there is a potential for invasion of privacy.

Clearly, if the internet's amorphous and global nature precludes control, people will be able to gamble effortlessly on foreign and unregulated sites and it is likely that some consumers will fall victim to unscrupulous suppliers. However, even in an uncontrolled environment, it is likely that consumers and markets would at least partly respond to some of the problems.

Most consumers are likely to take a cautious approach to internet gambling and develop methods to test the integrity of suppliers. For example, a gambler may bet minimal amounts of money until confidence in payments mechanisms is attained. They may search for information about the reputation and nature of online casino operations before using their services. For example:

- www.internetcommission.com provides a listing of online gambling sites, and the extent to which they are likely to meet consumer expectations (covering issues such as algorithm testing, minimum and maximum bets, payment methods and transactions costs).
- www.gamblingmagazine.com has a black list of non-recommended gambling sites (numbering 245 in October 1999).

Furthermore, consumers will not fall victim to patently unscrupulous operators more than once — if an operator fails to pay winnings the consumer will gamble at an alternative site. In this sense, gambling on the internet is no different from other transactions on the internet, which require a degree of consumer caution and common-sense.

On the other hand, unlike physical goods purchased over the net, like books or CDs, it is difficult in some cases for consumers to verify if they have bought a 'lemon' or not, even after purchase. Even marked differences between the stated odds on virtual gaming machines and the real odds would be very hard for consumers to verify (given the volatility of outcomes on such machines — see appendix U and chapter 16). Accordingly, it would easily be possible for an unscrupulous unregulated online provider to claim player returns of 93 cents per dollar, and yet only return 90 cents (a 43 per cent increase in actual prices). Similarly, a gambler who participated in an online lottery does not expect to win a large jackpot, even over a lifetime, and could not therefore verify through experience whether an operator was fair or not. In contrast, sports betting is far more secure since the gamble relates to an event outside the control of the gambling provider.

In response to these consumer uncertainties, high quality operators will want to signal their quality and probity to clients. They would use a number of strategies to achieve this. They might:

- develop codes of practice;

-
- use payment systems which were more reliable;
 - seek out independent scrutiny of their operations (for example, the International Red Cross internet lottery is audited by Coopers and Lybrand). Many of the online casinos listed by www.internetcommission.com have their operations scrutinised by one of the big seven global accounting companies;
 - put in place dispute resolution procedures;
 - establish an alliance with (or be a subsidiary of) an existing corporation which has a strong reputation (and which would consequently lose too much from fraudulent or deceptive behaviour with its clients; and
 - actually invite the government to regulate them to provide endorsement of their quality.

It is notable that Centrebet and Lasseters, which are outside the jurisdiction of the regulatory authorities of most countries to which their customers belong, have used just these sorts of strategies to secure a competitive advantage through reputation.

While online gambling providers would find some ways of differentiating their quality from those of unscrupulous operators, this does not mean that this is the most efficient outcome. An appropriate regulatory framework — combined with credible monitoring and enforcement — may decrease probity risks more efficiently than under an uncontrolled environment. For example, in an unregulated environment, small online providers without a reputation would probably find it hard to secure a long term future, even if their products were innovative and their prices low. A regulatory environment, by more cheaply certifying quality, may therefore provide efficiency benefits for consumers.

Are adverse impacts on ‘off-line’ gambling providers a cost?

Many existing gambling providers are hostile to internet gambling, because they fear that they will lose some of their customers to less highly regulated and taxed online providers (box 18.6). This concern by established gambling interests is not a peculiarly Australian phenomenon. Bell (1999, p. 3) notes that much of the lobbying for a ban on internet gambling in the United States stems from threatened incumbents:

The established offline gambling industry has huge sunk and overhead costs that nimble new competitors might prevent it from recovering.

However, whether in fact the fears of incumbents will be realised is unclear. In the past, the introduction of new forms of gambling appears to have had relatively minor substitution effects away from existing forms of gambling. Whether internet

gambling follows this trend depends on the extent to which the attributes of internet gambling are intrinsically new, drawing increased expenditure on gambling and a new market of consumers, or whether the internet represents a more convenient access to games that are already widely available in a physical form. The effects are likely to vary significantly by gambling mode.

Box 18.6 Impacts of internet gambling on existing gambling providers

From the casino industry's point of view, the spread of internet gambling could threaten the competitive position of individual casinos. Casino operators have paid large up front and ongoing licence fees as well as high taxes for the right to operate exclusive location-based casinos. The advent of large numbers of internet competitors undermines the rules of operation already in place and raises questions about how appropriate current tax arrangements might be (existing casinos pay large taxes and interactive casinos pay none) in light of this new competition (Australian Casino Association, sub. 124, p. 27).

Internet gambling has various forms and represents a new development that has the ability to render the established principles and mechanisms of regulation and control traditionally applied to gaming ineffective. In addition, it has the potential to cause significant structural change to the club industry which over the years has invested and continues to invest hundreds of millions of dollars into both the community and the supporting industry infrastructure and facilities (Council of Community Clubs of Australia and New Zealand, sub. 63, p. 13).

... technology and internet gambling represents the ultimate threat to Australia's gambling industries. In the absence of taxation, online offshore virtual casinos can provide substantially superior paybacks to gamblers that only a small percentage of consumers would ultimately resist ... (Australian Hotels Association (NSW), sub. D208).

It is likely that expenditure incurred through gambling at home will be largely in substitution for other gambling expenditure (NT Select Committee 1996).

Internet gaming players are a different group to those of typical gamblers in traditional forms of gambling. Access understands that most problem gambling occurs with poker machines played by the less well off in society. If this is the case, we consider that these are the least likely to have access to home computing and the internet. This indicates a relatively low level of transfer of gambling from traditional venues to the internet — from which one may conclude that internet gambling is likely to be in addition to existing gambling, rather than replacing it in part (Access Systems, sub. 16, p. 5).

Racing and lotteries

Gamblers who bet on racing, or purchase lotto or lottery tickets may find the internet a more convenient method of gambling — just as phone betting increased the convenience of TAB wagering. For these gamblers the product or wager on the internet is the same as that offered by a venue. The difference is that the product can be purchased from home — the provision of gambling in these forms via the internet will likely lead to some substitution in the *medium* by which gambling takes place, but not the country of the supplier, and indeed, in most cases not even the

supplier. It should be noted that internet wagering represents a relatively small technological step since people could already lodge their bets remotely by phone.

Sports betting

Sports betting is still a relatively new form of gambling, and is highly suited to internet and home-based gambling. It is likely that it will grow rapidly via the internet, largely creating a new market, though there may be some shift away from wagers on racing.

Casino tables games and gaming machines

The effect of internet gaming on venue-based gaming is less clear. Gamblers who play gaming machines and casino table games typically enjoy playing in a social setting (figure 18.3). While it is possible for venues, such as internet cafes, to provide a social setting for virtual gambling, the atmosphere of a casino or gaming machine room cannot be fully replicated. The virtual product may be viewed as intrinsically different from the physical product. In the virtual realm the player cannot touch the cards or chips, experience the excitement of others or obtain the personal attention of a venue employee.

However, a sizeable minority of gamblers who go to the casino, play gaming machines or Club Keno, do so to win, to pass the time or because they enjoy the nature of the game (figure 18.3) — motivations for gambling which can be as readily met by internet as venue-based gambling. Internet gambling may, therefore, reduce gambling by these people in some existing venues.

At the same time, online gaming is likely to tap a new market of gamblers. For example, Star City said:

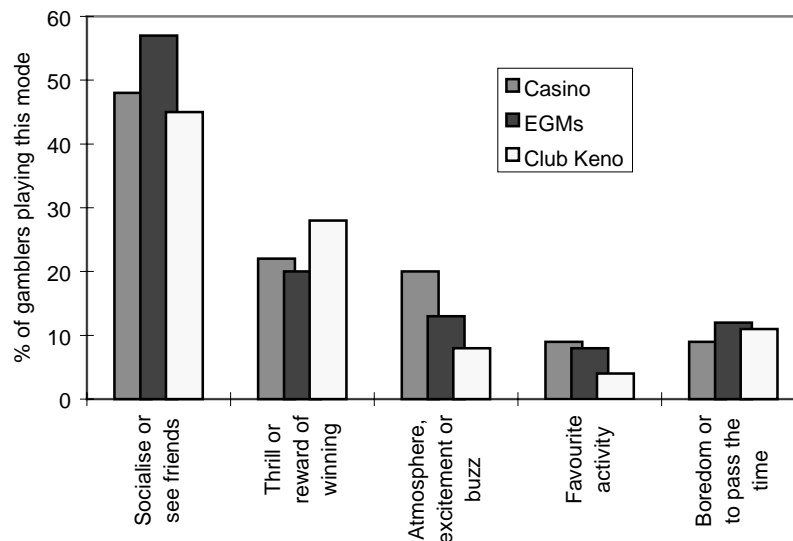
Many people are reluctant to leave their homes to go to a club or casino to bet alone. Others feel intimidated by the prospect of sitting at a gaming table with other players. There will be a temptation for many of these people to take the option of betting privately at home so the internet has the potential to open up a vast new gaming market (sub. 33, p. 35).

Online gaming will be attractive for those who:

- live in remote locations, are house bound or live with a disability may find that gambling services that were previously difficult to access are now readily available;
- are concerned about safety at venues and when travelling to and from gambling venues (notably women);

- do not like the atmosphere of venue eg the smoke or noise;
- are intimidated by other gamblers at gaming tables; and
- are already heavy users of the internet.

Figure 18.3 **Motivations for gambling on traditional gambling forms**
Victoria 1998



Data source: Roy Morgan Research (1999) for the VCGA.

In summary, the expansion of online gambling will have repercussions for existing suppliers. For many it will largely represent a new medium for gambling transactions (such as lotteries). For others it will partially erode existing markets, but also create new ones.

Whether any adverse impacts on incumbents should figure as policy relevant costs depends on how these impacts have arisen. To the extent that they arise due to the more stringent regulatory treatment of physical gambling forms compared with virtual ones, then this can be inefficient and inequitable, a point emphasised by the AGMMA (sub. D257, p. 24). The Commission's policy option — explored in section 18.9 — would involve regulatory treatment for virtual forms that were in close parity to physical forms (although the issue of appropriate tax treatment is more complex).

However, to the extent that any adverse impacts on incumbents arise from the technological advantages of the internet, they constitute little basis for remedial policy action. The existing gambling industries have generally denied the policy relevance of the displacing impacts of the growth of gaming machines on retailing

(chapter 10) — it seems scarcely consistent to regard the potential impacts of online gambling on traditional gambling forms in any different a light. In general, societies do not prohibit technological change because some existing businesses lose as new businesses form. The appropriate barometer for accepting or denying technological growth is net social benefits — which in this case, is largely determined by consumers.

Taxation

Many participants expressed concern that internet gambling may diminish state/territory taxation revenue and affect community services. The Australian Racing Board, for example, stated:

In terms of the Australian Racing Industry, a significant proportion of the revenue earned from wagering on racing is returned to:

- The Industry to fund prize money, racetrack facilities and the major employment that is associated with the industry;
- Consolidated revenue to contribute to community obligations such as, hospitals, schools etc.

The erosion of this revenue lifeline would have serious consequences for the economy of the Racing Industry and the State Governments, as well for the Australian economy in general. Accordingly, there is significant concern that unlawful internet wagering operators should not be afforded the opportunity to establish themselves. Moreover, if such operators established a significant Australian subscriber base during these early days then it is considered that they will be that much more difficult to displace (sub. 48, p. 2).

Similarly, AUSTRAC reported that:

Internet gambling and the resulting access to offshore gambling sites also has the potential to undermine State and Territory revenues. Estimates from the Office of Strategic Crime Assessments indicate that by the year 2015 the NSW government alone could be losing up to \$16 million per annum in taxation revenue through consumers utilising offshore gambling sites (sub. 43, p. 7).

However, the overall tax implications of expanded internet gambling are more complex than simply one of revenue lost abroad to foreign gambling providers (box 18.7).

Box 18.7 Tax revenue losses?

A simple model may be useful to illustrate the potential tax effects of the expansion of internet gambling.

Australians spend on four goods:

$$M = E_{NG} + E_{TG} + E_{IA} + E_{IOS}$$

where E_{NG} is expenditure on non-gambling goods and services, E_{TG} is spending on traditional gambling, E_{IA} is spending on internet gambling in Australia and E_{IOS} is expenditure on internet gambling overseas. Suppose that *overall* expenditure by consumers was constant (M is fixed) — which abstracts from any efficiency dividends emanating from the expansion of internet gambling.

Tax collected on goods and services by Australian governments is:

$$T = \tau_{NG} E_{NG} + \tau_{TG} E_{TG} + \tau_{IA} E_{IA} + \tau_{XG} E_{XG}$$

noting that no taxes on spending by Australians on overseas-provided online gambling services are repatriated to Australia (and where τ is the tax rate associated with each of the differing expenditure categories), but that Australia does collect tax on exports of internet gambling services (E_{XG}).

The change in the tax revenue from the expansion of internet gambling services is:

$$\Delta T = \{ \tau_{IA} \beta - \tau_{NG} (1 - \alpha) - \tau_{TG} \alpha \} \{ \Delta E_{IA} + \Delta E_{IOS} \} + \tau_{XG} \Delta E_{XG}$$

where $(\Delta E_{IA} + \Delta E_{IOS})$ is the expansion in gambling internet services consumed by Australians, α is the share of this expansion displaced from traditional gambling expenditure (E_{TG}), while β is the share of the expansion that is met by Australian internet gambling suppliers (cf foreign internet gambling providers).

The impact of this internet expansion on the sales of traditional Australian gambling suppliers is:

$$IMPACT = - \left\{ \alpha \frac{\Delta E_{IA} + \Delta E_{IOS}}{E_{TG}} \right\}$$

Source: Commission calculations.

The overall tax impact will depend on:

- the size of the expansion in Australian consumption of internet gambling services. This is unknown, but with online TABs, lotteries, sports betting and new virtual casinos, it seems plausible that growth could be highly significant. If Australian consumers were to account for about 5 per cent of the global player losses projected for 2002 (section 18.3), then Australians could be spending around \$230 million on online gambling in the next few years.
- how much of this expansion represents substitution from (highly taxed) traditional gambling forms (compared with other goods and services, which are more lightly taxed).
- the share of expanded internet gambling by Australians which is met by domestic online gambling providers. As noted previously, it seems likely that

gambling on internet racing and lotteries by Australians will still favour domestic suppliers, as will sports betting. Australia's comparative advantage in gaming also suggests that a significant share of online gaming will be retained in Australia in the shorter run, though this would be open to erosion if reputable offshore internet providers were to secure a technological lead or to obtain significant tax advantages.

- the extent to which domestic online gambling suppliers sell services to foreigners. Australia appears well set to provide significant gambling internet services to foreigners — reflecting a comparative advantage in gambling technologies, regulatory regimes and reputational advantages. Centrebet, for example, sells far more to foreign customers than to Australians. These foreign earnings generate tax revenue which offsets that which is lost abroad. The scenarios which follow assume that Australia captures around 5 per cent of the market.
- the tax rates levied by Australian governments on domestic and foreign consumers of Australian internet gambling services. For example, Lasseters online casino has a tax rate of 8 per cent on gross revenue from all its virtual games (compared with 22.5 per cent on gaming machines and about 8 per cent on table games in the 'real' casino). However, the lower tax rate on the internet apparently recognises the upfront costs of developing the site and will be subject to yearly review. In the case of CentreBet, internet sportsbetting is taxed at the same rate as phone betting.

Using the model outlined in box 18.7 — based on provisional settings for the major variables — the Commission examined the tax outcomes of varying scenarios (table 18.4).

It is conceivable that tax revenue may *increase* with the expansion of internet gambling, under managed liberalisation. This is due to two factors. First, tax rates on non-gambling goods and services are relatively low at around 10.3 per cent, so that expenditure displaced to Australian domiciled internet gambling services would probably earn more revenue. Second, while some tax revenue is lost when Australians buy overseas-provided internet gambling services and when more highly taxed traditional gambling forms are displaced, there is offsetting revenue from taxes on online gambling exports. Revenue gains can be very significant if online gambling mainly represents a new market (scenario 2). This result, however, does depend on the extent to which Australia has a competitive advantage in online gambling (scenario 3).

On the other hand, if Australian provision of gambling is prohibited, then Australian governments lose any export revenue as well as revenue displaced from lower taxed

non-gambling domestic goods and services. Nor does prohibition stem the flow of taxes abroad, as some consumers could still be expected to buy overseas even if it was illegal. Consequently, prohibition would still be likely to generate overall revenue losses (relative to the benchmark) — though these would be less than the most pessimistic scenario under managed liberalisation.

Table 18.4 Projected tax impacts of the expansion of online gambling in Australia^a

	<i>Managed liberalisation</i>			<i>Prohibition^e</i>	<i>Tax competition^f</i>
	Scenario 1 ^b	Scenario 2 ^c	Scenario 3 ^d		
Change in revenue from non-gambling sources (\$m)	-9.8	-19.6	-9.8	-1.0	-9.8
Change in revenue from traditional gambling (\$m)	-47.9	-16.0	-47.9	-4.8	-47.9
Change in revenue from Australian online gambling providers (\$m)	32.3	32.3	13.8	0.0	8.1
Change in revenue earned from online exports (\$m)	92.3	92.3	92.3	0.0	23.1
Change in gambling revenue (\$m)	76.7	108.6	58.2	-4.8	-16.8
Revenue lost abroad (\$m) ^g	17.3	10.7	40.4	5.8	17.3
Change in net revenue (\$m)	66.9	89.0	48.4	-5.8	-26.6
α	0.6	0.2	0.6	0.6	0.6
β	0.7	0.7	0.3	0.0	0.7
τ_{IA}	0.2	0.2	0.2	0.2	0.05
τ_{XG}	0.2	0.2	0.2	0.2	0.05
E_{XG}	461.5	461.5	461.5	0.0	461.5
$E_{IA}+E_{IOS}$	230.8	230.8	230.8	23.1	230.8

^a The model in box 18.7 was calibrated as follows. In the benchmark case, gambling expenditure is \$11 billion (Tasmanian Gaming Commission 1997–98), non-gambling household expenditure is equal to \$321.3 billion (ABS National Accounts, Cat. no. 5204.0, 1997–98), $\tau_{NG}=10.6$ per cent (calculated from the ratio of taxes on non-gambling goods and services over non-gambling household expenditure, with tax data from ABS Cat. no. 5506.0) and $\tau_{TG}=34.6$ per cent (calculated from the Tasmanian Gaming Commission) and since current values are small, it was assumed that $E_{IA}=E_{IOS}=E_{XG}=0.0$. The projections relate to the year 2002 (based on a 5% share of the global market from Faust 1999). ^b In this scenario, it is assumed that a large 60 per cent of the expenditure on online gambling comes from traditional gambling forms — though note that given other parameters, this only generates a 1.3 per cent contraction in expenditure on traditional gambling modes. It is also assumed that 70 per cent of online gambling consumption by Australians is met by local producers. Tax rates on online gambling are assumed to be much smaller than on traditional gambling forms, reflecting greater global mobility of punters. ^c In this scenario, it is assumed that only 20 per cent of the expenditure on online gambling comes from traditional gambling forms — which, given other parameters, generates only a 0.4 per cent contraction in expenditure on traditional gambling modes. ^d In this scenario it is assumed that only 30 per cent of online gambling consumption by Australians is met by local producers. ^e Under domestic prohibition of internet gambling services, E_{XG} and β are by definition zero. However, notwithstanding prohibition, some Australians will still gamble abroad (because of the difficulty of detection), albeit at a much lower level than under a liberal regime. It is assumed that gambling abroad is only \$23 million. ^f Under intensified tax competition, tax rates on online gambling are competed away by different Australian jurisdictions and by global competitors, until tax rates fall to 10 per cent only. ^g Revenue lost abroad is calculated as $\alpha(1-\beta)*(E_{IA}+E_{IOS})*\tau_{TG}+(1-\alpha)*(1-\beta)*(E_{IA}+E_{IOS})*\tau_{NG}$. Note that the net revenue change already takes account of tax lost abroad, and so revenue lost abroad should not be subtracted from the previous item in the table.

If different Australian jurisdictions and other countries compete away tax rates, then there is the potential for more significant tax losses.⁹ However, the notion that tax competition would be fierce is unclear. Certainly, differential tax rates may influence the ability to attract high rollers. But normal punters betting modest amounts may not be that responsive to (or even aware of) the small price changes achieved by lowering taxes. They are more likely to choose sites which are reputable and have entertaining games.

It is misleading to examine revenue lost abroad without taking account of other revenue effects. For example, more tax is lost abroad under managed liberalisation than under prohibition, but the *net* tax collected is higher under the former than the latter.

Finally, while preservation of tax revenues is an objective of government, it should only be one consideration when determining the appropriate policy stance for online gambling.

18.5 Non-regulatory responses to problems

Regardless of whether internet gambling is subject to regulation, Australian governments could offset some of its potential adverse social effects by palliative measures.

Promoting responsible practice

The Government could promote responsible internet gambling practices, warning people of the risks of using offshore sites which do not meet adequate standards of consumer protection, with graphic illustrations of some of the worst possible risks (for example, 'Careless moments with a mouse can cost you your house').

Help services

It seems sensible to use the internet itself as a vehicle for helping people with problems. For example, the government could establish a single national self-help and diagnosis site, and advertise the existence of this site widely on the net (for example, via search engine companies). This site could have links to problem gambling counselling agencies and to online counselling if the demand were sufficient.

⁹ These tax losses do not appear to be large relative to existing gambling taxes for the forecast horizon that has been used, but may be more significant over the longer run.

A reputable site listing service

Consumers may not be well informed about which sites conform with adequate consumer protection standards or even know where the site is located. None of the first four gaming locations listed in table 18.2 that imply an Australian origin are owned or licensed in Australia.

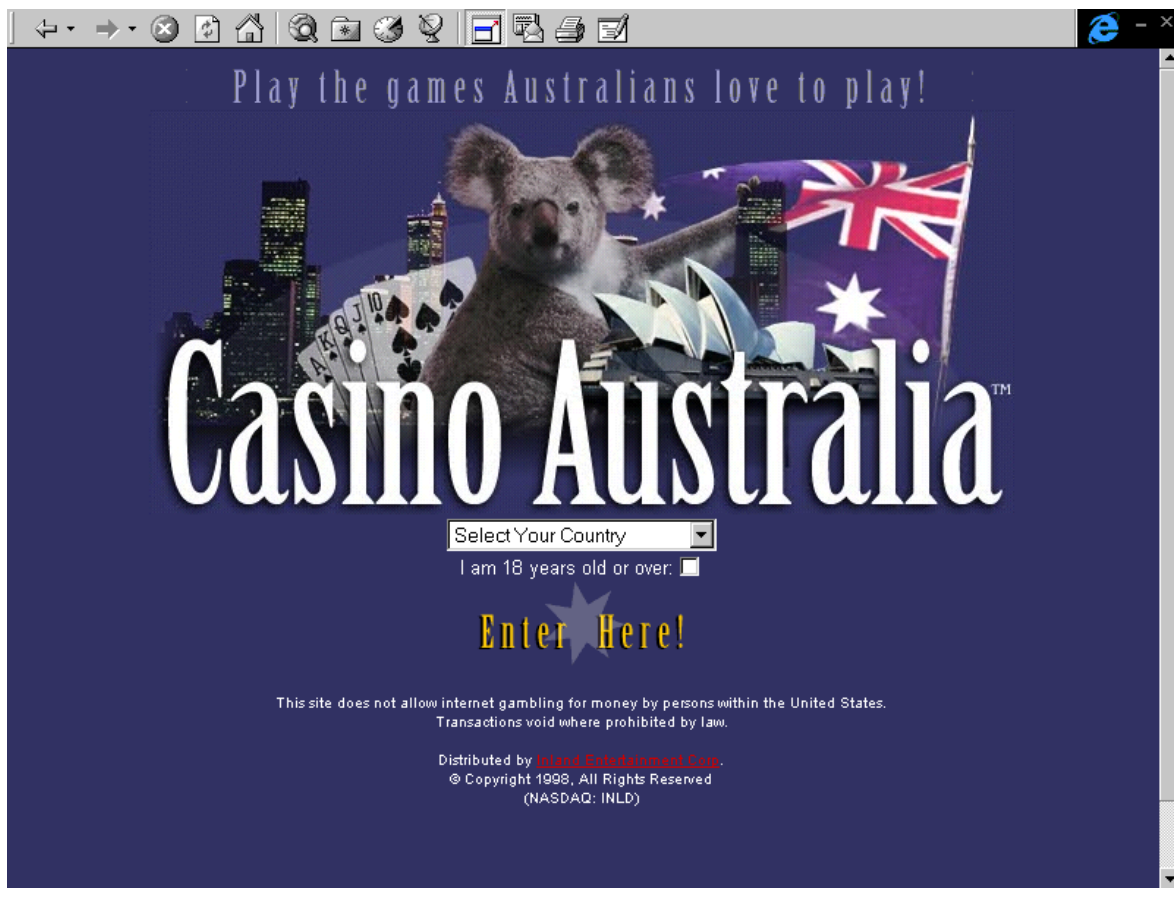
- For example, Casino Australia (which strongly portrays an Australian image — figure 18.4) is licensed in the Netherlands Antilles, run from a server in the United States and Canada, and owned by a US company.
- One online site, www.Australiancasino.com, shares internet protocol numbers (which point to the computer server where the sites are hosted) with a range of casinos purporting to be from other countries. These other online gambling sites include www.Britishcasino.com, www.Canadiancasino.com, www.Russiancasino.com, www.Europeancasino.com and www.Chinacasino.com, as well as a range of pornographic online gambling sites. The owners are said to be a consortium of US corporations and others, but no details are provided. Nor are licensing conditions revealed on their sites. The registrants for the sites typically provide a common UK address. The servers are all on a popular internet service provider in the United States.

There may, therefore, be advantages in creating a site which lists and has links to reputable gambling sites. In this way consumers may be better informed about which sites meet consumer protection standards, with any costs of certification met by any site which wishes to be considered for certification.

This information site could also provide basic information about all known online gambling sites (which are still relatively few in number):

- what are the licensing conditions?;
- are they regulated by a government which is trustworthy?;
- are they audited?;
- how sure can the consumer be that the games have integrity?;
- where is the site?;
- what are the prices?; and
- are there peculiarities in the rules?
- can you self-exclude or limit your gambling if you wish to do so?

Figure 18.4 The site entrance to Casino Australia



Source: www.casinoaustralia.com.

The site www.internetcommission.com partly achieves this end already, but does not cover all of the above points, and has not been able to check the authenticity or characteristics of many currently operating online casinos.

It is important that any such listing site not be seen as government promotion of gambling, which suggests that it would be best managed by a non-government body subject to government determined guidelines.

PC-based technologies for obtaining informed consent

In chapter 16 the Commission set out some measures for increasing informed consent in the use of gambling. As the internet is mediated by computers under the control of the consumer, there is potentially significant scope for technological solutions which widen their scope for self-control. Filters, labels and safe zones are technological tools developed to block undesirable material on the internet (box 18.8). For example, the Western Australian Ministry of the Premier and Cabinet recommended the use of start-up warnings on gambling web pages, the

utilisation of ratings on such pages and help facilities so people know how to block future access if they wish to (sub. D261, pp. 4ff).

Box 18.8 **Overview of blocking tools**

Filtering software such as *Webkeys Prowler*, *CyberPatrol* and *Net Nanny* can be installed on home computers. Filtering products have a list of banned sites, keywords and phrases which are used as a basis to block unsuitable material on the internet. Some filtering products block access to newsgroups, chat rooms and e-mail. Other additional features provided by some filtering products include:

- the ability to create a personalised list of bad sites and words;
- different levels of access can be established for different family members;
- the filter can block by either providing a warning or shutting down the computer;
- time spent on-line can be restricted; and
- internet access can be restricted to pre-determined times in the day.

Labelling: Some internet sites are labelled according to content (in a similar way to the rating of television programs). Rating systems are generally based on the Platform for Internet Content Selection (PICS) which was developed by the World Wide Web Consortium as a system to attach labels to internet sites. Labels can be read by browsers and a site blocked if it does not conform to a users deemed minimum rating. However most web sites are unlabelled. In addition, the dynamic nature of the internet means that labelling tools are not fully effective as a content blocking mechanism. Labelling tools are therefore generally operated in combination with filters.

Safe zones are suitable for young children. Safe zones are secured networks, separated from the rest of the internet. Some such as Kidz.net and Kahootz are provided on a subscription basis. Others such as Bonus.com are free, supported by advertising.

Source: www.aba.gov.au/family/

Governments could act by promoting (through listing reputable products) software available to people that is loaded onto personal computers, and offers greater control over whether they wish the family to gamble, at which sites, and under what conditions.

As software installation would be entirely voluntary it would not affect consumer choice, and because it would not be on an ISP's server, it would have no effects on overall internet efficiency. As noted by the Internet Society of Australia (ISA 1999, pp. 2–3):

If filtering of internet content is to be done, the best location for this is at the point

of consumption, the end user's machine. This has advantages in that:

- The choice may be made by the consumer as to the level, if any, of filtering they desire;
- No burden is placed on the internet industry;
- Enhanced avoidance measures may be implemented which are not possible at the service provider or higher level. For example, only information which may be inspected and filtered may be allowed, disabling the use of encryption techniques and other avoidance measures.
- No delays or restrictions are placed on the general populace, businesses or e-commerce merchants.

Many products already exist to allow some self-control of household internet use (such as *WebKeysProwler*, *CYBERsitter*, *SurfWatch*, *Net Nanny*, *Cyber Patrol*, *ifilter*, *iseek*¹⁰ and others listed at <http://www6.pilot.infi.net/~carolyn/guide.html> — table 18.5).

The more simple of software tools would allow families to restrict access to gambling sites and time spent on the internet. But it is conceivable that smarter AI software could be developed which could act as an additional interface with *any* gambling site — providing options for limiting expenditure or time (as described for gaming machines in chapter 16) — and issuing warnings if analysis of the site suggests that it is hazardous.

For example, such software could interrogate an online database periodically for sites which have been found to lack probity or may be otherwise risky for consumers, and inform the consumer. It is likely that the technical difficulties for effective home-based blocking of active gambling sites is much easier than generalised blocking or filtering of content (such as mentions of sex, which sometimes also block quite appropriate sites).¹¹

Employers are also increasingly using blocking and other software technologies to filter content and to monitor internet use — both to increase worker productivity and to reduce some of the risks of litigation that might arise from inappropriate content flowing through their networks (see for example, www.rulespace.com). Such blocking could presumably encompass gambling sites.

¹⁰ The latter two are Australian products, which provide filtering of sites, and were launched by the Australian Government on March 1999.

¹¹ See, for example, Electronic Frontiers Australia (1997, p. 9).

Table 18.5 Overview of selected filtering software

	How it works	What it blocks	Features
Webkeys Prowler Free copy available at www.webkeys.com	Blocks access to sites deemed unsuitable according to chosen rating — child, preteen, teen, adult and x-rated Provides a list of over 1000 sites safe for children	Words and phrases Web sites	Sites and 'bad' words can be added to the default list Default 'bad' sites and words can be switched off which allows the user to create a personalised filter Different levels of access can be established for a number of users Option to keep a log of internet activity
CyberPatrol Trial version for windows 3.1/95/98/NT and Macintosh available from www.cyberpatrol.com	The software either blocks access to sites deemed unsuitable or allows access only to a list of children's sites. It also allows filtering by PIC labels. The block list is overseen by a review committee Updates to blocked lists can be downloaded weekly	Words and phrases Web sites URLs Newsgroups, Chat groups Outgoing information	Sites can be added and deleted Different levels of access can be established for a number of users Time spent on-line can be limited Internet access can be restricted to pre-determined times of the day
CYBERSitter Trial version for windows 95/98/NT available at www.cybersitter.com	Blocks access to sites deemed unsuitable for children Blocks searches of material deemed inappropriate Blocks sites deemed adult content by PICS ratings systems	Words and phrases in context (to prevent blocking of safe sites) Options to block FTP sites, IRC chat rooms, Usenet newsgroups and outgoing information	Words and phrases can be added to blocked list but sites from the list cannot be deleted Automatic updates to block list Monitors and records Internet activity and attempts to access blocked sites
Net Nanny Trial version for windows 3.1/95/98 available at www.netnanny.com	Blocks access to unsuitable sites Designed for parents to set up their own list of 'bad' phrases. A default 'bad' list is provided but it is not effective until words are added. Provides a list of sites safe for children	Words and phrases Web sites IRC chat rooms Newsgroups Outgoing information	Monitors attempts at violations Can be set up to issue warnings or shut down the computer on attempts to access blocked sites

Source: NOIE Web sit summary of filtering and labelling tools, www.aba.gov.au/family/family/tools.html and testing by the Commission

And like the pre-commitment mechanisms in chapter 16, it would be possible to make it hard to reverse the options selected by the consumer prior to the agreed time. For example, the software could not be uninstalled or have its preferences altered unless the consumer keyed in a special code. A person who wanted to pre-commit would give the code to someone else.

However a few limitations of blocking software should be noted:

- Filters can block access to safe sites.
- The software decreases the speed of access to sites.
- None are completely foolproof — sites on the internet are constantly changing — filtering software which blocks sites (rather than words or phrases) needs to be reviewed and updated constantly.

The Commission considers that, regardless of what regulatory approach is taken, there are strong grounds for governments to:

- **take measures to warn people of the hazards of offshore online gambling,**
- **provide information on the internet about gambling help services and gambling sites which meet consumer protection criteria; and**
- **make available or promote software for providing consumers with greater control over online gambling.**

18.6 Are non-regulatory responses enough, or are regulatory controls warranted?

While non-regulatory responses have the virtue that they may solve some problems without compliance costs for gambling providers or ISPs, they are unlikely to deal with significant concerns. They cannot deal with taxation issues, and their method for controlling consumer protection is to equip consumers with better information rather than to reduce hazards directly. This is akin to telling people which cars have faulty brakes, but not fixing the brakes.

Nor is a laissez faire approach consistent with the regulatory approach adopted for other gambling modes. Arguably a consistent approach to regulation of gambling is blind to the medium used to provide that gambling:

... if we talk about the regulation of gaming, one must appreciate that regulatory measures should address the activity itself rather than the medium on which the activity takes place. That is, if it is illegal to gamble in a jurisdiction, it is illegal to gamble in a jurisdiction. The law should be independent of the medium (Toneguzzo, 1997, p. 16).

... the established casino and club gambling industry is already heavily regulated. This provides the legitimate basis for strongly arguing that the same standards of regulation should be applied to internet gambling, otherwise an erosion in the overall level of regulation could result (Surebet Gaming Systems Pty Ltd, sub. D263, p. 12).

This would imply that ideally internet gambling should be subject to the same set of regulatory principles as other forms of gambling, such as licensing of approved operators, probity checks on management, consumer protection and confirmation of game integrity.

However, other aspects of current regulatory approaches to gambling are difficult to separate from the medium. For example, it is hard to see how a venue or state-wide cap on gaming machines could have an equivalent in online gambling — and it is precisely the absence of this equivalent method for controlling accessibility which drives concern over internet gambling. Nevertheless the purpose for venue and other caps on physical machines is to reduce problem gambling, and it may be that there are other ways in which this goal could be achieved with online gambling, which should then be incorporated into any regulatory framework. In this sense it may be possible to derive a regulatory framework for online gambling which is consistent with the objectives, if not the form, of the framework applying to other gambling modes.

The Commission considers that some form of regulation of internet gambling, is, *subject to controllability*, an important objective, and is consistent with the aspirations of other regulations applying to gambling — consumer protection, probity and preservation of revenue.

One reason why regulatory frameworks for internet gambling tend to depart from principles adopted in other gambling modes is that regulators are aware of the profound difficulties of implementing a similar framework for the essentially anarchic internet. Building in these implementation problems is a sensible aspect of good regulatory design, but the Commission considers that the *starting* point for an internet regulatory framework should seek to mimic the principles applying to other gambling forms and *then* see how implementation problems necessitate modification of these principles. These regulatory measures include controls relating to:

- the probity of suppliers. These must meet certain criteria to be licensed as a gambling provider (relating to, for example, probity and financial security), provide certain records of their transactions, and be able to be monitored and pay their taxes;

-
- harm minimisation, typically achieved by specifying features of the gambling environment (such as where it is, what modes of gambling are permitted, signage and the use of credit);
 - the integrity of the gambling product. This must meet certain known standards (for example, that the dice are not weighted, the chip algorithm in a poker machine has been verified and tested);
 - prohibited access to gambling by minors; and
 - taxation of gambling.

Clearly stating these as common goals of all regulation of gambling, including internet gambling, stops potentially important regulatory options from being prematurely discarded following cursory consideration of pragmatic hurdles. We turn next to these pragmatic hurdles to see how they might require modification of these principles.

18.7 To what extent can internet gambling be controlled?

Regulation of internet gambling is overshadowed by perceptions of intractable control problems (box 18.9). Traditionally, gambling has been limited to venue based forms of gambling, whereby gamblers had to leave home to participate. This made gambling relatively straightforward to control. By regulating the venue, state and territory governments were able to control gambling. Venue based gambling also made it difficult for residents (unless living close to state/territory borders) to shop interstate for gambling products. The key to these control mechanisms is the ability of governments to use sanctions against non-complying operators.

Internet gambling has changed this. The difficulty for regulators is that accessibility to a gambling internet site is currently only constrained by language and culture, rather than by distance or venue. As one commentator put it: ‘All sites are equal to the mouse click’. Once consumers in one jurisdiction can readily use gambling operators located in another — be they in other states within Australia or internationally — then government control is diluted. This poses a number of challenges for existing gambling regulatory models. The Queensland Government, for example, said:

Developing telecommunications technology and the uptake of interactive broadband services will result in increasingly more players having free access to interstate and overseas gambling products in circumstances where there will not be any ability to intervene in transactions between a player and the gambling service provider (sub. 128, p. 49).

Box 18.9 **Doubts about controllability**

I think there is a component of futility because information is very hard to manage and can slip through the smallest crack (Hal Varian, Dean of the School of Information Management Systems, University of California, Berkeley in Ludlow, 1999).

The very architecture of the internet renders gambling prohibition futile ... sending a message over the internet is a bit like writing a letter, chopping it up, and mailing each piece separately to the same address. The recipient can put it together, but anyone snooping on your correspondence has a tougher go of it ... The internet's inherently open architecture hobbles law enforcement officials, and relentless technological innovation ensures that they will only fall further and further behind (Bell 1999, pp. 7-8).

Right now, gaming on the internet is probably illegal but nearly impossible to regulate due to the offshore location of many of the Cyber-casinos, certain encryption technologies that make the gamblers virtually anonymous and certainly difficult for law enforcement to trace ... (Gordon 1996).

Given the state of technology and the nature of the internet, it is difficult to see how the US ban would work. Even if the ban could be somehow enforced in the US, experience shows that prohibition of an activity which the community at large regards as acceptable, and people would like to pursue, does not work (Australian Casino Association, sub. 124, p. 27).

[The option of prohibiting electronic gambling or internet gambling] is simply unlikely to be viable ... We are not aware of any technologically advanced jurisdiction that has attempted with any success to prevent its citizens from accessing parts of the internet by creating a specific offence for the activity (Horner and Bradfield, Department of Internal Affairs, New Zealand, 1998).

... interactive gaming is already here and is here to stay — legally or otherwise. Legislators can seek to ban it, but risk losing control if they do (Tattersall's, sub. 156, p. 59).

What mechanisms are available for control?

It should be emphasised that the relevant question for public policy is not *whether* online gambling can be controlled, but the *extent* to which it can be controlled. Full control is an unattainable objective, which would be undesirable to achieve because of its attendant costs. A reasonable objective is to significantly reduce demand for and access to unlicensed sites. This is the same principle that applies to illegal 'physical' gambling — it is not argued that SP bookies and unlicensed casinos be made legal simply because there is a possibility that some will remain operating.

International agreement

In theory, one response to the regulatory challenges posed by the internet is to replicate some of the global reciprocity arrangements that exist elsewhere (for example, aspects of telecommunications, international maritime rescue, air services, patent protection and taxation). These measures effectively give one jurisdiction

proxy control over aspects of another's jurisdiction (and vice versa). This, however, would require considerable time to negotiate, may be subject to power imbalances between the competing interests of different jurisdictions, and may be subject to erosion by renegade jurisdictions.

Making unlicensed sites illegal

Another possible way of increasing control is to make it illegal for consumers or businesses to use or run a site which has not been issued with a license by Australia or other cooperating jurisdictions. This is consistent with the treatment of other unlicensed gambling suppliers, such as illegal SP bookies and casinos. It would be relatively easy for regulatory authorities to police illegal *domestic* sites (although there are some significant technical challenges, especially when the site may appear to be operating from abroad — Clarke and Dempsey 1998). On the other hand, it would be very difficult to directly deal with offshore sites.

Toneguzzo (1998, pp. 5–6) has outlined some possible methods for penalising Australian gamblers who use illegal offshore sites — but these would breach norms about acceptable practice:

A Government anti-cybercrime computer is designed to stake out the virtual address of offshore cyber-casinos ... It then identifies the owner of the destination packet ... The computer has the audit trail for evidence, and so automatically withdraws \$50 000 (or whatever the penalty may be) from the bank account of the line owner as a fine. If the money isn't in the bank the Government could automatically take out a mortgage over the person's house ... Finally, depending on the international agreements Australia has with the country of origin, it launches a cyber-terrorism attack to bring down the offending provider's site, and sends a message to the punter advising of the felony, that the government now owns their house and to have a nice day.

But draconian enforcement measures may not be required for the measure to be reasonably effective. Small fines or/and confiscation of winnings for the (few) people who are caught using illegal offshore sites may be quite sufficient. Most people do not like to break the law, even if detection probabilities are low. It is likely that most consumers would find such a managed approach to liberalisation of online gambling acceptable, so long as they had some access to clearly certified regulated sites.¹²

¹² This suggests that it will be important to find mechanisms to enable consumers to know which sites are illegal and legal — along the lines of the software solutions discussed in the chapter.

There are other advantages to this option. By making unlicensed sites illegal, the government strongly signals their hazardous nature.¹³ And it would clearly be inconsistent for a government to make domestic unlicensed online gambling sites illegal (because they are more readily policeable), but expediently allow unfettered legal use of unlicensed offshore sites.

Blocking

Clarke and Dempsey (1998, p. 12) differentiate between ‘hard’ and ‘soft’ protection. Making gambling on unlicensed sites illegal constitutes ‘soft’ prevention. Blocking unlicensed sites through ISPs to *preclude* illegal activities is ‘hard’ protection. There are technical questions relating to the efficacy of such measures (box 18.10).

However, the objections to internet ISP blocking as a generic approach are less applicable to gambling:

- the intention of blocking is to eliminate a small number of active illegal gambling sites, rather than the hundreds of thousands of sites that offer some potentially inappropriate function or content.¹⁴ The costs of checking a database of a moderate number of illegal site addresses is relatively small (in terms of delay);
- blocking a gambling site is unlikely to incidentally remove access to other potentially acceptable content — casino gaming sites are not usually part of broader sites;
- there would be little ambiguity about what would constitute an illegal site. The relevant authority would only have to check whether a site were licensed or not, rather than make subjective judgments about whether its content or function were appropriate; and
- blocking does not require any filtering of the content of an internet transaction — which has many limitations. Rather, ISPs would only need to respond to notifications of illegal addresses.

¹³ Some argue that illegality adds to the excitement and participation, but that does not appear to be true for other forms of gambling. There is a consensus that managed liberalisation of other forms of gambling — such as casinos — led to the closure of illegal casinos.

¹⁴ For example, an Alta Vista search using the words ‘Internet gambling’ revealed 6 967 sites compared with 4 971 234 sites identified by a search for sites which combined ‘XXX’ and ‘sex’ (on 12 October 1999). In both cases, the number of sites overestimate the number of active sites offering such material — but the ratio of 1 to 700 is probably indicative.

Box 18.10 **Blocking on the internet**

Blocking on the internet can occur at two levels — the application level and the packet level. At the application-level internet sites are blocked by specifying the URL (address) of the site, a page or file within the site or by blocking an entire news group. With this type of blocking, ISPs direct access to the internet via a proxy server which performs the blocking of material. The consumer configures his/her web browser to 'point to' the ISP proxy server and the server can then compare clients requests with a supplied 'black list'. This type of content blocking is conducted in countries such as Singapore and China.

At the packet-level content is blocked on the basis of the *source address* or where the packets have come from. This blocking technique requires a router. A router is a computer which examines the destination address of a packet, and directs the packet towards an output port. To block the packet the router examines the address of the sender of a packet, in addition to the destination address, and compares it with a supplied 'black list'. This level of blocking can be implemented within an organisation, at the ISP or Backbone Service Provider level, or at international internet provider gateways.

A recently published report on *Blocking Content on the Internet* by CSIRO found that while technically possible, both packet-level and application-level blocking are not always effective. Specifically, the report found that consumers can overcome blocking by methods such as tunnelling (an IP packet is received inside another IP packet). Some web sites offer free anonymous surfing. A further possibility is that black listed sites may develop software to overcome blocking and this would require counteraction with the development of more sophisticated blocking techniques.

In the short term, CSIRO recommends the use of filtering software to control content problems. A wide range of filtering software is available including *Net Nanny*, *Cyber Patrol* and *Cybersitter*. They can operate on an ISP's proxy server or at the customers end. While this approach cannot be guaranteed to prevent every consumer from gambling on illegal sites it is likely to work for the majority of gamblers. In addition the incentive for consumers to overcome the filtering of illegal gambling sites may not be very strong as legal sites would offer similar forms of gambling (albeit probably at lower odds).

In addition, CSIRO recommends that ISPs be encouraged to offer differentiated services to clients, based on access to the internet through a proxy server. The ability of industry to provide this service will depend on the cost, who bears the cost and whether the service will impact on the services provided by the ISP. For example, using proxy servers to access the internet is likely to slow down the speed of the internet.

In the long term CSIRO proposes that Australia enter in international forums to work out ways for ISPs to determine the jurisdiction of the user. Once a jurisdiction is established the server can establish whether the requested content is legal in the users jurisdiction.

Source: McCrea, Smart and Andrews (1998).

Even if blocking is not fully effective because some illegal gambling sites and some technically able Australian gamblers could circumvent blocking, it may work adequately for most people.

Many internet service providers are hostile to *generalised* blocking at the ISP level, because of concerns about individual freedom, the uncertain legal liabilities of ISPs and the unintended consequences for internet efficiency. However, it appears that they concede that some level of blocking is technically and economically feasible. For example, the code of practice for ISPs developed by the IIA notes:

Code Subscriber ISPs will take reasonable steps to prevent users of their service from placing on the internet, obtaining through the internet or transmitting using the internet, illegal content (IIA 1999, p. 11).

In any case, there are now at least 17 ISPs¹⁵ such as www.cleansurf.com in the United States that offer blocking at the ISP level as a competitive strategy. It is claimed that access speeds are reduced only slightly:

The software itself does not slow down your system. However, by accessing our proxy server, there is a potential for a slightly increased access time -- not download time, but actual time to query (or initiate a "conversation") a server, since all queries have to pass through our proxy server. This is usually unnoticeable, however, and takes place much faster than your actual modem speed. To make up for any lost internet access time, however, FamilyConnect includes Microsoft Proxy, a program on our server which PRE-caches commonly accessed sites (like CNN, Disney, etc.) to our server to allow for quick downloads without having to brave the web traffic.

Apart from the potential technological limitations of blocking, there are a number of other possible issues:

- First, it is not certain how costly such technologies might be, including the costs of combating responses by illegal sites.¹⁶ However, some evidence from the United States suggests that blocking is not highly costly. For example, CleanSurf indicated to the Commission that it licenses its server-based filtering system to ISPs for about US\$2 a user¹⁷, and that the ISP would also have to install a proxy server (costing about US\$5000) for each dial up location. The less the

¹⁵ See [http://dir.yahoo.com/Business_and_Economy / Companies/Internet_Services/ Access_Providers / National__U_S_/Filtered_Access/](http://dir.yahoo.com/Business_and_Economy/Companies/Internet_Services/Access_Providers/National_U_S/Filtered_Access/) accessed on 13 October 1999.

¹⁶ It is possible that some of the costs of blocking at the ISP server level could be reduced through random blocking (only checking some internet requests) or by only interrogating the database of illegal gambling sites for internet requests that are waiting in a queue. Such an approach would serve to frustrate rather than stop use of illegal sites, but it would probably be achievable at lower cost to ISPs (and thereby, internet users in general).

¹⁷ For ISPs with more than 10 000 users.

imperative for complete control and the more that blocking is targeted at high risk sites, the lower the costs of blocking. A key problem is that blocking illegal gambling would only be one of many government imperatives for regulating internet content (pornography, copyright infringements etc), and the sum of these imperatives may be unmanageable.

- Second, who should bear any costs? The sites where the technology may be deployed — the ISPs — may not be the appropriate bearers of the costs (and in any case would pass these costs onto all internet users, regardless of whether they gambled on the net or not). If controls on internet gambling were regarded as primarily benefiting internet gamblers, then it would be appropriate to levy some additional tax on internet gambling. On the other hand, if control was seen as providing a benefit for the public as a whole, then it might be appropriate for government — and ultimately taxpayers — to bear the costs.
- Third, how acceptable is such blocking to the general public? Would they perceive blocking arrangements as part of a wider agenda for social control or just one of the ad hoc minutiae of regulation (like insisting on a tax return)? As long as consumers were able to use legal licensed gambling sites this would probably allay concerns that blocking was an inappropriate form of censorship. In effect, all that governments would be doing with internet gambling is applying existing laws in a consistent fashion to virtual as well as physical games.

The Commonwealth Government has recently passed legislation — mainly intended to deal with pornography — to control illegal material on the internet (box 18.11).

However, the Australian Broadcasting Authority considers that the legislation does *not* provide a basis for blocking illegal offshore gambling sites:

The online services legislation was not designed as a broad consumer protection measure. It does not provide for other features which may be desirable in regulating online gambling, such as surveillance of the internet to identify illegal gambling sites... The scheme to regulate online content as set out in the online services legislation appears to have a number of limitations of readily accommodating the regulation of internet gambling sites and providing for the type of features that are likely to be desirable in such a scheme (sub. D241, p. 2).

This suggests that new legislation would be necessary to achieve the blocking of unlicensed online gambling sites¹⁸, as well as measures for identifying gambling sites and assessing compliance. Under any such new legislation, ISPs should be required to block only notified sites, as in the case of pornography, rather than

¹⁸ Although those gambling sites that also posted pornographic content, could be subject to the existing legislation.

having to themselves search for potentially illegal gambling sites.¹⁹ As noted by the National Office for the Information Economy (1999, p. 2), ISPs are primarily content hosts and mediators rather than the creators of the content. In many cases they will be unaware of the material that passes through their servers. Accordingly, as in the ABA legislation, the ISPs should not, arguably, be subject to liability where they have no knowledge of its nature. But once advised, they would be required to act by the relevant authority (which might be a new part of the ABA or some other body).

Box 18.11 Recent changes to the regulation of online content

The Broadcasting Services Amendment (Online Services) Act 1999, an Act to amend the Broadcasting Services Act 1992.

Amongst other things, the Act:

- establishes a complaints-based legal regime;
- ensures that internet service providers (ISPs) are not, in the first instance, liable for material carried on their service;
- ensures that, once notified of the existence of illegal or highly offensive material on their service, ISPs have a responsibility to remove or block access to such material;
- ensures that, in the case of overseas-hosted material, ISPs develop a Code of Practice which sets out the “reasonable steps” that an ISP will take to block access to illegal or highly offensive overseas-hosted material;
- provides that the ABA, rather than a service provider, will be the first point of contact for complaints about internet content;

The Act was passed following a report by the Senate Select Committee on Information Technologies.

Source: www.dcita.gov.au/cgi-bin/trap.pl?path=3891.

Controlling financial flows to and from illegal sites

Gambling online requires payment — both to place bets and to receive wins — which potentially provide means of controlling illegal gambling. For example, it could be made illegal for financial institutions to participate in transactions by unregulated gambling operators (Toneguzzo 1998, p. 4; Festival of Light, sub. 107, p. 12 and Farago and Griffiths 1999, p. 16). This may be easier for some modes of

¹⁹ ISPs would be notified by the responsible authority of the descriptive domain names (and associated internet protocol numbers).

transactions than others (for example, credit cards²⁰ compared with cheques). But it seems likely that internet gambling operators could change their trading names very quickly, complicating detection of illicit financial flows. Checking every credit card transaction or cheque clearance for illegal transactions would also be very costly. It is possible that a risk management approach could be applied, which would target certain patterns of transactions from certain locations, with the costs being met by government. Again, only partial success may still serve an important function — any attraction from betting abroad may be obviated by the risk for punters that they may not get paid if they win.

In summary, there are a number of options for controlling the internet. All have some disadvantages. Nevertheless, it would appear technically feasible for governments to exercise some cost effective but imperfect control over internet gambling. As well, a number of measures acting together will increase the effectiveness of control.

18.8 Current policy responses by Australian governments

As there are some options for albeit, partial, control of internet gambling, regulation is a feasible objective. This then raises the question of how internet gambling could be regulated such as to achieve the objectives set out in section 18.6. We first briefly examine the current responses of state and territory governments before considering policy options for online gambling in the next section.

Australian states and territories are currently putting in place arrangements for the regulation of internet gambling. In May 1996, state and territory Gaming and Racing Ministers agreed on a set of principles for a draft national regulatory model on interactive gambling (box 18.12). The model put in place a number of principles for regulating internet gambling while providing scope for state and territory governments to individually determine how such principles should be applied.

Queensland was the first to regulate internet gambling when it introduced the *Interactive Gambling (Player Protection) Act 1998*. The Act is very detailed, covering more than 150 pages with a further 20 pages of regulations. It follows the principles of the draft regulatory model, and places great weight on consumer protection issues. Since then the Northern Territory, ACT and most recently, Victoria, have introduced legislation specifically related to online gambling.

²⁰ For example, it is understood that Provident National Bank, a large Visa card issuer in the US, will deny approval for most online wagers made by its customers (news.cnet.com/news accessed on 25 October 1999).

Box 18.12 **Model code for interactive gambling**

On May 3 1996, state and territory Gaming and Racing Ministers agreed on a set of principles for a *Draft Regulatory Control Model for New Forms of Interactive Home Gambling*. The draft model report states:

A cooperative approach by all State and Territory Governments is the only effective means of regulating interactive home gambling products at this level. A non cooperative approach is likely to result in individual States and Territories maintaining barriers to interstate products. In the short term this will limit the ability of Australian based service providers to effectively market their products to a critical mass of consumers and provide advantages to overseas based providers. In the long term a non cooperative approach can only result in the ineffective regulation of interactive home gambling products and erosion of the gambling taxation revenue of all States and Territories.

Further, the report states:

Provided all States and Territories participate in the Model the assistance of Federal bodies is unnecessary to provide effective regulation of interactive home gambling products sourced from within Australia.

Implementation of the model requires each state and territory government to enact complementary legislation based on the principles of the Draft Regulatory Model. Principles include:

- licensing of service providers pursuant to background checks and financial capacity;
- requirements for player identification to prevent gambling by minors;
- the prohibition of betting on credit;
- periodic audits of providers accounts and gaming software by regulatory authorities;
- facilities for players to specify protection measures such as self-exclusion and limits on wagering;
- the provision of contact information for assistance with problem gambling;
- requirements for the maintenance of privacy of player information;
- a code of conduct developed by the industry; and
- taxation applied on the location of residence of the player.

A number of states and territories have since enacted legislation, some such as Queensland's approach is in complete accordance with the model code but others, such as Tasmania's, is not.

Source: Working party of State and Territory Gaming Officials (1997), Draft National Regulatory Model for Interactive Home Gambling, 23 May.

Many aspects of the legislation introduced by various states have conformed to the draft model, though there are a number of significant differences:

-
- As set out in the draft agreement, legislation introduced in Queensland, the ACT, the Northern Territory and Victoria prohibits credit betting, establishes requirements for player privacy and enables players to self exclude and set betting limits.
 - The Victorian Act is the only one which legislates minimum returns to players — a rate of 85 per cent.
 - The draft agreement proposed that contact points for problem gambling services be made available at gambling sites. However none of the state/territory interactive gambling acts explicitly make this provision. However a number of Australia's online sites, for example, Lasseters and Tattersall's, do provide links to such services.
 - All legislation follows the draft agreement in prohibiting minors from registering as players and establish requirements for the verification of the identity, ages and addresses of players. The Northern Territory legislation extends further, with a requirement that software which limits access to minors be made available at gambling sites. Lasseters online, for example, has links to Net Nanny and CyberPatrol, where trial software can be tested.
 - The state/territory acts are similar in legislating that licensed internet providers can only use approved computer and control systems. However, Victorian legislation has no explicit provision for periodic auditing of accounts and software.
 - Arrangements for taxing internet gambling differ between jurisdictions. Queensland and ACT legislation distinguishes between three types of taxation — taxation on gambling by domestic residents, taxation on residents of participating jurisdictions and taxation on residents of non-participating jurisdictions. In contrast, the Victorian and Northern Territory Acts do not explicitly establish provisions to remit taxation back to the players jurisdiction (table 18.6).

In Tasmania, Federal Hotels has to date had exclusive rights to gaming and this has been interpreted to include internet gambling. This single operator can only provide services to non-Tasmanians and intends only to provide services to non-Australians. As a result, the Tasmanian approach to internet gambling has not yet incorporated the principles of the draft agreement.²¹ However, in late 1999 the Tasmanian

²¹ There are also some attempts by jurisdictions to try and preserve tax revenue by reducing cross-border online gambling. For example, NSW has recently amended legislation (the *Racing Administration Act 1998*) so that information on non-NSW racing and betting operations cannot be provided by a person operating in that state via the internet. This would stop someone setting up a site in NSW which posted information on sporting events in other states and which had links to non-NSW betting operations, such as Centrebet. However, NSW gamblers would still be able

Government introduced legislation to enable licences for internet casinos, sport betting, lotteries and fixed odds wagering to be issued to any applicants meeting the required regulatory, financial and probity standards. It is not proposed that licensees be restricted to customers from outside Tasmania or Australia.

The other jurisdictions have not, as yet, introduced internet gambling regulations.

Table 18.6 Taxation arrangements for Australian internet gambling

<i>Draft agreement</i>	<i>Queensland and ACT</i>	<i>NT</i>	<i>Victoria</i>
Applied on the basis of the location of the resident — the rate determined by the players jurisdiction.	Licensed providers required to pay an interactive gambling tax for each authorised game. Taxation revenue from licensed providers has three components:	Taxation and license fees, paid according to the license agreement. For example, Lasseters gambling revenue is taxed at 8 per cent.	Licensed provider to pay a supervision charge in instalments each financial year.
The jurisdiction where the service provider is located is responsible for collecting, auditing and verifying that the service provider has remitted the appropriate tax to each jurisdiction.	1. Tax on gross profits from residents. If the game is a game to which a gaming act applies the tax rate is that specified in the act. Otherwise the tax rate is 50% 2. Tax on gross profit from residents of participating jurisdictions. The tax rate is the tax rate specified under a law corresponding to the jurisdiction. If no rate is specified by law the rate is that specified by regulations of the participating jurisdiction. If there are no laws in Queensland (ACT) or in the participating jurisdiction the rate is 50%. 3. Tax on gross profit from residents of non-participating jurisdictions. If the game is a game to which a gaming act applies the tax rate is that specified in the act. Otherwise the tax rate is 50% License fee paid according to conditions of license		Licensed provider to pay each month 50 per cent (or another prescribed percentage) of gaming revenue (turnover less winnings) into the Consolidated Fund.

Source: Information from various Acts.

The case of Norfolk Island

In addition to the online casinos now authorised in the Northern Territory and Queensland, an internet casino gambling service is being planned for Norfolk Island (box 18.13).

to bet via the internet on sites outside NSW, so the impact of the legislation on cross-border gambling is likely to be extremely weak.

As is currently the case in Tasmania, it is planned that any online gambling provider established on Norfolk Island would be precluded from taking bets from Australian or Norfolk Island registered addresses:

We want to maintain a good relationship with our counterparts in Australia and, being a Commonwealth Territory, we consider it would not be acceptable to diminish in any way a revenue stream available to States and Territories of Australia (sub. 177, p. 2).

However, the Government of Norfolk Island also noted that:

... any adverse economic and social impacts that are often mentioned as being associated with gaming are avoided in so far as the Island is concerned ... adverse impact on others will be carefully watched and guarded against even though no resident of Norfolk or Australia should be affected because of the ban on players [from those jurisdictions] (sub. 177, p. 3).

This stance may simply reflect an unwillingness to become embroiled in fiscal or regulatory disputes with other Australian Commonwealth jurisdictions, in the same way that Lasseters Casino in the Northern Territory does not take bets from other Australian jurisdictions. Offering online gaming services to other Australian jurisdictions would immediately raise taxing and tax-sharing questions.

Box 18.13 Norfolk Island's proposal for online gaming licences

The Government of Norfolk Island has passed legislation to allow the establishment and operation of internet gaming on the island. It has established a gaming authority to regulate this activity. The Government's objective is to provide an additional revenue source to supplement the island's tourism activity, and to obtain, through this development, an upgrade of the island's communication facilities.

Legislation has been passed to provide for a regulatory framework:

... to at least match to standard of regulatory control that is required by Queensland and the ACT ... well regulated gaming, which presents and maintains integrity throughout, is a very marketable commodity and one that is best able to engender public confidence (and hence revenue) ...

Once the technical requirements are finalised, prospective applicants for licences will be notified. Some 'unsolicited inquiries' are being handled at present.

There is ... a vast reservoir of internet business - both gaming and commerce - that is available ... we appear to be uniquely placed to take advantage of that market ... It is really a case of if we don't take this step someone outside the Australian sphere will. Why should that be allowed to happen?

Online gaming would be taxed by the Norfolk Island government.

Source: sub. 177.

18.9 Policy options for internet gambling

Existing policy measures by individual states and territories represent pragmatic responses to the rapidly evolving opportunities and threats posed by online and interactive gambling. They do not necessarily represent the optimal policy response. This section examines a number of policy options for the internet.

Is a policy of prohibition feasible, cost effective or desirable?

One possible policy response to the risks entailed by internet and interactive gambling is a ban.

There are a number of relatively strong arguments for prohibition. Online gambling presents the risk of a quantum leap in accessibility to gambling and presents new risks for problem gambling. Unlike physical gambling technologies, it is hard to gradually increase access, because the number of gambling opportunities is determined by the number of internet-ready computers rather than by the number of gambling websites. It is unlikely that any Australian regulatory agency would be content to approve 1.5 million new gambling venues, but that is what access to online gambling incidentally achieves.

The taxation revenue consequences also represent a gamble for state governments. They may make more revenue, but under worst-case scenarios, may lose significant sources of revenue if Australians divert gambling to online sites in offshore tax havens, or if tax competition between jurisdictions erodes rates.

The grounds for bans are strongest for gaming technologies (casino-type games such as roulette and virtual gaming machines). The case for banning internet wagering (sports betting and racing) or traditional lotteries are weaker, reflecting likely lower risks and the fact that other mediums for making these gambles, such as phone-betting, are close substitutes for the internet.

Some participants advocated that Australia should prohibit internet gambling. For example, the Festival of Light said:

We urge the federal government to use its powers under the Broadcasting Act 1992 and the Telecommunications Act 1991 to prohibit absolutely any gambling via these media. Australian banks and other financial institutions should be prohibited from processing transactions via credit cards which relate to internet or TV gambling. The Commonwealth government should seek to negotiate an international agreement to ban internet gambling worldwide (sub. 107, p. 12).

Similarly, Xenophon stated:

Given the current levels of problem gambling in Australia, a prohibition of this form of gambling should be a legislative priority at a Federal level (given Commonwealth powers over banking and telecommunications) (sub. 98, p.10).

The Woman's Christian Temperance Union of Victoria, in responding to the Commission's draft report, said:

We agree with the Commission that it is likely that (without harm minimisation measures and appropriate regulation) online gambling will pose significant new risks for problem gambling. Whether such regulatory policies can be implemented is problematic. We would like interactive gambling on the internet to be banned ... If the US Senate believes that a ban is feasible it should be possible to outlaw it here (sub. D195, p. 4).

Echoing concerns about the social consequences of online gambling, attempts have been made in the United States to prohibit internet gambling, and these have been given further weight through the endorsement by the United States National Gambling Impact Study Commission (box 18.14).

However, a policy of prohibiting access or provision by Australians of online gaming is likely to be less enforceable than allowing some licensed sites. The principles behind some of the control mechanisms discussed in section 18.7 is that they increase the cost to consumers of accessing illegal sites, so that they decide to use legal sites instead. If *all* sites were illegal, then the measures would work less effectively.

Even so, making it illegal to operate or use online gaming sites would have the likely effect of significantly reducing their use, albeit while also creating a black market.²²

... while a regime of prohibition will not suppress gambling entirely, it would certainly dissuade involvement on the part of legitimate gaming operators who would be loathe to jeopardise their land-based casino licences through involvement in prohibited activity. Prohibition might ... create a black market in online gambling services (McMillen and Grabosky 1998).

²² But a significant reduction in use would presumably still reduce exposure and risks of problems for a sizeable number of people — the objective of a ban is reduction not eradication of use.

Box 18.14 US initiatives on internet gambling

Legislation

Currently, the law most applicable to internet gambling is the 1962 Federal Wire Communications Act which prohibits the use of telephone lines for betting or wagering. However, it is not clear how applicable the Act is to internet gambling, and accordingly, attempts have been made at both the federal and state level to enact legislation which unambiguously has the power to ban internet gambling.

In some states gambling is prohibited and there have been some attempts by state Attorneys General to prosecute on-line operators. The Attorneys General of Minnesota and Missouri have launched actions against internet gambling operators under their local consumer protection laws. And in March 1998 the FBI indicted 14 operators for providing bookmaking services on the internet (Office of Strategic Crime Assessments 1998).

The proposed *Internet Gambling Prohibition Act of 1997* (the Kyl Bill), first introduced by Republican Senator Jon Kyl in March 1997, sought to extend the 1961 Wire Act's prohibition on interstate sports gambling conducted by telephone or wire to newer forms of technological transmission, including the internet. The Kyl Bill included provisions for fines of at least \$20 000, and four years imprisonment for people operating internet casinos and fines of at least \$500 and three months imprisonment for those betting on internet casinos. In addition it required telephone companies and internet service providers to terminate service to the internet gambling operator. The Kyl Bill was passed by the Senate in August 1998 by 90-10. The Bill was subsequently introduced to the House of Representatives, where its penalties and constitutionality was questioned, and as a result a vote on its passing was deferred.

In response to these criticisms, in March 1999, Senators Kyl and Bryan introduced s. 692, the *Internet Gambling Prohibition Act of 1999*, which changed the nature of penalties. In June, the Act was approved by the full Judiciary Committee. The bill was unanimously approved by the Senate in November 1999, and is expected to go before the House of Representatives in the year 2000.

If passed — and some question whether it will do so — then the legislation would prohibit any person engaged in a gambling business from using the internet or any other interactive computer service to place, receive or make a bet or wager or assist in the placing of a bet or wager.

The US National Gambling Impact Study Commission

In May 1999, this Commission recommended that the Federal government should prohibit internet gambling within the United States, and asked that the DOJ develop enforcement strategies included but not limited to Internet Service Providers, credit card providers, and money transfer agencies. Further, the Commission recognises that internet gambling is expanding rapidly, bringing gambling into the home of every family with a computer. Since it crosses State lines, it is difficult for States to adequately monitor and regulate such gambling.

The Commission also recommended the passage of legislation prohibiting wire transfers to known internet gambling sites, or the banks who represent them. Furthermore, the Commission recommends the passage of legislation stating that any credit card debts incurred while gambling on the internet are unrecoverable.

Finally, the Commission recommended that because internet gambling is expanding most rapidly through off shore operators, the Federal government should take steps to encourage or enable foreign governments not to harbour internet gambling organisations that prey on U.S. citizens (NGISC 1999).

The across-the-board prohibition of online gambling has a number of other potential disadvantages. It would:

- make it impossible for governments to regulate consumer protection features as part of legal ‘safer’ sites, consistent with a general approach of harm minimisation. The people who use unregulated offshore sites because of the absence of safer regulated local sites may be exposed to significant risks;
- reduce the choice of gambling products and suppliers available to consumers; and
- eliminate domestic commercial opportunities and exports of gambling services.

A transitional disadvantage is that banning would lead to adjustment costs for existing internet gambling providers.

Managed liberalisation

An alternative option is one of managed liberalisation within a nationally agreed framework. Managed liberalisation would have harm minimisation and consumer protection as its chief goal. It would require regulation of Australian sites and bans on offshore sites which do meet minimum consumer protection standards. The bans on offshore sites could be achieved using the control mechanisms discussed in section 18.7, and would probably be relatively effective because consumers would still be able to gamble on the (safer) legal internet sites with ease. Lighter handed regulation may achieve more than prohibition, as noted by Bell (1999, p. 12):

...proponents of a ban on internet gambling have argued that, if prohibition will not work, then neither will any scheme of regulation. Such an argument fundamentally misunderstands a basic principle of governance: if they offer greater benefits than burdens, regulations can succeed even where prohibition fails. The comparative advantage of limited regulation over prohibition explains why people do not illegally shoot craps in Las Vegas alleys.

A key advantage of managed liberalisation is that it allows the development of measures to counter the problems occasioned by gambling in a way that is consistent with other codes — and possibly, more successful.

Problem gambling

In chapter 16 a range of measures were suggested for ameliorating problem gambling. Some of these have already been implemented as part of Australian internet gambling sites. For example, Lasseters Online Casino (www.lasseters.com.au) has:

-
- scope for self-exclusions, of initially 7 days, but indefinitely after three successive self-exclusions. Self-exclusions of this sort are likely to be highly effective compared with those offered in physical venues, where people may not be detected;
 - a link to the website of Amity Community Services, which includes a self-diagnosis test of problem gambling;
 - links to downloads of Net Nanny and Cyber Patrol for controlling child access to internet material deemed inappropriate by parents;
 - records of transactions so players know what they have spent; and
 - possibly, most significantly, the facility to set expenditure limits — which are currently impossible in physical venues. To date (October 1999), 541 subscribers to Lasseters' online services have set a bet limit (about 4 per cent of total subscribers).

Gambling providers noted the potential for *regulated* internet sites to be inherently safer than other licensed venues:

Internet gambling systems are much more able to closely monitor a player's activity and habits than in traditional gambling activities for example by collecting data by player on what games are played, when, how many times, for how long and with what results. Thus these systems are able to provide powerful means to monitor and control the amount a player bets and may also limit a player's gambling in other ways, such as the length of time they wish the system to permit them to gamble ... Regulators, as a matter of good practice, will probably need to place more emphasis on aspects other than player fairness — especially protecting problem gamblers (Access Systems, sub. 16, pp. 4, 7)

Interactive gaming is a new form of gaming that will naturally raise questions in the community. However, Tattersall's believe that interactive gaming (if properly regulated) has the potential to create less problems than more traditional forms of gambling (Tattersall's, sub. 156, p. 59).

In theory, nearly all the informed consent and harm minimisation measures described in chapter 16 can be readily incorporated into online gambling sites — including time reminders, self-imposed time limits, betting rate limits and breaks. It is also possible that the dual pricing strategies discussed in chapter 16 may be more feasible in online gambling than physical machines, because of the lower costs of operating virtual casinos. Surebet Gaming Systems (sub. D263, p. 18) and Access Systems (sub. 16, p. 5) have also floated the option of identifying problem gambling from playing patterns — which may be useful in providing early assistance to gamblers. For example, Access Systems notes:

A properly designed licensed system gathers huge quantities of raw data automatically, as a standard part of an internet gaming system, so it will be a relatively minor step to

develop software to analyse this data and search for patterns of behaviour within prudent limits on privacy. Planning should be put in place early to select and analyse data gathered on real internet gambling activity ... with the prospect of using these patterns to identify possible problem gamblers in live systems.

One flaw in current online harm minimisation measures is the lack of coordination between different sites. A person who self-excluded on one site could subsequently enter another licensed site. This might be solved at the PC-level using the software methods described in section 18.5. Or it may be that Australian online gamblers could store some player preferences (such as self-exclusion, player expenditure limits or time limits) in a central database, which all would interrogate. This is similar to the way that EFTPOS facilities can be accommodated by thousands of participating retailers because they have links to central computers with the account information. **The Commission sees benefits in technical measures, such as a central database, that may enable a gambler to credibly pre-commit to time or money limits and self-exclusion (if they wish to do so) across all Australian licensed online gambling sites.**

It is also important that people with expertise on the functioning of the internet be represented among regulators, so that consumer protection and other regulatory measures take account of the realities of the evolving technologies.

Minors

In a controllable environment, a number of measures could be introduced to limit the accessibility of minors and to detect gambling by minors. These include:

- making it illegal for minors to gamble on the internet and advertising its illegality at gambling sites;
- a requirement that gamblers must fax identification papers (such as a passport or drivers license) to a licensed gambling provider to verify age;
- cheques (which are a more secure payments mechanism), rather than credit cards be used to establish gambling accounts;
- the issuing of a password once registration is complete;
- a requirement that when money is transferred into a gambling account an electronic e-mail is sent to the gambler so that unauthorised financial transactions can be detected; and
- gambling providers to provide players with a regular log of all past play so that unauthorised gambling can be detected.

These features are now incorporated into existing Australian sites, so that the risk of access by minors without parental consent is likely to be significantly lower than for physical venues. However, minors will be able to gamble on the internet if their parents provide consent.

Integrity

In a controlled environment integrity problems can be minimised with encryption and regulation.

Encryption is a means of scrambling data so that only the holder of the electronic key can read the message. It is a method used to guarantee privacy of information and to ensure security of financial transactions over the internet. Encryption is already being used by internet gambling providers such as Centrebet to ensure security in payments mechanisms. In addition, financial institutions worldwide have demonstrated confidence in the technology and are using encryption so that customers can securely operate accounts over the internet.

Other integrity problems such as whether an internet gambling provider is providing a fair game of chance, or has the financial capacity to pay winnings can be controlled by regulations including:

- the licensing of internet gambling providers pursuant to background checks and financial capacity,
- approval of internet games and control systems by a regulatory authority and
- the periodic testing of games to verify odds.

Coms21 Ltd reported that under its proposed regulatory model:

The manager cannot bias the outcome as the outcome random process algorithm and its installation is verified by the regulator; the generation of the random number is directly supervised by the regulator, with there being no opportunity for the manager or any other party interfering with equipment or software and once the random number is determined the outcome of the bet is determined and recorded independently by the regulator (Weston 1998, p. 5).

Further, Coms21 conjectured that while an internet gambling operator may go bankrupt, a player's account, under regulation, could remain protected. In their proposed model a regulator would control funds equal to the players account plus an amount to cover winning streaks and jackpots.

These integrity features provide a major incentive for consumers to prefer licensed sites to offshore unregulated sites:

The reality of it is that to cyber-gamble outside of Australia, you would send money thousands of miles away to an unregulated, uncontrolled and probably illegal enterprise, give them a credit card number, then trust them to tell you when you've won (Toneguzzo 1997, p. 13).

Taxing internet gambling

As noted earlier, it is quite possible that managed liberalisation of online gambling will produce more, not less tax revenue for states. States, however, have two major concerns about internet taxation.

First, they want to ensure that they receive tax from transactions undertaken by their citizens. This is readily achieved, as under the model code, by requiring:

- the taxation of internet gambling based on the player's jurisdiction rather than the location of the provider;
- registration of providers contingent upon an agreement that both interstate and overseas providers remit taxation back to the jurisdiction of the gambler; and
- appropriate records to be kept by providers. Providers would be responsible for establishing the jurisdiction of each player, apply the tax rate of the jurisdiction to the gross profit in proportion to the jurisdiction's share of player turnover, and remit the tax to the government.

Second, they wish to avoid wasteful tax competition. While the first measure removes the incentive for one state to lower tax rates to encourage inter-state trade, it does not deal with the incentive to lower taxes on online transactions for foreigners. Each state might then bid down tax rates applying to internet gambling by foreigners in order to increase their share of this market — lowering overall tax revenue from internet gambling for Australia as a whole. This could be solved by agreeing on a set gambling tax rate on foreigners for all jurisdictions. If state governments wished to bind themselves to a credible long term taxation regime, another alternative would be for the Commonwealth Government to administer and collect internet gambling taxation and remit the taxation back to the state or territory, a similar approach to the proposed GST.

Another important facet of the tax treatment of gambling, raised by traditional suppliers of gambling, such as the AGMMA (sub. D257, p. 24), is that lower taxes imposed on internet gambling have the potential to disadvantage local suppliers of physical forms of gambling. This raises a number of issues and implications, some of which extend far beyond the boundaries of internet gambling to the appropriate tax treatment of e-commerce in general (Surebet Gaming Systems Pty Ltd, sub. D263, pp. 10ff).

In principle, it is desirable to levy similar sales tax rates on close substitutes. Existing sales taxes on goods and services traded through traditional means treat imports and domestic goods and services equally. For example, a motor vehicle made in Australia or overseas faces equal sales taxes. Internet traded services have escaped this principle, largely because of practical limitations of taxing such transactions. However, there is widespread agreement that it would also be desirable to introduce tax neutrality for virtual transactions. For example, the Joint Committee of Public Accounts and Audit (JCPAA 1998) noted:

... in GST regimes operating in other countries, the supply of functionally equivalent 'products' would be expected to attract the same rate of tax, whether in tangible or intangible form (p. 85).

The ATO, similarly, has espoused the principle of equality of tax treatment between internet businesses and online ones (submission to JCPAA 1998, p. 89).

However, while this may be desirable in theory, it raises the question of how it could be achieved in practice. For example, Australia could seek to tax gambling winnings at the Australian services tax rate as a condition for providing a license for an overseas site to sell gambling services to Australians. Or government could seek to detect and tax internet gambling transactions by Australians (with the obvious difficulties that implies). Or there could be cooperative measures between governments to work out protocols for taxing internet transactions, and agreed standards for reporting and verification.

In the short term, the prospects for significant damage to local 'physical' providers of gambling (and to domestic gambling tax revenue) appears small. This reflects the relatively modest projected demand for internet gambling. This in turn suggests that consideration of regulations to facilitate tax collection from either Australian customers of foreign online gambling services, or from those services themselves, should weigh up the gains to economic efficiency (and equity) from neutral tax treatment, and the possibly substantial compliance costs of developing an effective e-commerce tax system. In its submission to the JCPAA's inquiry into internet commerce, the Industry Commission stated that:

At current relatively modest levels of internet commerce, the costs of monitoring and enforcing the taxation of these transactions could easily outweigh the benefits (IC 1998).

In the longer run, however, it is likely that online commerce, including gambling, will exhibit significant growth, and failure to tax transactions could erode Australia's tax base. That will increase the benefits of finding ways of taxing internet transactions — gambling among them — in a way that does not destroy the advantages of the internet.

The question then arises as to what should be done in the meantime. While Australian governments will not, in the short run, be able to tax foreign suppliers of internet gambling services, they can set the tax rates of Australian internet gambling providers. Should they set such tax rates at parity with domestic traditional gambling suppliers, or should they seek to tax them at rates which will increase the capacity to compete with foreign internet suppliers?

The answer depends on the extent to which physical and virtual forms of gambling are close substitutes. The AGMMA, by postulating significant damage to local traditional forms of gambling, presuppose that:

- the different tax rates create significant price differences; and
- the customers of gaming machines react to any price margins that are created by differential tax rates.

Theoretically, tax rate differentials can make a significant difference to prices. Lasseters Online Casino, which faces an 8 per cent tax on its gross gaming revenue, has better odds on its virtual gaming machines than the average for physical gaming machines in Australia. For example, its prices are about 25 per cent lower than gaming machines in New South Wales clubs (table 18.7). However, it is hard to disentangle the extent to which technology, competition and taxes bear on the price of virtual versus physical gaming machines. Internet technologies are cheaper than physical gaming technologies, and may explain some of the difference in the price. In any case, it is certainly not assured that lower taxes necessarily make a very large difference to the posted price of gaming machines relative to other factors (chapter 19).

Table 18.7 Gaming machine return rates in virtual and physical venues

	<i>Lasseters</i>	<i>NSW clubs^a</i>
	%	%
Bar 7 Classic	92.33	..
Prehistoric Wonderland	91.85	..
Priceless Gems	92.80	..
Space Race	91.66	..
Lasseters Gold	93.04	..
Coral Paradise	91.95	..
USA Classic	93.39	..
Average	92.43	89.91

^a These clubs paid an average 21.6 per cent tax rate on their gross revenue compared with the 8 per cent applying to Lasseters. The gaming machine 'price' is 100 minus the odds.

Source: Information provided by Lasseters and from NSW Department of Gaming and Racing, 1999, *Registered Clubs Quarterly Gaming Analysis*, February 1999, August for NSW clubs.

Even where differential tax rates create a significant price margin, it is not clear that customers will necessarily respond to it. The AGMMA itself acknowledges that:

AGMMA members do not concern themselves with price or demand elasticity because they lack moment and generate little of consequence to successful design and marketing of games (sub. D257, p. 11).

If, in fact, the users of electronic gaming machines do not react strongly to price differences, then there should be a relatively small shift between the physical market and the virtual. This would be all the more true because other attributes of physical and virtual games are quite different (the sound and graphics quality, speed, game features and the experience of the venue as a whole).

However, the degree of substitution between virtual games offered on one site at one price and at another virtual site at a different price, is likely to be greater than that between physical and virtual forms. This reflects the fact that both sites are a mere mouse click away and that the nature of the experience is more similar. It is unlikely, however, that price will play a very significant role in determining most player choices. This is because other facets, such as the integrity of the operator, and the speed, special features and appearance of the games, will probably be more important to recreational players. Overall, this suggests that while there may be grounds — at least until e-commerce tax systems have been developed generally — to tax Australian internet gambling services at lower rates than on other Australian physical forms, any tax margin should be modest.

Should Australian online gambling providers export to countries where gambling is banned?

It is clear that many jurisdictions perceive online gambling as another potentially rich source of revenue, and will seek to export services around the world, in some cases to people in countries where gambling in this form is illegal. Should regulators permit Australian online gambling providers to offer internet services to such countries? To not do so, would be to lose significant markets. To do so, however, means that ‘the regulator becomes a co-conspirator to aiding a foreign citizen break the laws of its country’ (Toneguzzo 1997, p. 20).

Arguably, the appropriate stance is to follow a ‘best endeavours’ approach to avoiding transactions with countries which outlaw such transactions. This will work for online gamblers who use an ISP located in their own country, but will not stop transactions occurring where an ISP is located outside the destination country and contrived mailing addresses are used for payment.

Who should regulate online gambling policy?

There are significant advantages in taking a national approach to internet and interactive gambling, both to preserve tax revenues from the risk of tax competition (as noted above) and to ensure that standards of consumer protection are uniformly high and coordinated. For example, arguably it would be better to have:

- one (excellent) national site for information, self-diagnosis and referral for problem gambling linked to each online provider — regardless of which jurisdiction the online gambler was located in — rather than a multiplicity of lower quality help sites;
- a single database which would allow consumers to self-exclude, if they wished, from any Australian online gambling provider;
- standards for the ‘look and feel’ of the menu of options consumers can give for achieving informed consent while playing (eg similar ways of invoking budget or time limits);
- a single national system for blocking access to illegal sites and in policing infringements (similar to the recent amendments to the Commonwealth Broadcasting Act);
- one system for tax setting and collection;
- standards for the way sites advertise themselves both within Australia and abroad;
- equality of treatment of all Australians, regardless of their location; and
- a single voice when negotiating multilateral agreements relating to consumer protection and taxation issues on the internet.

Given historic rivalry and competition between the states and territories it is not clear whether a coordinated approach to internet gambling can be achieved. McMillen and Grabosky (1998) foresee problems with the draft model approach, and argue for Commonwealth involvement:

The Draft Regulatory Model embraces the classic themes of federalism — unity within diversity in application. Inevitably such an approach involves contradictions and tension which could be reflected in the policies which evolve in the various States.. Without Commonwealth involvement, interstate rivalry and competition may erode standards, drive down the tax benefits and expand the market with the inevitable social costs.

There are clearly already significant departures from the goals of the draft agreement (section 18.8). This may reflect concerns over the either the social harms or tax impacts of online gambling, but underlines the need for a coordinated national approach.

The Commission considers that there would be major benefits to the states and territories from pursuing a national approach to online gambling, in cooperation with the Commonwealth.

The case of Norfolk Island raises some particular difficulties. While their proposed online services would not be sold to Australians and so would not directly affect revenue streams from Australian gamblers, they could have some adverse indirect impacts on other Australian jurisdictions.

First, they might have some revenue effects to the extent that they used lower tax rates to poach offshore customers who would otherwise have gone to another Australian online site.

Second, there are grounds for any site which will be identified as part of the Commonwealth of Australia following similar consumer protection and ethical principles. This would include, for example, any ruling about not selling services to another country which regards participation in internet gambling as illegal. Otherwise, other Australian sites may suffer from a weakened reputation. The Commonwealth Department of Transport and Regional Services noted:

It may also be that Norfolk Island would be an attractive jurisdiction for operators of questionable integrity, affording them the benefits attached to Australia's good reputation, without being subject to the rigorous legal regime from which that reputation is born. In this context it is worthy of note that some Commonwealth legislation such as the Corporations Law and the Trade Practices Act 1974, does not extend to Norfolk Island. Although the current Island proposals are for online services which would not be sold to Australians, this may change in the future (sub. D271, p. 2).

Finally, while companies owned by Norfolk Island residents do not pay Commonwealth income tax, the picture is less clear when an offshore associate is involved (Kennedy 1999).

There are grounds for trying to tax some of the income that might otherwise flow offshore and for including Norfolk Island in any national approach to online and interactive gambling.

Summing up

Regulation of online gambling under this 'managed liberalisation' model has mutual advantages for consumers and operators, and creates a market which drives the unscrupulous operators — the 'lemons' — out of the market. Consumers know that regulated sites will guarantee payment, have secure databases, meet privacy concerns, have fair games and be managed by people of good character. They will also know that the site has been designed to increase their informed consent — with

features such as self-imposed limits, records of transactions and self-exclusion. They face few incentives to seek to circumvent blocking to illegal offshore sites which may appear to be a little cheaper, but where the quality of the good is suspect.

Operators benefit by obtaining the certification from the government that they are a reputable operator — which increases the likelihood of attracting clients from Australia and abroad. A good regulatory framework is likely to be a more important feature for export success than comparative tax rates.

In implementing any policy towards gambling on the internet, it has to be acknowledged that there remains considerable uncertainty about the magnitude of its possible impacts, which might suggest caution. As Access Systems noted: ‘No-one really knows what effect internet gambling will have’ (sub. 16, p. 5).²³

Reflecting these uncertainties, New Zealand, for example, has adopted what it considers a cautious attitude to establishing internet gambling sites:

There are many issues relating to electronic commerce in general that have yet to be resolved ... We believe there is a significant step in moving from recognition of the availability of cross border electronic gaming to people residing in New Zealand, which is where we are now, to the Government setting up a regime to license such operations within New Zealand ... We also recognise that no one jurisdiction is likely to reach a satisfactory end point to this debate on its own (Horner and Bradfield 1998, p. 10).

The advantage of staging access to internet gambling is that it may provide time to assess effects and develop responses. However, notwithstanding the desirability of such a cautious approach, the concept of gradualism is less tenable for internet gambling than for other forms — for example, just one site can be visited by millions of people. Accordingly, it is not clear what scope there is for staging as a feature of managed liberalisation. It is possible that apparent caution, which proscribes local internet gambling while not effectively limiting foreign provision, simply exposes a countries’ citizens to the risks entailed in consuming gambling from unregulated foreign sites.

²³ In this context, it should be noted that the Senate Select Committee on Information Technologies announced on 31 May 1999 an inquiry into the nature, extent and impact of online gambling in Australia. The Committee said it was ‘particularly concerned to look at the impact this new form of gambling is having on children and young people and the feasibility of implementing controls on access’ (www.aph.gov.au/senate/committee/media/gamble.htm).