



REPORT ON THE REFORM OF GAMBLING LAW IN JERSEY

A Report Prepared for the States of Jersey

by

the Centre for the Study of

Gambling and Commercial Gaming

at the University of Salford.

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EXECUTIVE SUMMARY/INTERIM REPORT

We were commissioned in 2002 by the Gambling Control Committee to research, report on and make recommendations about:

- The possibility of permitting internet gambling services to be supplied out of Jersey
- The possibility of introducing casino or casino-style gambling into Jersey
- The future of lottery gambling in Jersey with special reference to the possible participation of Jersey citizens in the UK National Lottery.

We were also invited to comment on general matters relating to the updating of existing gambling legislation. Our work was intended to supplement the Report “Modernising Jersey’s Gambling Legislation” presented by the Gambling Control Committee to the States in December 2002, and in particular to undertake analysis of the potential costs and benefits to Jersey of pursuing different policies with regard to each of these three forms of commercial gambling.

Our Report has the following sections:

1. Background
2. Introduction: General Principles of Good Gambling Policy
3. The special features of Jersey in relation to legalising gambling
4. Estimating Economic Benefits
5. Estimating Social Costs
6. An evaluation of options regarding the licensing of internet gambling in Jersey
7. Recommendation that commercial bingo be permitted only at the casino but that charitable bingo should be specially licensed
8. An evaluation of options regarding casino and machine gambling in Jersey
9. An evaluation of options in respect of lottery gambling in Jersey
10. Issues of implementation, including structure and costs of administration and procedures for a tendering process

By way of background we describe the interviews we had on Jersey and the documents we have consulted.

In the introduction we stress that what constitutes good gambling policy depends on which amongst a variety of overarching policy objectives gambling policy is designed to promote. The most important of these fundamentally different policy objectives have been historically and remain internationally:

- The curbing of vice
- The protection of the public from crime and addiction
- The extension of liberty by integrating gambling into the mainstream leisure industry
- The generation of (relatively unresented) taxes and the funding of good causes
- The promotion of export earnings, e.g. through enhancing the tourism industry.

In relation to these we state our belief that the residents of Jersey (like the citizens of most modern democracies) would for the most part endorse the following views:

1. If adults choose to spend their own time and their own money gambling then the state should not prevent them from doing so because some people disapprove of gambling on moral or religious grounds
2. Because gambling has historically been associated with criminal activity and therefore if this activity is to be made legal it must be regulated so as to ensure that gambling services are not provided by criminals
3. Because gambling offers dishonest operators a number of ways of cheating their customers gambling must be regulated so as to ensure that this does not happen
4. Because gambling requires the exercise of mature judgment the young should be prohibited from gambling
5. Because gambling exposes people to the risk of doing themselves and others serious harm, measures should be put in place to minimise the amount of harm which people actually do themselves and to others
6. The venues in which gambling services are provided should, if possible, enhance but otherwise should not detract from the attractiveness of the neighbourhoods where they are located
7. If the legalisation of gambling can be harnessed to the promotion of public policy objectives which substantially benefit the community as a whole and not just the buyers and sellers of commercial gambling services, that would be desirable even though it would mean that gambling was effectively taxed at a higher rate than other forms of entertainment.

In section 3 we note that Jersey has many features relevant to the formulation of good gambling policy which are common to all jurisdictions, including the opportunity to use gambling as a means of raising a substantial consumption tax and the need to address the issue of problem gambling. However, there are also a number of features about Jersey's social and economic circumstances which are of peculiar importance in formulating good gambling policy for Jersey. Amongst the most important of these features to which we discuss are:

- The need to protect Jersey's reputation for integrity in view of its dependence on international banking business
- The fact that the profitability of Jersey's banking business may be increasingly threatened
- The fact that Jersey has a visitor population some ten times the size of its resident population
- The looming budget deficits and proposals to address this
- The absence of consumption taxes such as VAT
- The absence of unemployment and the constraints on accommodating new employees
- The relative absence of recreational amenities, especially in the evening, for both visitors and residents
- The ease with which Jersey residents can play the UK lottery and gamble on the internet.

Our principal conclusions are that gambling will not prove a panacea for Jersey's problems especially those relating to competitiveness in the international financial services market. However, the expansion of legal gambling could generate substantial benefits for the government and people of Jersey in three main ways:

- By contributing to reducing anticipated deficits
- By enabling Jersey to enhance its tourism product, and in particular to attract more, and more lucrative, business tourism
- By furnishing the people of Jersey with better or additional amenities.

On the other side there would be some increase in employment and in the first instance some of the necessary skills would come from abroad. We believe, however, that this problem can be minimised partly by achieving the economies of scale which result from having a single casino, through the use of electronic gambling machines and smart card technology to keep to a minimum the number of staff needed to operate a casino and because internet gambling is very labour un-intensive provided there is no betting call centre attached to it and if there is only one licensee.

In section 4 we discuss the general principles for estimating the economic benefits which may accrue to a jurisdiction as a result of extending commercial gambling opportunities.

To estimate the quantum of potential benefits which each form of gambling might generate for Jersey, the following calculations need to be undertaken:

- An estimate of the total potential gambling spend. We think this will be in the region of £26-33m
- An estimate of the division of gambling spend between different sectors: we think casino gambling will account for between a third and half of this if introduced.
- An estimate of the licence fee and gambling tax rate which Jersey could charge for the privilege of operating internet services out of Jersey rather than any other jurisdiction. This is likely to be small because of current and impending competition between jurisdictions and because internet gambling is at present an over-traded market which has so far proved much less popular with gamblers around the world than was originally predicted
- An estimate of the likely propensity of Jersey residents to play the UK lottery or another one with comparably large prizes. It seems reasonable to assume that Jersey residents would spend per capita the same on the lottery as UK residents. This would mean that potential spend can be calculated by dividing by $60\,000\,000/80\,000 = 750$. The UK lottery's sales are approx £5bn so total sales in Jersey should be in the region of £6.6m¹. After returning 50% of sales revenue in prizes, this should yield a potential income, about £3.3m of which 24% (£792 000) would be captured for the people of Jersey

¹ The per capita spend in absolute terms probably gives a better estimate of lottery spend than calculating the percentage of GDP or disposable income per capita which might be spent. These latter calculations would yield much higher numbers but we judge that lottery spend is not a function of disposable income in the way that gambling expenditure on betting and gaming are.

in the form of tax and a further 56% (£1, 848 000) in contributions to good causes – less a fee to the UK government for administrative costs

- An estimate of potential revenues from one or more casinos and/or from a “slot route” industry (gambling machines located outside casinos in hotels, pubs etc). This last calculation is the most difficult and our conclusions are the most tentative, namely annual gross gambling revenues of around £15m. There are a number of ways, other than by conducting extensive market research, of arriving at a reasonably plausible approximate figure for potential spend on casino-style gambling:
 - Estimating, on the basis of international comparisons, the propensity to gamble as a percentage of GDP/GNI and/or the disposable income of the potential gambling population and the likely distribution of market share between different segments of the gambling industry
 - Estimating the number of visits to a casino and the average spend per visit
 - Prognosticating on the basis of international experience the impact on existing propensity to gamble of increased commercial gambling opportunities and the opportunity for commercial gambling companies to market their products.

In section 5 we identify the potential negative social impacts as follows:

- Damage to Jersey’s reputation particularly as this might affect its financial services industry
- Increases in crime, including financial crime
- Increases in the incidence of excessive and compulsive gambling
- Damage to the general social environment, e.g. by rendering neighbourhoods sleazy and lowering their “tone” or by otherwise diminishing the perceived quality of life in the community.

Our discussion of these issues conclude that:

- Licensing casino and/or internet gambling in Jersey would not damage Jersey’s reputation for probity as a financial services centre, any more than it has damaged the reputation for probity of other jurisdictions which have casinos and/or internet gambling
- On the basis of our discussions with the police and the JFSC we do not believe that there is a serious risk of an increase of crime of any sort should Jersey legalise a casino and license internet gambling. On the whole casinos increase levels of public safety in areas where they are located and extensive and sophisticated international regulations already exist to prevent the abuse of commercial gambling operations to launder money
- Although increasing the opportunities to gamble in Jersey will increase the risk of problem gambling it will not increase the reality if suitable gambling-industry-resourced measures are put in place to educate the public so as to reduce the incidence of problem gambling and to offer counselling and treatment services to those who do nevertheless develop problems. This also affords Jersey the opportunity of putting in place at gambling industry

expense programmes to deal with other problem behaviours such as drug abuse and excessive drinking

- Whether the introduction of gambling would damage the perceived quality of life of the residents of Jersey is something only the people of Jersey can decide. Many jurisdictions test this issue through a referendum. This may be unnecessary in Jersey. What is clear is that those who are in principle opposed to gambling or who simply don't like it have a democratic right to have their views accorded the same weight and respect as everyone else's but not to count for more than anyone else's.

In Section 6 we conclude that, if Jersey decides to license a casino, there will be little benefit to Jersey in following Alderney and the Isle of Man in licensing one or more internet gambling site in Jersey. Instead we believe that the unique right to offer internet gambling services out of Jersey should be integrated with the land-based casino licence. This will in our view optimise the advantages, including the tax and fee advantages to Jersey, while avoiding a number of problems which otherwise confront jurisdictions which license internet gambling companies.

In section 7 we make the case for licensing a single casino in Jersey. We discuss the following options:

- Retaining the status quo
- Having a free market in casino gambling
- Having a slot route industry
- Having a small number of casinos
- Having a single stand-alone casino
- Having a single casino integrated into, and partially subsidising a larger entertainment complex as well as funding conference facilities which might be located elsewhere.

Having given reasons for preferring the last option we estimate the benefits it might yield. We believe the income and capital expenditure would be distributed roughly as follows.

1. Income distribution

Gross gambling revenues	= £15m p.a.
Tax at 20%	= £ 3m p.a.
Operating costs at 40%	= £ 6m p.a.
Costs of capital for casino	= £ 3m p.a.
Costs of capital for "add-ons"	= £ 3m p.a.

2. Capex

Total capex	= £ 35 m
Costs of casino facilities	= £ 17.5 m
Available for "add-ons" such as conference centre, transport infrastructure, licence fee etc	= £ 17.5 m.

In order to keep the casino development costs low and therefore the real value of the licence and therefore the real benefits to the Jersey high, we recommend that the States identify an existing site which could be converted. This site should almost certainly be in St Helier and, though three possible sites were identified to us the consensus of those we spoke to, as well as our own view arrived at by visiting the venues, is that the most suitable site for an entertainment complex which included a casino and which would be attractive to both visitors and locals is the Fort Regent site. Many considerations cause us to favour this site including its size, location and present economic unviability.

Access to Fort Regent is currently difficult and rather dismal. We suggest that this could be rectified by installing a modern luxurious cable car system to link the Fort with the Waterfront. The cable car would not only facilitate transport between the two locations, but would form an attraction in itself. The casino/entertainment complex at the Fort would provide the funding for this facility. This would be especially desirable if the casino were also funding world-class conference facilities located at the Waterfront.

In section 8 we discuss how Jersey might better benefit from the willingness of its people to play lotteries. At present there seems to be both a legal and an illegal industry in UK lottery tickets in preference to the CI lottery.

The breakdown of income from sales for the UK lottery is typical and is as follows:

Returned to players in prizes	= 50%
Tax	= 12%
Contribution to good causes	= 28%
Distributing Retailers	= 5%
Operating costs	= 4%
Profits to shareholders	= 1%.

It can be seen from this that if Jersey were to allow its residents to participate in the UK lottery it ought to receive in tax and contributions to good causes 40% of the revenues from ticket sales. The present suggestion that Jersey might only benefit from the 12% which is the pure tax component is clearly inequitable. It is to be hoped that the UK government will see this and that arrangements can be negotiated so that, allowing for some payment to the UK for the costs of regulating and administering the lottery Jersey will be enabled to secure total benefits closer to 40% of the value of ticket sales to its residents. The alternative is for Jersey to look for another lottery with which to join forces.

In section 9 we summarise our recommendations as follows:

- Jersey should extend the provision of commercial gambling services in such a way as to generate tax revenues, enhance the tourism industry and provide popular amenities for residents
- Jersey should licence a monopoly casino licence at the Fort
- Jersey should issue a request for proposals to develop a casino entertainment complex at the Fort making clear that the minimum qualifying conditions include passing a probity investigation as to the personal suitability, financial reliability and technical competence of the company and its senior employees

- A Jersey casino should be subject to the regulations concerning money-laundering agreed by the European Union and the United Nations
- Jersey should require all providers of gambling services to demonstrate that they are socially responsible and that they are seriously committed to minimising the harm caused by problem gambling
- Jersey should set the tax rate for casino gambling at 20% of gross gambling revenues
- Jersey should award the licence after a tendering process in which the licence is awarded to whichever project offers the greatest benefits to the people of Jersey
- Jersey should not license internet gambling companies; instead it should include a single licence to offer internet gambling services as part of the licence held by the successful applicant for the casino licence
- The process of awarding the licence should be transparent, equitable and demonstrably based on the public interest
- The costs of administering the licence awarding process should be covered by a bidding fee
- The government of Jersey should seek to negotiate arrangements to allow its residents to buy UK lottery tickets which will secure for Jersey-based good causes 28% of the purchase price of tickets bought in Jersey as well as 12% in tax
- If the Jersey government fails in these negotiations it should seek another big prize lottery partner
- To administer the implementation of these proposals Jersey should accept recommendations 2-6 of the Report “Modernising Jersey’s Gambling Legislation” and should expect to have to spend not more than £250 000 p.a. on the costs of additional administrative work and policing.

In conclusion we urge Jersey’s decision-makers not to be deflected by erroneous images of casino gambling and especially not to be deceived by arguments from sectional commercial interest masquerading as arguments about the public interest.

1. Background

We were commissioned in 2002 by the Gambling Control Committee, to research, report on and make recommendations about:

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We were also invited to comment on general matters relating to the updating existing gambling legislation. Our work was intended to supplement the Report “Modernising Jersey’s Gambling Legislation” presented by the Gambling Control Committee to the States in December 2002, and in particular to undertake analysis of the potential costs

and benefits to Jersey of pursuing different policies with regard to each of these three forms of commercial gambling.

We visited Jersey between March 17-21 and had interviews with a large number of interested parties. We also read a substantial number of documents.

Prior to our arrival in Jersey on March 17 we had read “Modernising Jersey’s Gambling Legislation” published in December 2002, which outlines the current law pertaining to gambling in Jersey and makes 22 recommendations for the future regulation of gambling and related policy.

During the period March 17 to 20 we met with representatives of the following departments and committees:-

Strategic Development Section, EDD
Policy and Resources Department
Income Tax
Tourism
Planning and Environment
The Law Officers’ Department
The States of Jersey Police

We also met with representatives of the Jersey Financial Services Commission and Senior Ministers of the Methodist Church.

In addition, following reports and papers which were made available to us:-

The Jersey Island Plan 2002
The Jersey Census
The Jersey Budget 2002
The Future of Jersey’s Tax and Spending Policies May 2002
The Jersey Statistical Review 2002
Report on a potential casino operation in Jersey by NKL Services 1998
“A Casino for Jersey or Is there a better alternative?” Report by Mr Ted Vibert 2002
Report of the Review Panel on the Machinery of Government in Jersey, December 2000. (The Clothier Report)
Plus numerous articles from the local press and inter-departmental memoranda.

2. Introduction and General Principles

Good public policy in respect of gambling, like good public policy in respect of any other activity, depends on identifying appropriate goals and devising appropriate means for securing them. In most areas of public policy there is usually a high degree of consensus about what the goals should be but substantial disagreement about the best way of achieving them. Thus there is consensus that the economy should be as prosperous as possible, that all citizens should have access to good and affordable healthcare and that children should receive a good education regardless of any accidental facts about who their parents are. On the other hand, there is much dispute about the best way of achieving these uncontroversially desirable states of affairs.

With gambling policy, by contrast, there has been historically, and there remains in most jurisdictions considerable disagreement about what good gambling policy should be trying to achieve. On the other hand, when agreement is finally reached about what a society wants its policy regarding gambling to accomplish, then it is comparatively easy to see what the most effective legal and regulatory arrangements will be.

The most important of the fundamentally different policy objectives which have informed gambling policy historically and which continue to inform it internationally are:

- The curbing of vice
- The protection of the public from crime and addiction
- The extension of liberty by integrating gambling into the mainstream leisure industry
- The generation of (relatively unresented) taxes and the funding of good causes
- The promotion of export earnings, e.g. through enhancing the tourism industry.

The first of these objectives is no longer widely accepted in liberal democracies (including Jersey) as an appropriate goal of public policy in relation to gambling even by people who have strong moral objections to gambling. The second is almost universally recognised as requiring special measures in respect of commercial gambling and as constituting a *sine qua non* for legalising or liberalising commercial gambling opportunities. This objective is the driving principle of the “Budd” proposals in the UK. The third objective follows from the view (strongly held by suppliers of gambling services) that spending time and money gambling for pleasure is no different to spending time and money on going to movies or restaurants or playing sports: not only should people for whom gambling is a preferred leisure choice not be hindered in their legitimate pursuit of pleasure; they should also not be discriminated against by abnormally high taxation. There are no jurisdictions which forgo the opportunity to raise taxes through gambling, except where gambling is designed to generate foreign earnings as with internet gambling and to some extent with Las Vegas. The fourth option sees gambling primarily as a harmless and agreeable way of raising money for good causes, e.g. by funding through gambling taxes public interest activities which would otherwise have to be funded from other taxes or not funded at all. This is the basis of lottery policy and dominates casino policy in Europe. The fifth option is what jurisdictions opt for if they are willing and able to offer legal gambling in a region where surrounding jurisdictions prohibit or significantly inhibit it, as in Atlantic City, Biloxi and Macao as well as Las Vegas or if they have significant numbers of foreign visitors who can be induced to spend more at entertainment complexes which include casinos as in Cape Town. It is also what some jurisdictions have sought to do with regard to internet gambling and may in the medium term become a feature of lottery gambling.

These objectives are not mutually exclusive and indeed different policy objectives may be (and in our view are) appropriate to different forms of gambling. For example the objective of keeping gambling crime-free and protecting the vulnerable can fairly easily be combined with a policy which seeks to use gambling as a way of funding

good causes; and, as we shall see, it may be appropriate for jurisdictions to emphasize the potential of internet gambling as a foreign earner while treating machine gambling primarily as a way of raising taxes from locals. It is, however, crucial for governments to be clear about what their overarching policy objectives are since they have substantially different implications for regulation. For example, the objective of curbing gambling will lead to placing all sorts of obstacles in the way of consumers and suppliers of gambling services such as banning advertising and imposing high levels of “sin” tax. The objective of encouraging gambling tourism will lead to low taxes and few restrictions on advertising. There may also need to be trade-offs between protecting the vulnerable and securing the rights of the majority of recreational gamblers who do not gamble to excess.

In general, where jurisdictions wind up with poor gambling policy this is usually because they are unclear about their objectives. This often happens because of the political tactics employed by various interest groups. For example, sometimes groups who are really opposed to gambling on religious or aesthetic grounds so exaggerate the alleged negative social impacts such as crime and problem gambling that the legitimate interests of consumers are frustrated and opportunities for promoting the wider public interest are lost. On the other hand, gambling policy in some jurisdictions has failed properly to secure the public interest because industry lobbyists, and sometimes even legislators with private interests of their own, have successfully misrepresented the alleged economic benefits.

Because the choice of objectives is fundamental to good gambling policy, the analysis of the probable costs and benefits which are likely to result from liberalising gambling law is only partly a matter of calculating consequences which can be quantified and to which monetary values can be assigned. It is also a matter of deciding what is to count as a benefit and a cost and how much weight to attach to costs and benefits which are real but unquantifiable. For example, if one can estimate the size of a gambling market one can (at least in principle) calculate how to generate the maximum tax yield. What one cannot calculate is whether or not it should count as a cost that a disproportionately large share of gambling taxes are likely to be paid by the relatively poor. Nor can one realistically put a price on the desirability of allowing adults more rather than less say in how they conduct their lives or on the undesirability of creating a situation which makes it more likely that one or more persons will suffer severe depression.

It seems to us likely that considerations of the sort outlined above and the absence of an objective assessment of the likely costs and benefits explain why Jersey has had a similar and inconclusive debate about whether or not to license a casino on the island in 1959, 1964, 1984 and 1996. Disagreements have had as much to do with differences about values and therefore about policy objectives as about empirical considerations of the likely consequences. And it remains, of course, true that if a majority of the citizens of Jersey believe that gambling is immoral and therefore the more it is discouraged the better or if they believe that all casinos are unattractive and diminish the quality of life in the communities where they are located, then that is ultimately a matter for democratic decision making. On the other hand, it seems to us likely that much of the opposition to extending the availability of commercial gambling in Jersey has resulted, not from principled objections but from erroneous

beliefs about both the potential costs and the potential benefits to the island of legalising various forms of gambling in addition to those which are already legal.

We believe that, in fact, the majority view in Jersey with regard to issues of principle is likely to be very similar to those now held in most other jurisdictions in the English-speaking world and in Europe. These are:

- If adults choose to spend their own time and their own money gambling then the state should not prevent them from doing so because some people disapprove of gambling on moral or religious grounds
- Because gambling has historically been associated with criminal activity and therefore if this activity is to be made legal it must be regulated so as to ensure that gambling services are not provided by criminals
- Because gambling offers dishonest operators a number of ways of cheating their customers gambling must be regulated so as to ensure that this does not happen
- Because gambling requires the exercise of mature judgment the young should be prohibited from gambling
- Because gambling exposes people to the risk of doing themselves and others serious harm, measures should be put in place to minimise the amount of harm which people actually do themselves and to others
- The venues in which gambling services are provided should, if possible, enhance but otherwise should not detract from the attractiveness of the neighbourhoods where they are located.

These are effectively the principles on which the forthcoming UK Bill on gambling law reform is to be based.

We believe also that the majority view in Jersey would be that:

- If the legalisation of gambling can be harnessed to the promotion of public policy objectives which substantially benefit the community as a whole and not just the buyers and sellers of commercial gambling services, that would be desirable even though it would mean that gambling was effectively taxed at a higher rate than other forms of entertainment.

In short we believe that the majority view in Jersey would be that if commercial gambling can be used as an agreeable and harmless way of raising money for good causes then it should be permitted and even encouraged - as happens everywhere with state lotteries. Alternatively formulated, we believe that the majority view in Jersey would be that if the further legalisation of gambling can be harnessed to the provision of significant economic benefits while the potential negative social impacts can be kept to an acceptable minimum then more gambling should be legalised on Jersey.

The main part of our report consists in describing and discussing the general benefits and costs which might accrue from legalising gambling in Jersey and then exploring the implications of this discussion for the legalising in Jersey of internet gambling, casino gambling and participation in the UK lottery. Before we embark on these discussions, however, we need to consider what are the particular features of Jersey as a jurisdiction that need to be taken into account in assessing potential costs and benefits

3. The Special Features of Jersey in Relation to the Legalisation of Gambling.

Jersey has many features relevant to the formulation of good gambling policy which are common to all jurisdictions. These include the opportunity to use gambling as a means of raising a substantial consumption tax and the need to address the issue of problem gambling. However, there are also a number of features about Jersey's social and economic circumstances which are peculiar or of peculiar importance in formulating good gambling policy for Jersey. Amongst the most important of these features which we discuss are:

- The need to protect Jersey's reputation for integrity in view of its dependence on international banking business
- The fact that the profitability of Jersey's banking business may be increasingly threatened
- The fact that Jersey has a visitor population some ten times the size of its resident population
- The looming budget deficits and proposals to address this
- The absence of consumption taxes such as VAT, even on betting
- The relative absence of unemployment and the constraints on accommodating new employees
- The relative absence of recreational amenities, especially in the evening, for both visitors and residents
- The ease with which Jersey residents can play the UK lottery and gamble on the internet.

Our principal conclusions are that gambling will not prove a panacea for Jersey's problems especially those relating to competitiveness in the international financial services market. However, the expansion of legal gambling could generate substantial benefits for the government and people of Jersey in three main ways:

- By contributing to reducing anticipated deficits
- By enabling Jersey to enhance its tourism product, and in particular to attract more and more lucrative business tourism
- By furnishing the people of Jersey with better or additional amenities and facilities.

On the other side there would be some increase in employment and in the first instance some of the necessary skills would come from abroad. We believe, however, that this problem can be minimised partly through the use of smart card technology to keep to a minimum the number of staff needed to operate a casino and because internet gambling is very labour un-intensive provided there is no betting call centre attached to it.

It is relevant in this connection that experience and practice in the UK do not give a good indication or provide an appropriate model for what is likely to be most advantageous to the people of Jersey.

We are led to believe that Jersey needs to reinvigorate its core financial business in order to address the problem of increasing competition from other international centres offering similar financial services. Whether or not Jersey extends the availability of commercial gambling will make no difference either way to its ability to solve this problem. It would not prevent the leakage from the island's core financial business and it would not bring in any significant number of additional customers for Jersey's banking and associated services. On the other hand, for reasons we discuss in section 4 below, we do not think that the licensing of internet gambling out of Jersey or the establishment of a casino within Jersey would in any way exacerbate the problems of Jersey's financial services industry or in any way inhibit their recovery.

On the tourism front, however, the universal complaint from both business and leisure tourists is the absence of available leisure activities other than eating or drinking. The provision of casino gambling, especially in an international entertainment and casino complex, could help to address that problem and thereby considerably enhance the island's attractiveness especially to those who visit on business.

At the very least, the opportunity to promote tourism by harnessing people's enthusiasm for gambling to provision of better tourism infrastructure should not be dismissed because people have erroneous ideas about what casinos are. In fact the concept of introducing a casino into a neighbourhood should be no more threatening than establishing a shopping mall or cinema complex.

In similar vein, the taxation of gambling will not resolve Jersey's long-term problems with balancing its budget. On the other hand taxing gambling in Jersey could significantly help in this area because in general gambling taxes are little resented and in particular because since Jersey has very few consumption taxes, tax revenues raised from gambling would not displace revenues which might otherwise have been raised from other forms of leisure spending.

The one area where our proposals undoubtedly have downside in the peculiar circumstances of Jersey relates to employment. This is irrelevant to our internet proposal but it is relevant to our proposal for a casino. We have structured our proposal so as to keep the number of foreign employees that a casino would need to hire to a minimum but there is no doubt that any growth in the tourism industry would conflict with the Jersey policy of "no new jobs." We believe that in the medium term if nothing is done, then unemployment will come to Jersey and the availability of jobs will be welcome. In the meantime, we recommend that Jersey decide whether the small growth in jobs which in the first instance would need to be carried out by foreigners is a price worth paying for the considerable benefits which we believe our proposals would secure for Jersey.

4. Estimating Economic Benefits.

The benefits which can accrue to a jurisdiction as result of extending commercial gambling opportunities are the following:

- Increase in the ability of those who wish to participate in commercial gambling transaction to do so, known to economists as the gain in consumer surplus
- Savings in law enforcement costs, as well as gains from the collection of taxes if a legal gambling industry drives out an illegal industry
- Growth in foreign earnings if the legalisation of gambling causes foreigners to spend more in the jurisdiction than they otherwise would or causes residents to spend less outside it
- Funding of public interest projects which could not easily be otherwise funded because government places an abnormally high tax on gambling, requires a contribution from gambling profits to designated good causes or makes it a condition of licence that particular public interest projects be funded by the licensee.

Where increasing access to commercial gambling services creates a “consumer surplus,” this means that people can more readily afford to purchase goods and services in accordance with their choices. Economists emphasise that this economic benefit consists in increasing the aggregate wealth of a society because, to the extent that the costs of purchasing a specific quantity of pleasure are reduced, there is more money left over to individuals and to society as a whole for purchasing other goods and services. This consideration provides a *prima facie* reason for liberalising the laws relating to all forms of gambling in Jersey.

The economic benefits which result from having a legal rather than an illegal gambling industry are relevant in Jersey to internet and to lottery gambling. The potential for growing foreign earnings (or retaining domestic expenditure) is a relevant consideration in Jersey with respect to licensing casino gambling and also but in a different way to lottery gambling. The issue of capturing a share of the profits from gambling to further the public interest is relevant to all forms of gambling which might take place in or out of Jersey. In our view, the most important question facing Jersey is whether or not there are sufficient benefits in terms of increasing foreign earnings and generating revenues for the public purse to make the extension of legal gambling worthwhile.

To estimate the quantum of potential benefits which each form of gambling might generate for Jersey, the following calculations need to be undertaken:

- An estimate of the total potential gambling spend. We think this will be in the region of £26-33m
- An estimate of the division of gambling spend between different sectors: we think casino gambling will account for between a third and half of this if introduced
- An estimate of the licence fee and gambling tax rate which Jersey could charge for the privilege of operating internet services out of Jersey rather than any other jurisdiction. This is likely to be small because of current and impending competition between jurisdictions and because internet gambling is at present an over-traded market which has so far proved much less popular with gamblers around the world than was originally predicted
- An estimate of the likely propensity of Jersey residents to play the UK lottery or another one with comparably large prizes. It seems reasonable to assume that Jersey residents would spend per capita the same on the lottery

as UK residents. This would mean that potential spend can be calculated by dividing by $60\,000\,000/80\,000 = 750$. The UK lottery's sales are approx £ 5bn so total sales in Jersey should be in the region of £6,6m². After returning 50% of sales revenue in prizes, this should yield a potential income, about £3,3m of which 24% (£792 000) would be captured for the people of Jersey in the form of tax and a further 56% (£1, 848 000) in contributions to good causes – less a fee to the UK government for administrative costs

- An estimate of potential revenues from one or more casinos and/or from a “slot route” industry (gambling machines located outside casinos in hotels, pubs etc). This last calculation is the most difficult and our conclusions are the most tentative. There are a number of ways, other than by conducting extensive market research, of arriving at a reasonably plausible approximate figure for potential spend on casino-style gambling:
 - Estimating, on the basis of international comparisons, the propensity to gamble as a percentage of GDP/GNI and/or the disposable income of the potential gambling population and the likely distribution of market share between different segments of the gambling industry
 - Estimating the number of visits to a casino and the average spend per visit
 - Prognosticating on the basis of international experience the impact on existing propensity to gamble of increased commercial gambling opportunities and the opportunity for commercial gambling companies to market their products.

The situation is made particularly difficult in Jersey because of the need to combine estimates of likely spend on casino gambling by both residents and visitors. We believe that because of the importance of visitor spend in this equation, Jersey will maximise its earnings from casino gambling by having a single casino. This is because a slot route industry will have little visitor appeal and may even have a negative impact. More than one casino would have substantial diseconomies of scale and would be unable to fund the non-gambling facilities which would enhance general attractiveness to tourists.

If we assume that the propensity to gamble in Jersey is the same as in the UK then the relevant UK numbers are:

- Total annual spend on gambling in the UK is about £7,5 bn
- GDP of about £1 000 bn.
- Hence propensity to gamble as a proportion of GDP = about 0.75%.

This number is lower than for other English-speaking jurisdictions and is expected to grow by at least a third after deregulation. In Jersey with a GDP of 2,8 bn a propensity to gamble at 0.75% would yield a total gambling spend on all forms of gambling in

² The per capita spend in absolute terms probably gives a better estimate of lottery spend than calculating the percentage of GDP or disposable income per capita which might be spent. These latter calculations would yield much higher numbers but we judge that lottery spend is not a function of disposable income in the way that gambling expenditure on betting and gaming are.

Jersey in the region of £21m³. A propensity of 1% would yield £28m. To this number would need to be added an estimate of the potential spend by visitors on gambling. This is likely to be only significant in the event that casino gambling is available on the island and depends on two separate factors: whether people visiting the island for purposes other than gambling, notably on business, can be persuaded to spend more money than they otherwise would at the casino; and whether the casino is allowed to, and is successful in attracting parties to the island for the purposes of gambling. As to the latter we think that only a very small visiting “high-roller” business should be anticipated or encouraged. However, we do think it plausible that, assuming attractive facilities, say 20% of 800 000 visitors should spend around £30 each on casino gambling. This would yield a further income of about £5m.

In the UK the distribution of gross win, gross gambling revenues or player losses between lotteries, betting and gam[bl]ing in casinos, bingo clubs and on machines is close to a third, a third, a third for each sector. However, the casino and machine sector’s share of the market is abnormally low because of the rules (which are about to be abolished) prohibiting big prize machine gambling in casinos as well as the prohibitions on location, marketing etc. We would expect a small “international style” casino in Jersey to secure between 40% and 50% of the total gambling market on Jersey. The present betting business in Jersey seems to be worth about £12m. This might fall somewhat with the advent of casino gambling, perhaps to £10m and the lottery should account for £3-4m in Jersey.

Combining all these considerations we think it reasonable for the government of Jersey to make plans on the assumption that the potential gross gambling revenues (money staked less money paid out in winnings) for casino gambling in Jersey would be in the region of £15m p.a. This number is within the ballpark of such commercial estimates as have been carried out and either published or privately communicated to us.

However, while it is important to engage in these kinds of calculation it is also vital to bear in mind that, from a government’s point of view it is not important that the estimates be even approximately accurate. This is because the problem of estimating markets can be largely dissipated by in effect auctioning gambling licences. This ensures that the government gets significant benefits upfront and makes the problem of estimating the market and therefore of determining the value of the licence a problem for the private sector. This is the practice in almost all jurisdictions internationally except the resort destinations in the USA and in the proposed new dispensation in the UK where the authorities appear to believe (wrongly in our view) that the presence of a substantial existing casino industry makes an auction for new casino licences either impossible or inappropriate. We discuss this further in making specific recommendations about casino gambling in Jersey.

³ The main factor which may make this number too high is Jersey’s relatively high per capita GDP which together with low taxes makes for exceptionally high disposable incomes. Evidence suggests that propensity to gamble peaks amongst those with middle to lower disposable incomes whereas Jersey’s population predominantly enjoy middle to upper levels of disposable income. On the other hand, propensity to gamble tends to increase in the relative absence of other forms entertainments, especially at night. We propose to assume that these factors cancel each other out.

5. Estimating Social Costs

In this section we discuss the potential negative impacts which the extension of commercial gambling in Jersey might have. However, before we start to identify and discuss the problems associated with commercial gambling it is important that we define clearly precisely what is being envisaged. We are looking at possible changes to the regulatory environment for internet gambling; at possible changes to the structure of the Channel Islands Lottery and its relationship with the UK or other lotteries; and at the possibility of casino gambling on the island of Jersey. It must, however, be clear that we are not discussing the introduction of gambling to Jersey where previously there was none. Jersey already has a considerable quantity of gambling in various forms. There are 29 betting shops which contain slot machines and they now also contain fixed odd betting machines. The lottery is played by a large number of people and all of the population have access to gambling through the internet. So gambling in itself is no new concept on Jersey.

The anti-gambling lobby, those who object to gambling on religious or moral grounds have of course every right so to do, but the discussion here is not about whether it is right or wrong to gamble: we are assuming that Jersey has in general accepted that gambling is permissible. What we are looking at are particular forms of gambling and in particular internet and casino gambling. In considering possible negative impacts we need to ask: “Will this in any way harm the reputation of the island or harm its population? If so, what steps can be taken to minimise this damage and having taken those steps, will the economic and social benefits outweigh any possible harm?”

The main areas of concern can be identified as follows:

- Will the reputation of Jersey's banking and financial services industry be in any way harmed?
- Will there be any increase in crime, either in or around the casino or financial crime in the nature of money laundering etc.?
- Will Jersey face a social problem because of an increase in the incidence of problem gambling?
- Will there be any perceived diminution in the quality of life of the community caused by the 'sleaze' factor i.e. the general feeling that the tone of the neighbourhood has been lowered, or that the classification of the island as an elegant resort is in some way diminished?

i. *Reputation*

On the first of these points we have had conversations with the financial services authority on Jersey and we have also interviewed a considerable number of bankers and finance houses who have operations on Jersey all of whom have assured us that in no way would their opinion of Jersey as a safe and prudent place to do business be in any way diminished if they heard of plans to install a casino. Indeed some went so far as to say, they would fully expect it and a large number of tax havens already have casinos - Gibraltar, the Isle of Man and soon Guernsey offer the closest parallels - and their business has not been affected adversely by it. It might be suggested that some of the offshore havens have a dubious reputation in other ways, but against this it is to

be noted that Switzerland whose reputation for probity is beyond reproach, has recently licensed 21 casinos.

There is at present some leakage of business from the financial services and banking industries in Jersey. Many other jurisdictions - particularly Monaco and Dublin - are offering tax advantages which impact disadvantageously upon Jersey. This leakage may continue and if it does it will make it easy for those who oppose the installation of a casino on Jersey to blame this continued leakage on the arrival of increased gambling. The truth is, in our view, that whether or not Jersey establishes additional commercial gambling opportunities on the island is largely irrelevant to the future health of its financial services industry.

On the other hand, the installation of a new casino linked with a conference centre could contribute to the revitalisation of Jersey's tourism industry including its earnings from business visitors involved in the financial services sector.

ii. *Crime*

As to crime itself, we have discussed this with the police chiefs and regulators on Jersey and they are of the opinion that if they are capable of dealing with the control of a highly complex financial industry, it will not be difficult to maintain control of one casino. And we share this view. Worldwide, crime does not increase in the environs of a casino. In fact, there has been very little crime in the environs of the Las Vegas casinos. This is because casino owners and operators have a great interest in ensuring that their customers feel safe and are safe and they take all the necessary steps to ensure that this is so.

As to financial crime, in particular money-laundering, it is most unlikely that serious crime organisations would have any interest at all in coming to a highly regulated small community like Jersey in order to launder their money. The controls and regulations that are already in place would make it far harder to indulge in this kind of activity in Jersey than many other jurisdictions in the world. There would simply be no point in trying to achieve this objective in such difficult surroundings. The fears that surround gambling and crime are based almost entirely on myths which have their origin in the Las Vegas of the middle of the last century. The operators of casinos are nowadays ordinary businesspeople who act as directors of publicly quoted companies and who are just as respectable as the local bank manager or industrialist.

The real point about money-laundering is that there are vigorous international regulations emanating from the European Union and the United Nations which govern casinos as well as banks and obviously if Jersey were to license casino gambling, it would commit to enforcing these international regulations as well as ensuring that its licensees underwent the strictest of probity investigations. This means that the casino industry is regulated and scrutinised to such an extent that it renders malfeasance harder in this business, than in any other, and we entirely agree that it is appropriate that this level of regulation and scrutiny should be maintained. Where the product of an industry is money the temptations are great and the safeguards must be greater.

iii. *Problem Gambling*

Problem gambling is internationally the single most important issue which exercises regulators and politicians in relation to extending commercial gambling opportunities and especially in relation to internet and casino gambling. This is as it should be. Even though only a very small minority of people develop an addiction to gambling and a larger but still small proportion of regular gamblers develop some sort of significant problem with gambling, the potential for people to do serious damage to themselves and those close to them by excessive gambling is considerable.

The matter of problem gambling on the internet is one which is of great concern to us, but there is at the moment, little that can be done about it in the UK or indeed anywhere else as long as the bulk of internet gambling is provided from jurisdictions which are either very “lightly” regulated or not regulated. This makes it impossible, for example, to require service providers to put in place the diversity of potentially effective measures for curbing problem gambling which are more readily implemented on web-based gambling sites than at land-based venues. If Jersey residents could in fact gamble on the internet with a Jersey based company, they would be likely to prefer this and it would be easy to require the company to put the appropriate safeguards against problem gambling in place. Eventually the regulation of internet gambling is likely to be carried out by international agreements and enforced with the co-operation of credit card companies. Meanwhile, it is better to offer ones own residents a well-regulated local option rather than compelling those who wish to gamble on line to go to sites based elsewhere.

The Lottery is rightly generally regarded as being fairly harmless from the point of view of excessive or compulsive gambling. Statistically it falls at the extremely 'soft' end of gambling and incidents of addiction to Lottery gambling in the UK are minimal. It is however self-evident that if one increases the opportunities to gamble, it is likely that there will be some increase in the risk of problem gambling. But if a specific organisation, e.g. the operators of casino gambling services area casino are permitted to supply gambling services, an integral part of the contract must always be that the operators provide adequate safeguards for the problem gambler, including public awareness programmes to prevent excessive gambling and the provision of counselling services for those who do nevertheless develop problems. In this way liberalisation of gambling law may result in less rather than more problem gambling.

However, the population of Jersey has shown a considerable propensity to gamble and it is inevitable that some of those gamblers do have a problem which at the present moment is not addressed by anybody. If gambling opportunities were to be extended in Jersey, the gambling industry would be expected to fund both an investigation into the nature and extent of problem gambling on Jersey and an appropriate programme of action to set up the facilities for research, prevention and treatment.

However, there is also an easily identifiable problem of alcoholism on Jersey and we are told by the police that the young have a voracious appetite for drugs. The problem of all three of these addictions needs to be addressed. In the process of licensing a casino and/or internet operation on Jersey, there is an opportunity to investigate all these forms of addictive behaviour, as well as developing a comprehensive policy and providing effective programmes for dealing with them.

The leaders of the Methodist church who already offer help to alcoholics have indicated that they would be willing to support such a project. It is our view that regardless of whether a casino or internet operation is set up or not, it would be desirable to impose some levy on the existing betting operations as well in order to provide funds for a proper programme of research, education and cure into problem gambling in Jersey. Whether similar funds can be raised to deal with the problems of alcoholism or drugs is outside of our remit.

With the expansion of gambling operations on Jersey, problem gambling will probably grow a little larger and it will certainly be the subject of vigorous debate from those who oppose gambling in any form. We would recommend that bidders for licences on Jersey should have a section on problem gambling as an integral part of their bid document and that their bid should be judged on this issue as well as the contribution that they would make to the economy of Jersey. The bidders should indicate not only how much money they are prepared to put into a programme of research, education and treatment, but also what training there is for members of the operator's staff, what programmes they have for self-banning by gamblers who request it etc. In general they will have to satisfy the licensing authorities that they take the issue of problem gambling seriously and will make a positive contribution to ensuring that the inhabitants of Jersey and the tourists to Jersey are protected as far as possible from the risks of problem gambling.

iv. *Sleaze*

It is probable that a majority of Jersey residents have never been to a casino. Others have perhaps visited a small casino in the UK, some may have visited the French casinos where machine gambling predominates, yet others will have visited a big international casino in America, Australia or elsewhere. This is why when Jersais discuss the desirability of casino gambling on the island it is quite likely that they have in mind very different images of what casinos are.

Some who have never visited a casino may conjure up glamorous visions of pre-war Monte Carlo or the images of early Bond movies. Those who have visited small British “provincial” casinos know that these are really small clubs for middle income, table games players the majority of whom are of Asian extraction. From an international style casino people may remember the glitz and razzmatazz as well as the vast banks of slot machines.

There are people who feel that whatever the type of casino we envisage there is simply something slightly seedy about it. From movie representations they may associate casinos with gangsters or with massive addictions. They may feel that casinos are similar to opium dens or brothels. Consequently there is a fear that the neighbourhood will be cheapened and rendered less safe by the presence of a casino.

These fears though understandable are misplaced. With intelligent regulation casinos can be introduced into jurisdictions in such a way that they considerably enhance the attractiveness of the environment and there is no reason why casino gambling could not be introduced into Jersey without damaging the historic charm and appeal of the

island. It is true, however, that a proliferation of slot machines outside of casinos is felt by many communities to contribute to the sleazification of neighbourhoods.

In short while it is right to be concerned about negative social impacts we believe that the government of Jersey can introduce both casino gambling and limited internet gambling in such a way as to ensure that these negative impacts are minimised. In particular the government can impose tight regulations to keep out any kind of criminal activity and preserve Jersey's reputation; it can impose effective policies and programmes for addressing problem gambling, only license projects which enhance the character and attractiveness of the existing environment. In this way it can secure benefits which clearly and very substantially outweigh any potential social costs.

6. Internet Gambling.

Estimates of the current size of the global internet gambling market are only exceeded in their unreliability by estimates of the future of this market. A plausible private report by Price Waterhouse three years ago estimated that there are 1200 internet casinos in the world. Of these most do not make significant money but about 50 earn gross gaming revenues (money staked less money won or net player losses) of between \$50,000-500,000 per month; 5-6 earn revenues of \$6-8m per month and one (casino.net) earns \$10-15m per month. More important presently and probably in the future too is and will be the internet betting business which currently enables especially Asians to bet on horse races around the world but also and increasingly on international sporting events amongst which Premier League soccer is particularly popular. It is also likely that in the near future global lotteries will emerge offering very high prizes and donating money to international good causes (as well as to the exchequers of domestic governments).

All this activity will increasingly require to be supervised by a credible regulatory authority located in a jurisdiction whose government and people can expect to participate one way or another in a part (albeit a small part) of the proceeds. Should Jersey seek to get into the business of providing a regulatory environment for internet gambling companies?

It is important to begin a discussion of this question with a recognition that the role of government in relation to internet gambling has to be significantly different from what it is in the vast majority of jurisdictions regulating land-based gambling.

This is because the primary objective in licensing internet gambling operations is to attract foreign companies to locate their internet gambling operations in your jurisdiction rather than in anyone else's. This is primarily in order to capture the licence fee income and corporate income tax. Land-based gambling does not, except at a handful of destinations around the world, create new income or wealth: it is rather a service industry which caters mainly to the tastes of a local clientele. This means that the government's principal concerns will be with issues of law and order, consumer protection and taxation. But internet gambling is a form of cyber-tourism, and as with other forms of tourism, jurisdictions as well as businesses compete with one another. In particular governments have the power to do a number of things to make their jurisdiction more attractive to potential visitors than competing

destinations around the world. Most importantly perhaps, in the case of tourism, they can influence the comparative costs and conditions of doing business so as to attract hoteliers and other tourism businesses to their jurisdiction. They can also ensure that the infrastructure in terms of roads, railways, harbours and airports is of a high standard and efficiently operated. Finally, they can take steps to ensure that the environment is healthy, clean and safe for tourists.

These three functions of government in relation to the tourism industry have their analogues in the internet gambling business. Governments in the Caribbean, in the states of Australia (though not, it seems, the Federal government), in South Africa, in Gibraltar, in Alderney, in the Isle of Man and now in the UK explicitly wish to attract internet gambling companies to their jurisdiction. Consequently they seek to keep taxes low and licensing conditions simple (though not necessarily easy to comply with). They also try to ensure that the essential communications infrastructure has adequate capacity and is efficient and reliable. Finally, they seek to offer various degrees of player protection because this will attract players to sites located under their jurisdiction.

If a government wishes to attract there are two main questions which global gaming companies will ask when choosing among jurisdictions where to locate their internet business. These are:

- How low is the cost of doing business, including especially licensing and taxation costs?
- How much customer confidence will be generated by the fact that our business is regulated by this particular government?

They will also ask the subsidiary questions:

- How good is the IT infrastructure or how good can it be made?
- How congenial will this jurisdiction be as a place for our executives to spend time?

Jersey can offer positive answers to all these questions and would be a highly attractive regulatory home for companies offering internet gambling services. Currently, the big jurisdictions either have not (yet) legalised internet gambling (USA) or they are too expensive and cumbersome (Australia), while the small jurisdictions (the Caribbean) lack respectability. Jersey has the potential to offer a regulatory environment with low costs of doing business and a very high degree of credibility thanks to its tradition of honest and efficient administration and its excellent reputation as a regulator of financial services. Moreover, there is undoubtedly some scope for increasing government revenues and fee income for local professionals which has no downside in terms of the negative impacts identified above.

If Jersey were to legalise and regulate internet gambling, it would be important to have a formal set of regulations governing this which would include a clear statement

of policy objectives and a clear set of procedures for securing them. This is so for a number of reasons:

- Formal regulations contribute to building confidence amongst the potential clientele of licensees and so enhance the value of a Jersey licence
- Such regulations would enable Jersey to participate in the development of internationally recognised codes of good practice as these will emerge in the near future
- Formal regulations are necessary for securing compliance, e.g. in respect of player protection and underage gambling
- Formal regulations demonstrate transparency and thereby forestall perceptions and allegations of corruption
- The providers of gambling services internationally will know where they stand
- In the event that Jersey does decide to license internet gambling companies, regulations would set minimum conditions for applicants for a licence.

Jersey, then, would be in a strong position to provide a regulatory home for foreign internet gambling companies. And no doubt it was considerations such as the above which convinced the governments of Alderney, the Isle of Man and Gibraltar to authorise the provision of internet gambling services out of their jurisdictions. We do not, however, recommend that Jersey go down this path and seek to compete with these and other jurisdictions for regulatory business in the global internet gambling market.

The main reason is that the rewards are likely to be meagre in relation to the effort required. There are a number of reasons for this amongst which the most important are:

- The global internet gambling business has not yet taken off, partly because the technology remains for the most part user unfriendly, partly because e-commerce has notoriously not lived up to initial expectations
- The ease with which companies can move their server from one jurisdiction to another makes the regulatory business very uncertain and subject to intolerable competition in respect of what can be extracted in terms of fees and taxes
- The US (80% of the current internet casino market) has not yet authorised internet gambling and when it does so is likely to ensure that US citizens have strong incentives to gamble with US companies
- A European and global regulatory environment is likely to emerge in the medium term which may be hostile to small jurisdictions depending on foreign players
- Internet players are increasingly likely to be able to play with a company based in their home jurisdiction and to prefer doing so
- The UK is on the verge of licensing “remote gambling” in such a way as to detract from the attractiveness of Alderney, the Isle of Man and Gibraltar as jurisdictions.

On the other hand, we believe that if Jersey accepts our recommendation that a monopoly casino be licensed in Jersey and that this licence be awarded via a competitive tendering process then it would be highly desirable to include a licence to offer internet gambling services in the land-based licence. This would mean that, at virtually no additional cost to the Island, Jersey could capture some increased revenues through corporate tax, could get additional benefits from the increased value of the licence and make it more likely that local internet gamblers will gamble with a Jersey-based operation.

It should be noted that Jersey could, on this scenario, offer a zero rate of gambling tax on internet gambling and still derive significant benefits.

7. Bingo

For similar reasons we recommend that commercial bingo be permitted only at the casino. On the one hand this may increase the attractiveness, and therefore the value, of the licence to potential operators. On the other, it will allow those who wish to, to engage in a relatively harmless form of gambling which may or may not prove popular in Jersey. We believe that considerations of both increasing benefits and minimising costs make it undesirable to have a number of different bingo outlets on the island. In general we think it desirable to have all forms of gambling under one roof. In particular, we believe that bingo operations outside the casino would exert strong pressure to be allowed to have limited payout machine gambling – which would be undesirable for the reasons we have given in relation to having slot routes or a plurality of casinos.

We do, however, believe that, as happens in many jurisdictions charitable organisations should easily be able to obtain permission to hold charity bingo evenings provided that all the proceeds are used for charitable purposes and such other regulations as may be necessary to ensure that these occasions are genuinely for charitable purposes only.

8. Casino Gambling

In this section we make the case for licensing a single casino in Jersey. We discuss the following options:

- Retaining the status quo
- Having a free market in casino gambling
- Having a slot route industry
- Having a small number of casinos
- Having a single stand-alone casino
- Having a single casino integrated into, and partially subsidising a larger entertainment complex as well as funding conference and other facilities which might be located elsewhere.

By “casino gambling” we mean not only gambling on traditional casino games such as roulette and blackjack which dominate UK casinos at present but also all forms of electronic machine gambling which offer a variety of stakes and big prizes, including very big prizes through the linking of jackpots. Much the most important decision regarding gambling which Jersey needs to take is whether or not and, if so how, to introduce casino gambling on to the island. There is, in our view, insufficient benefit to be derived from following Alderney, the Isle of Man and Gibraltar in seeking to become a centre for internet gambling. On the other hand, it seems uncontroversial that Jersey should seek to form an Alliance with a much larger national lottery, such as the UK lottery, on the most favourable terms possible. Whether and how to introduce casino gambling requires a more difficult balancing of costs and benefits and more difficult argument about what form of casino gambling is most appropriate for Jersey.

The three main benefits which can accrue to the inhabitants of jurisdictions where casino gambling is licensed are:

- Provision of local amenities for people who like engaging in casino gambling
- Enhancement of tourism revenues
- Generation of relatively unresented taxes.

Jersey has the potential to secure each of these benefits through the provision of casino gambling. As we argue below the quantum of benefits to be secured is in the region of £3m p.a. in gambling taxes and an investment in tourism enhancing amenities of some £30m. In our view, given Jersey’s problems with its deficit and its need to boost earnings from especially business visitors, these numbers are large enough to make it clear that Jersey should move away from the status quo and proceed with the introduction of casino gambling. The case for this is considerably strengthened by the consideration of the additional amenities which could be made available to Jersey residents in an entertainment complex which included a casino. Also, we think the argument that this might damage Jersey’s reputation very unpersuasive in the modern world and we believe that the damage caused by a potential small increase in problem gambling would be more than offset by the funding by gambling licensees of prevention and counselling services for those vulnerable to problem gambling as well as other problem behaviours like excessive drinking and drug abuse.

If these arguments are accepted it might be thought that provided appropriate crime prevention and player protection measures are in place, one should leave the provision of casino gambling to the operation of a free market and estimate the tax rate which will maximise revenues to the state. This would mean that anyone who wished to put a gambling machine in any venue where someone might want to play it could do so. This would result in machines appearing in stations, hospital waiting rooms, old people’s homes: indeed, anywhere where one can presently buy cigarettes or chocolate from a machine. No jurisdiction in fact endorses such extreme libertarianism because it is thought that such a dispensation would be too difficult to regulate, would exacerbate temptations placed in the way of the young and vulnerable, and would generally pollute the social environment. It is inconceivable that such arrangements would be acceptable in Jersey.

Less extreme but still strongly libertarian is the proposal that casino gambling should be provided by a “slot route industry” with gambling machines located in hotels, pubs and clubs. This is essentially the proposal for Jersey which is made by Mr Ted Vibert in his thoughtful and well-informed paper: “A Casino for Jersey or Is there a better alternative?” Mr Vibert correctly notes that slot machines outside of casinos require little investment and little new employment and generate substantial revenues which can easily be taxed. They are also universally the most popular form of casino gambling and, because they have low costs, can be taxed at high rates and so generate substantial revenues for governments.

Mr Vibert is also right to identify two dangers in particular which might accompany the introduction of a casino in Jersey: threats to existing businesses and the need for more employees from outside Jersey. The main threat to other businesses occurs when casinos are allowed to offer services such as hotel beds and food and beverage at rates which unfairly disadvantage the competitors because the casino subsidises these other services out of gambling revenues. International experience suggests that these are

- forbidding the casino to offer the services at all. In Jersey it would almost certainly make better sense for the casino operator to collaborate with existing hoteliers rather than competing with them
- ensuring that the services operated on the casino campus, e.g. luxury shopping, restaurants and bars are franchised to existing businesses under circumstances which conform to the requirement of fair competition while preventing the subsidisation of other businesses from casino revenues.

With respect to the issue of foreign employment, it is undoubtedly true that some additional staff would be needed for the running of a casino but modern casinos typically minimise staff costs by offering electronic versions of table games such as roulette and blackjack, while obviating the need for large numbers of cashiers etc by using smart card technology.

These issues may be debatable in relation to the relative advantages of a slot route industry and a single casino in Jersey. Unfortunately, the heart of Mr Vibert’s case is that machines outside of casinos would generate far more gambling and consequently far more taxes than machines combined with table games in a regular casino. In fact, he estimates that the combined gross gambling revenues from machines in 80 hotels and 60 pubs would be £69 000 000 as opposed to the £10 800 000 which he estimates for a monopoly casino licence.

This is highly implausible. The amount of money available for spending on gambling in any community is more or less constant assuming the same forms of gambling are available. Thus, if Jersey residents would spend £9 000 000 on machine gambling in a single casino, it is inconceivable that they would spend 7 ½ times this amount simply because the machines were located in hotels and pubs. A slot route arrangement would increase the ease and convenience with which Jersey residents could play machines because there would be machines within walking distance of every resident. International experience, however, suggests that at most this would increase the propensity of Jersey residents to play machines by about 50%.

Unfortunately, also this very convenience is what makes slot route arrangements the least attractive from the point of view of minimising problem gambling. This is why the Budd Report sought to restrict “ambient gambling” (i.e. gambling which takes place in a venue whose primary function is not the selling of gambling services) as vigorously as possible.

Furthermore, we do not share Mr Vibert’s view that visitors to the island would spend significantly more money per visit because there was machine gambling available in their hotel. We believe that such visitors would much prefer to visit a high-class multi-purpose entertainment centre which included a casino, and indeed many would find the presence of comparatively large numbers of slot machines in their hotel catering mainly for local gamblers a deterrent rather than an attraction. Overall, then, we believe slot routes would impoverish Jersey’s tourism offering.

But perhaps the most substantial weakness of slot routes, as envisaged by Mr Vibert, is that they generate no investment whereas casinos are naturally disposed to make some investment in adding to the total mix of amenities and facilities on their premises and it is easy to prescribe as a condition of licence that they make very substantial contributions to the common good by, for example, building conference centres, improving transport infrastructure or even paying for medical and educational plant and equipment. Casino companies can do this and still make healthy profits because the gambling business and particularly slot machine gambling is exceptionally profitable with about 88% of the earnings of a gambling machine constituting pre-tax profit.

It follows from this that if a jurisdiction does decide to have a slot route industry rather than a casino industry then the tax rate should be much higher than the 20% which Mr Vibert rightly thinks appropriate for casinos. In most of Europe the tax rate for casinos is over 50% and the best policy for Jersey in the unlikely event that it did choose to introduce slot routes would be to follow the example of Austria, Holland and Canada and have a state owned industry with the operating licence franchised out on reasonable but with the overwhelming bulk of the profits accruing to the government. In other words, a slot route industry should be structured like a national lottery. However, it seems to us clear that what Jersey needs from its casino policy is to harness casino gambling not only to the raising of consumption taxes but also to the development of facilities which will encourage especially business visitors to come more often and in greater numbers, to stay longer and above all to spend more money.

The best way for Jersey to secure this is effectively to sell a monopoly licence to build and operate a casino in return for investment in badly needed tourism-enhancing infrastructure such as conference facilities, cheaper air travel, and more entertainment facilities. It should be clear that a slot route industry will do nothing to contribute to this objective. The reason for recommending a monopoly licence rather than say three casino licences in different locations is that a monopoly licence will generate a substantially greater quantity of investment. This is because not only will a larger monopoly casino achieve substantial economies of scale but it will also not have to spend substantial sums competing against its rivals, In consequence it will have more money to spend on capital investment. Put another way a monopoly licence will be much more valuable than the aggregate of three licences for smaller casinos and therefore casino companies will be prepared to bid more in order to secure it.

At this point it may be helpful if we supply some estimates which we take to be realistic on the basis of the calculations discussed in section 2 above and in the light of international casino industry experience. The two sets of figures which the government needs to understand are those relating to the distribution of the money which the casino wins from its customers (the gross gambling revenues) and the distribution of capex on a casino build assuming a 20% tax on GGR). We estimate these as follows:

1. Income distribution

Gross gambling revenues	= £15m p.a.
Tax at 20%	= £ 3m p.a.
Operating costs at 40%	= £ 6m p.a.
Costs of capital for casino	= £ 3m p.a.
Costs of capital for “add-ons”	= £ 3m p.a.

2. Capex

Total capex	= £ 35 m
Costs of casino facilities	= £ 17.5 m
Available for “add-ons” such as conference centre, transport infrastructure, licence fee etc	= £ 17.5 m.

The estimate for gross gambling revenues is we believe realistic though much will depend on the success of the operator in attracting visitors. Otherwise the figures are fairly conservative. A casino company would expect to invest between two and three times its GGR in capital expenditure. In addition a company will place a value on the internet licence though this will vary substantially depending on the company’s general business strategy and its estimate of the potential of the internet gambling market. Nevertheless, the internet component alone should cover the cost of administration, of additional policing and of funding an addiction prevention and treatment service. Of the capex investment about £5m will be go to the cost of equipment including surveillance equipment. The other capital cost is the cost of land, building and furbishings. Obviously the lower the cost of building to the company the more it can afford to spend on the construction and subsidisation of “add-ons” which benefit the wider community and/or on bidding for the licence.

Our final recommendation regarding a casino in Jersey concerns its location. In order to keep the casino development costs low and therefore the real value of the licence and therefore the real benefits to the Jersey high, we recommend that the States identify an existing site which could be fairly easily converted. This site should almost certainly be in St Helier and, though three possible sites were identified to us, the consensus of those we spoke to, as well as our own view arrived at by visiting the venues, is that the most suitable site for an entertainment complex which included a casino and which would be attractive to both visitors and locals is the Fort Regent site. Many considerations cause us to favour this site including its size, location and present economic unviability.

Access to Fort Regent is currently difficult and rather dismal. We suggest that this could be rectified by installing a modern luxurious cable car system to link the Fort with the Waterfront. The cable car would not only facilitate transport between the two locations, but would form an attraction in itself. The casino/entertainment complex at the Fort would provide the funding for this facility. This would be especially desirable if the casino were also funding world-class conference facilities located at the Waterfront.

In general it should be stressed that in calling for proposals to develop a project which will include a monopoly casino licence government may specify as much or as little as it wishes in respect of what such a project should include. For example, as already indicated, it may be desirable in Jersey to require the successful applicant for the casino licence to subsidise conference facilities which are located at the Waterfront rather than in the Fort. This would be following a very successful precedent followed in Cape Town and Johannesburg where the casinos are located in an area suitable for general entertainment but the conference centres which the casinos funded as a condition of licence were located close to the Central Business Districts.

Similar reasoning applies to the location of any other amenities which governments sometimes require the casinos to subsidise including theatres, sports facilities, hotels, etc. The general principle is that the government should decide in general terms what public benefits it wants the casino project to deliver. Thereafter, it should harness the creativity of the private sector by inviting them to submit proposals which will be adjudicated against the criterion of which project, all things considered, will generate the maximum benefits for the people of Jersey.

We do not go into detail about the administrative arrangements which would be required to implement our proposals. We have, however, ascertained that, including an additional police post, the day to day costs of supervising a monopoly casino in Jersey would not exceed £250 000 p.a. Otherwise, all the costs of organising a tender and conducting probity investigations would be borne by the bidding companies. There is, however, much to be learnt about organising a bidding process so as to ensure that it is fair, is perceived to be fair, leaves no room for successful litigation or allegations of scandalous practices, and optimally secures the overarching public interest. We would be happy to advise further on these matters should the states decide to adopt our recommendations.

9. Lotteries

In this section we discuss how Jersey might better benefit from the willingness of its people to play lotteries. In general people who play lotteries are buying fuel for their financial fantasies; that is, they are prepared to stake a small amount of money against the possibility of becoming life-transformingly rich so that when they imagine themselves spending this vast fortune they can believe they contemplating a situation which could really happen to them, however remote the possibility, and which would otherwise be quite impossible. Since we are dealing in fantasy the important thing about lotteries from the consumer's point of view is the absolute magnitude of the big prize not the relative favourableness of the odds. This is why in the UK the emergence after world war two of pools competitions with very big prizes killed off the many

much smaller pools competitions which were offered by smaller companies and why the emergence of the national lottery with even bigger prizes devastated the pools betting business. It is also why the Channel Islands lottery is not very attractive to Channel Islanders by comparison with the UK lottery. At present there seems to be both a legal and an illegal industry in UK lottery tickets though in the nature of the case it is impossible to estimate its size.

Lotteries are also the clearest and most effective way for organisations including governments to raise money for good causes because people will accept exceptionally poor odds in a monopoly lottery, i.e. a house advantage of 50% compared with a house advantage of less than 10% on casino gambling machines. Clearly, then, it is in the Jersey government's interest that Jersey residents be allowed to participate in a lottery with the biggest possible prizes on the best possible terms. For all sorts of reasons the easiest way to accomplish this is by facilitating the legal sale of UK lottery tickets on Jersey and negotiations are already well advanced to achieve this. Unfortunately the UK government, possibly through inadvertence, seems to be trying to compel Jersey to accept terms which are patently inequitable.

The breakdown of income from sales for the UK lottery is as follows:

Returned to players in prizes	= 50%
Tax	= 12%
Contribution to good causes	= 28%
Distributing Retailers	= 5%
Operating costs	= 4%
Profits to shareholders	= 1%.

In fact the contribution to good causes is slightly larger than this mainly because unclaimed prizes get added to the good causes fund. It can be seen from this that if Jersey were to allow its residents to participate in the UK lottery it ought to receive in tax and contributions to good causes 40% of the revenues from tickets sold in Jersey. The present suggestion that Jersey might only benefit from the 12% which is the pure tax component is clearly quite unjust. It is to be hoped that the UK government can be brought to see this and that arrangements can be negotiated so that, allowing for some payment to the UK for the costs of regulating and administering the lottery, Jersey will be enabled to secure total benefits closer to 40% of the value of ticket sales in Jersey. Appealing to the conscience of the UK government as Nathan the Wise appealed to the conscience of King David over his treatment of Uriah the Hittite, may or may not yield results. The British government may remain unashamed.

In the event that that happens, Jersey would be well advised to look for a partnership with another lottery. Because monopoly lotteries can charge higher prices (offer worse odds) on lottery tickets and thus maximise the contribution that lotteries can make to taxes and quasi-taxes, there are normally informal agreements in place between states that they will not undermine each other's national lotteries. This is what presently happens in the EU. However, these arrangements run counter to the requirements of the single market and clearly Jersey might well find that another lottery in Europe or elsewhere would offer Jersey better terms for what would effectively be its ability to deliver some £6m of ticket sales.

It is no doubt to be hoped that it won't come to this because the amount of money involved for the UK is trivial but for Jersey quite significant.

10. Issues of implementation, including structure and costs of administration and procedures for a tendering process

To summarise we recommend as follows:

- Jersey should extend the provision of commercial gambling services in such a way as to generate tax revenues, enhance the tourism industry and provide popular amenities for residents
- Jersey should licence a monopoly casino licence at the Fort
- Jersey should issue a request for proposals to develop a casino entertainment complex at the Fort making clear that the minimum qualifying conditions include passing a probity investigation as to the personal suitability, financial reliability and technical competence of the company and its senior employees
- A Jersey casino should be subject to the regulations concerning money-laundering agreed by the European Union and the United Nations
- Jersey should require all providers of gambling services to demonstrate that they are socially responsible and that they are seriously committed to minimising the harm caused by problem gambling
- Jersey should set the tax rate for casino gambling at 20% of gross gambling revenues
- Jersey should award the licence after a tendering process in which the licence is awarded to whichever project offers the greatest benefits to the people of Jersey
- Jersey should not license internet gambling companies; instead it should include a single licence to offer internet gambling services as part of the licence held by the successful applicant for the casino licence
- The process of awarding the licence should be transparent, equitable and demonstrably based on the public interest
- The costs of administering the licence awarding process should be covered by a bidding fee
- The government of Jersey should seek to negotiate arrangements to allow its residents to buy UK lottery tickets which will secure for Jersey-based good causes 28% of the purchase price of tickets bought in Jersey as well as 12% in tax
- If the Jersey government fails in these negotiations it should seek another big prize lottery partner
- To administer the implementation of these proposals Jersey should accept recommendations 2-6 of the Report "Modernising Jersey's Gambling Legislation" and should expect to have to spend not more than £250 000 p.a. on the costs of additional administrative work and policing.

In concluding this report, we are aware that our recommendations are for the most part not novel. The issue of establishing a casino on Jersey has been reported on and debated intermittently for nearly fifty years now. We hope that we have supplied an ingredient that has been lacking in previous reports, namely a cogent account of the

relevant numbers. However we are aware that other factors may have contributed to the non-resolution of this issue in the past. These factors include a healthy conservatism amongst Jersey residents which issues in a desire to conserve those aspects of charm and allure of Jersey which lie in its antiquity, its sense of history and its careful preservation of old values and customs. We do not believe that our proposals are inimical to this any more than the opening of the great English country houses has been inimical to their preservation. On the contrary it has typically been a condition of it. Also, it is widely accepted that Jersey's political decision-making system is structurally unsuited to resolving contested issues in favour of boldness and innovation. There may be little to be done about these factors. There is, however, another factor which in many jurisdictions either paralyses decision-making regarding gambling or leads to decisions being reached which are seriously sub-optimal from the point of view of the public interest. This is that industry lobbyists argue vigorously to politicians who are relatively ignorant about the complexities of the gambling industry in favour of a regulatory dispensation which suits their particular commercial interests. It is imperative that politicians do everything to discount both the blandishments and the alarms which will issue from particular interested parties. Instead they must focus single-mindedly on the over-arching communal interest.