House Bills Would Rework e-Gambling, Internet Radio Royalties

May 1 2007

A pair of House bills would permit U.S. gambling on the Internet as well as rewrite the royalty structure for Internet radio, possibly allowing smaller Webcasters to continue operating.

The odds that you might lose your 401(k) savings on a bad hand of online poker just got a little brighter. Rep. Barney Frank, a Massachusetts Democrat, last week introduced legislation that would exempt licensed operators from a current ban on Internet gambling.

A separate House bill would rework the way in which Internet radio royalties are applied.

The U.S. government would be at liberty to license companies to accept wagers online, according to Frank's bill . The existing ban is "an inappropriate interference on the personal freedom of Americans and … should be undone," Frank said in a statement.

Congress debated the issue for years before Rep. Bob Goodlatte, R-Va., last year inserted a last-minute ban on the practice into an unrelated security bill. President Bush signed the bill into law in October 2006, effectively making it illegal for banks and credit-card companies to process bets made online.

Advocates of the ban say that these online games have left too many Americans crippled by addiction and debt. If they cannot access the games, they are less likely to blow the rent check on virtual craps.

Detractors, however, say that it is not the government's job to monitor how and when consumers spend their time and money and point to the economic benefits of the industry.

Rep. Franks's bill would require licensed operators to provide "appropriate safeguards" to ensure that those partaking in their services were over the age of 18, located in an area that permits online gambling, paying the necessary taxes, not laundering money, committing fraud or promoting compulsive gambling.

The bill does not elaborate on those safeguards. But in a statement, Frank said that "existing technologies" that require gamblers to enter identifying information like credit card, Social Security and driver's license numbers could prevent underage gambling, while limits on wagers could prevent compulsive behavior.

Proponents of online wine sales ran into similar problems of late when trying to figure out how best to make sure consumers were actually 21 years of age. They too required identification during purchase, and sometimes delivery, but that didn't stop some teenagers from stealing their parents' documentation to make purchases.

Responsibility for issuing licenses would fall to the Treasury Department's Financial Crimes Enforcement. Rep. Frank calls for applicants to provide business documents, but leaves it up to Treasury to determine how best to evaluate those who are applying. The bill, however, would ban those convicted of financial crimes from receiving a license.

The bill does not request a specific amount of money for the effort, and it appears that funding would come mainly from application fees. The crimes enforcement director would have the authority to dictate an "amount appropriate to meet the director's expenses," according to bill

text.

The bill comes a month after the World Trade Organization (WTO) ruled against the U.S. in a complaint filed by the islands of Antigua and Barbuda. The tiny nations, both of which rely on e-gambling for revenue, claimed that the U.S. e-gambling ban was in violation of international trade law because the U.S. still allowed online bets for horse racing and lotteries.

The U.S. has 60 days for file an appeal; otherwise Antigua can ask the WTO to impose trade sanctions on the U.S.

Also on the Hill last week, Reps. Jay Inslee, D-Wash., and Donald Manzullo, R-Ill., introduced a bill that would exchange the flat Internet radio royalty payments for a tiered system based on revenue. The Copyright Royalty Board (CRB) in March revamped royalty payments so that the current price of $0.0008 per song will increase to $0.0019 per song in 2010.

Rep. Jay Inslee, a Washington Democrat and the bill's sponsor, said in a statement that that amounts to a 300 percent cost increase for large webcasters and up to a 1200 percent increase for smaller operations.

The bill, H.R. 2060 , would strike down the CRB's March ruling and set the royalty rate at 7.5 percent of revenue through 2010.