



Article

PROSPECT – CASHING IN ON INTERNET GAMING: EL DORADO FOR THE CHANNEL ISLANDS

When the UK Government announced last month a revolution in gambling law, the papers pictured Blackpool as the Las Vegas of the north with soaring casinos cheek by jowl with the familiar tower. Few mentioned the biggest legal change – the legalisation of UK online gambling. Gambling comprises both gaming (gambling on games of chance like roulette) and betting (gambling using skill). It will become a £10 billion global interactive business over the next decade, fed by European demand. The UK now wants to be the number one gaming hub for the assault on Europe. But tax and regulation are still hurdles to clear. The passing of the Interactive Gaming (Alderney) Ordinance 2001 has put the Bailiwick in a perfect position to offer a low tax, high reputation alternative for a big business.

So why has online gaming become such a potential golden nugget for the islands?

Firstly, the gambling business is set to soar. Internet gambling is one of the few big winners from the dot.com boom and revenues are set to rise tenfold over the next ten years. More importantly for Guernsey, the expansion is not concentrated in North America. Quite the reverse. In fact a recent report states that by 2006 the £10 billion revenue cake will give the US only a 24% e-gambling cut, whereas Europe will take 53%.

Electronic Gambling Revenue Worldwide, by Country/Region, 2000 – 2006 (in \$ millions)							
Country	2000	2001	2002	2003	2004	2005	2006
US	1,048	1,446	1,798	2,198	2,599	3,043	3,471
Japan	103	195	275	372	473	591	709
UK	82	159	317	545	817	1,046	1,296
Rest of World	443	755	1,428	2,599	4,325	6,336	9,048
Total	1,675	2,554	3,818	5,713	8,215	11,015	14,524
Region							
Europe	330	633	1,299	2,414	3,971	5,611	7,643
North America	1,157	1,606	1,998	2,442	2,888	3,381	3,857
Asia-Pacific	141	234	379	610	949	1,417	2,138
Rest of World	47	81	143	248	407	606	886
Total	1,675	2,554	3,818	5,713	8,215	11,015	14,524
<i>Source: Informa Media Group, Feb 2002</i>							

Secondly, whilst Europe is booming the biggest expansion overall will be in the United Kingdom which already has the greatest concentration of gamblers of any country in the world. Three-quarters of the UK population currently take part in some form of gambling. Internet betting alone in the UK is forecast to grow to £1.4 billion in 2006 from £250 million.



Thirdly, few are underestimating the boost new technology will give gambling over the coming decade. Not only via computers and 3G mobile phones but interactive TV (iTV). Datamonitor believes that iTV gambling in Europe will generate \$11.1 billion in revenue by 2006.

iTV Gambling Revenues for Selected European Countries, 2000 – 2006 (in \$ millions)					
Country	2002	2003	2004	2005	2006
France	255.4	516.6	889.2	1,411.2	2,203.2
Germany	2.4	40.2	164.2	423.9	912.0
Italy	158.4	509.7	907.9	1,361.9	1,982.4
Spain	77.3	316.5	612.6	918.2	1,340.6
Sweden	5.2	70.0	144.3	236.0	364.3
UK	244.1	951.6	1,796.5	2,840.0	4,255.8
Total	742.8	2,404.6	4,514.7	7,191.2	11,058.3
Growth Rate	467%	224%	87%	60%	54%

Source: Datamonitor, May 2001

Electronic Gambling Revenue Worldwide, by Source, 2000 – 2006 (in \$ millions)							
	2000	2001	2002	2003	2004	2005	2006
iTV	29	208	728	1,663	2,994	4,324	5,946
Internet	1,646	2,330	3,032	3,926	4,998	6,304	7,936
Mobile	1	16	58	124	223	387	642
Total	1,675	2,554	3,818	5,713	8,215	11,015	14,524

Source: Informa Media Group, Feb 2002

Fourthly, as online gaming thrives so governments intervene to either ban online gaming or provide regulation and siphon tax. The UK Government's new broom will legalise online gaming, enabling punters to identify onshore and offshore sites. On-line operators will be subject to approval and monitoring by the Commission to ensure compliance with regulations.

Exciting though this is, UK applicants will have to, as a minimum, be registered as a UK company, have a UK server and a co.uk domain address. Also, whilst the government has abandoned the 9 percent tax it had collected on all bets since 1966 in favour of a 15 percent tax on bookies' gross revenues, the report is silent on the tax treatment of internet gaming.

The difference between the UK's current taxation regime and that of Alderney is not just the gaming duty, but also corporation tax and a raft of other taxes that impinge on business. Corporation tax is set at 30% on net profits and the chancellor can do very little to give exemptions from it, since that would be contrary to EU rules.

UK Gaming duty is calculated as follows:



Part of gross gaming yield £	Rate %
The first 484,500	2.5
The next 1,076,000	12.5
The next 1,076,000	20
The next 1,883,500	30
The remainder	40

Corporation tax and gaming duty together add up to a 7.5% overall UK tax on casino turnover - still uncompetitive when compared with jurisdictions such as Alderney.

The question is how Alderney can reap the whirlwind. Interestingly, GamblingLicenses.com, an information portal for online gambling, ranks Alderney top of the crop of offshore gambling jurisdictions because the financial services sector, the law, the policy and the infrastructure are all in place. Moreover, the £75,000 per annum license fee could be the only up front cost. Alderney's Gaming Law states that a license applicant must be either an Alderney resident or a company incorporated in Alderney. That leaves it open for an applicant to set up as an exempt or international company – a hugely attractive bonus.

So success for the Bailiwick is there for the taking. With a clear movement away from Caribbean locations and North America toward reputable locations and Europe, Alderney has uncapped the number of gambling licenses for sale. We now need serious 'iron-in-the-glove' promotion to ensure that others do not pocket our winnings.

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