

STATES OF JERSEY



ESTABLISHMENT OF A REGULATORY AND LICENSING REGIME FOR E-GAMING FOR JERSEY

Lodged au Greffe on 9th March 2010
by the Minister for Economic Development

STATES GREFFE

PROPOSITION

THE STATES are asked to decide whether they are of opinion –

to request the Minister for Economic Development to make provision for the regulation and licensing of e-gaming within the draft Gambling (Jersey) Law 201-;

MINISTER FOR ECONOMIC DEVELOPMENT

REPORT

INTRODUCTION

In 2005 the States was asked to consider a modernisation programme for Jersey gambling legislation and regulation P.62/2004. In the debate and subsequent vote, the States gave clear support for updating the Island's regulatory system as well as broad modernisation of the gambling in the Island. Specifically the States supported the creation of a Jersey Gambling Commission and the adoption of an internet-based e-gaming regime. Since the 2005 debate specific legislation has been brought to the States and adopted. In 2008 legislation to allow licensing of e-gaming for disaster recovery purposes was approved and in 2009 the States approved the creation of the Jersey Gambling Commission ('The Commission'). Work to conclude the modernisation programme is in its final stages with the delivery of a new Gambling (Jersey) Law that will set out new products and services that the industry might offer as well as adopting a more proportionate set of standards and requirements to reduce bureaucracy where it is needed in the social and charitable sector, but increase compliance for commercial activity.

Whilst the modernisation of gambling legislation and regulation has attracted a broad level of support in the States, there has been a request from some Members to re-examine the case for gambling reform and internet-based e-gaming in particular. As a consequence, in a statement to the Assembly on 1st December 2009, the Minister for Economic Development agreed to ask the States to re-affirm its commitment to reform and modernisation. This Report and Proposition delivers on that pledge. In bringing it to the Assembly for approval, the Minister hopes to demonstrate that the Economic Development Department (EDD) has fully considered all relevant social, moral and economic consequences in making its recommendation to continue with the implementation of an e-gaming licensing and regulatory regime in Jersey as an integral part of the overall modernisation of the gambling legislation.

Ministerial Policy on Gambling

The Minister published his policy on gambling in October 2009. In that document, delivered before the States approved the Gambling Commission (Jersey) Law, he noted his adherence to general principles that should apply to gambling business of all types. In particular he noted that –

- Gambling should be regulated in accordance with generally accepted international standards to prevent fraud and money laundering, and should not be permitted to be a source of crime.
- Gambling should be verifiably fair to consumers of those services.
- Gambling should always be conducted responsibly and with safeguards necessary to protect children and vulnerable people.

These are the core licensing principles that the Commission will adopt. They are also the principles by which the Minister will judge matters to be included within the forthcoming Gambling (Jersey) Law.

In proposing reform and modernisation of gambling legislation and regulation, EDD is delivering upon Objectives 1 and 2 of the States Strategic Plan¹ and, in particular, the commitment to deliver “genuine economic diversification”, an objective reinforced by Amendment 10 to the draft 2009-2014 Strategic Plan, brought by Deputy Higgins and approved by the States.

The reform of gambling legislation and regulation in Jersey has significant associated economic benefits or “multipliers”. E-gaming requires, indeed relies upon, world class levels of broadband connectivity. As evidenced in Guernsey and Alderney, the introduction of e-gaming into Jersey’s economic base will drive capital and technological investment in the Island’s communications infrastructure. By delivering this outcome, Jersey will have an opportunity for improvement and diversification of a broad range of products and services in the financial services and other e-commerce related sectors. This will greatly enhance the Island’s proposition to attract and retain high value business that is essential if the economy is to continue to flourish and provide employment opportunities for all Jersey residents. Fiduciary services, banking and legal services will all benefit from the development of the sector, as will the consumer who should find their general access to services delivered over broadband via the internet faster and more reliable. Faster data speeds are essential for services such as television on demand and these technologies will deliver greater choice to Islanders and increase competition and efficiencies.

To be an effective regulator, the Commission needs to be given powers to regulate all forms of gambling permitted by Law and regulated by subordinate legislation. If these powers do not include e-gaming, this form of gambling, which is accessible by all and at present is largely unseen and unnoticed, will not be regulated. From economic, moral and social perspectives this cannot be acceptable. Within one generation there will be no-one left who remembers life without a computer. People’s shopping habits have varied and on-line retail, gambling included, is now a normal everyday product with growing participation. To allow Islanders to engage in e-gaming while preventing a licensing regime that allows for them to be protected by their own Gambling Commission would be at odds with the strong support that Members displayed for the Commission’s function to protect the young and the vulnerable.

In considering the adoption of an e-gaming licensing regime, Members should be assured that EDD recognises that there is a negative side to the gambling industry and that a small number of people, (0.5-0.6%²) gamble irresponsibly. There have been calls from within the States for the licensing of e-gaming to be abandoned because of this harm. That would be irresponsible in a number of ways. Regardless of one’s personal views on gambling it is a legal activity that, at present, is not fully regulated in the island. Islanders are gambling on the internet now and will continue to do so in the future but we have no ability to mitigate bad practice or irresponsible action through regulation in this area. It is the Department’s view that, as the Commission has a specific objective to safeguard vulnerable users, the introduction of an e-gaming licensing and regulatory regime will have a positive impact.

Arguments are advanced that by engaging or pursuing an e-gaming licensing regime Jersey is being a bad neighbour and contributing to social harm overseas. This needs to be considered very carefully. Our immediate neighbours are all moving or have

¹ Objective 1: Support the Island community through the economic downturn

Objective 2: Maintain a strong, environmentally sustainable and genuinely diverse economy

² http://www.gamblingcommission.gov.uk/research__consultations/research/bgps/bgps_2007.aspx

moved to licence and regulate e-gaming. Most of the European Union is moving in the same way. Even the United States which has been one of the largest advocates of protectionism and prohibition is reconsidering the question. The most mature markets in the world for e-gaming are in Europe which is a major reason why European countries have moved to licence and regulate the activity. By entering the market Jersey will derive economic benefits whilst increasing protection for residents because companies licensed in Jersey will have to conform to the licensing principles of the Commission and prove that they are operating in a socially responsible way.

Development of e-commerce and e-gaming

E-commerce covers an enormous range of business activity, the buying and selling of goods and services, and the transfer of funds, through digital communications. However, e-commerce also includes all inter-company and intra-company functions (such as marketing, finance, manufacturing, selling, and negotiation) that enable commerce and use electronic mail, Electronic Data Interchange, file transfer, fax, video conferencing, workflow, or interaction with a remote computer. The development of e-commerce has become easier and more efficient as technology has developed. From standard copper wire telephone modems, computers now communicate via high speed broadband or fibre-optic cables that move huge amounts of information quickly and securely.

In order to ensure that Jersey is an effective e-commerce jurisdiction, the Island must constantly reinvest in new technology and infrastructure. This can be very expensive and require many millions of pounds of investment that can only be justified by increased demand for services. Without such investment, the Island will continue to risk falling behind our competitors including Guernsey and the Isle of Man. E-commerce is the key to a sustainable economic future for Jersey. It is, by definition, a low-carbon sector that trades through the World Wide Web, has virtually no transportation component and allows Jersey to access and participate in the international market place. However, to drive its development, high speed broadband infrastructure is a “must have” not an optional extra.

Economic Value of E-Commerce

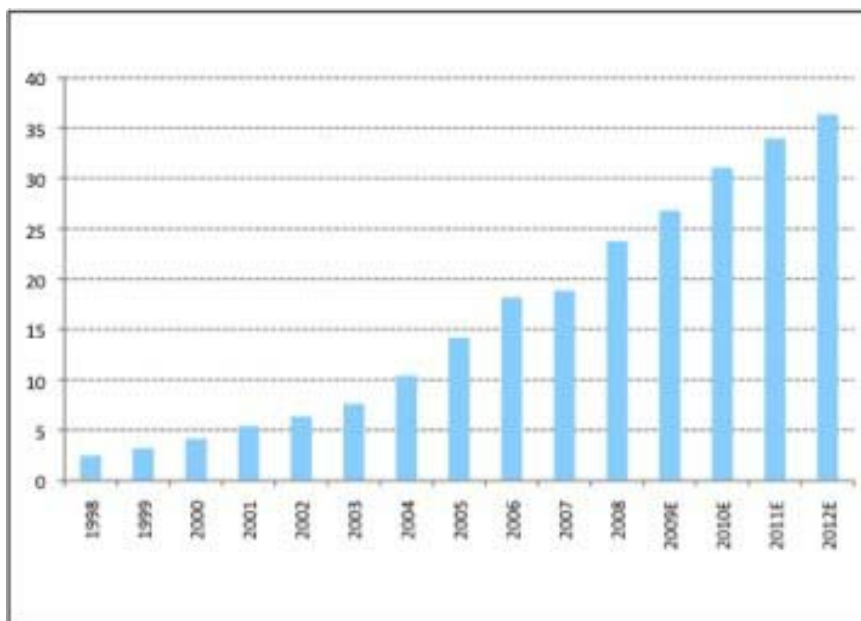
To give an idea of the value of e-commerce, in 2008 internet sales represented 9.8% of the value of all sales of UK non-financial sector business with a value of £222.9 billion³. This was divided amongst wholesale, retail, catering and travel services worth £106.6 billion; manufacturing, electric power, gas and water and construction services worth £78 billion; post and telecommunications worth £18.3 billion; computing, renting, real estate and other business worth £12.3 billion and ‘other services’ of £7.8 billion. While e-gaming services are not expressly represented within UK Government figures, H2, a leading consulting, market intelligence and data company predict that the UK market will be worth up to £10.9 billion by 2012⁴.

H2 have predicted that the global e-gaming industry will be worth US\$26.83 billion (gross gaming yield – stakes less prizes, but including bonuses) in 2009 and rising to US\$36.24 billion in 2012. This represents (according to H2 calculations) total wagers of just under US\$400 billion being conducted via interactive market channels. Within

³ Office of National Statistics. Statistical Bulletin: E-Commerce and ICT activity 2008. (November 2009).

⁴ <http://www.h2gc.com/news>

the EU, e-gaming has also seen growth from €6.8 billion in 2008, to €8.31 billion in 2009 and €12.3 billion in 2012. This is an impressive performance within a total EU market that has experienced a slight fall from €89 billion in 2008 to €87 billion in 2009, but which is also predicted to rise to €98 billion by 2012. Given that the sector is barely 15 years old and still maturing through regulation, it represents very significant growth during a period of otherwise nil or negative growth in other industry sectors. As noted in the chart below, over the past decade the value of the sector has increased by nearly 7.5 times or a Compound Annual Growth Rate (CAGR) of 23.7% with a further CAGR of 10.5% expected over the coming 3 years.



Global e-gaming Gross Gaming Yield 1999 to 2012 (US\$bn).
 Source, H2 Gambling Capital, November 2009

Industry sources predict that interactive media will continue to grow and that the share of e-gaming of the total gambling market will rise from 8% in 2009 to 9.4% by 2012.

Jersey is extremely well placed to participate in this market and it represents exactly the type of “genuine diversification” that the States endorsed when it made diversification a key strategy objective in the Strategic Plan and integral to the EDD Business Plan. The Island needs to promote growth in its telecoms infrastructure and develop the business opportunities that will both deliver and pay for it. E-commerce and particularly e-gaming remains the primary strategic opportunity available today in terms of mass, growth potential and global reach.

E-gaming development, in common with other forms of e-commerce, is particularly attractive to Jersey because they are ‘high impact but low footprint’ industries. They are high impact because of their significant economic power and infrastructure development needs, but they are low footprint because they reside in purpose built data centres (such as those operated by Jersey Telecom and Foreshore) which already exist and do not require large numbers of people. As such they are environmentally friendly types of business. Although typically e-commerce business does not require the level of headcount that a less technology driven business might do, they are still valuable sources of employment and training. Local people already have skills and

experience that will make them valuable assets to these types of business and at a time of greater competition within the job market, new opportunities are to be welcomed.

Competitive Analysis: Two Scenarios

In coming to an informed decision on the merits of this Proposition, it is valuable to consider what impact adoption or rejection of it will have for the Island. In technical terms, **Jersey currently lags behind Guernsey and our other competitor jurisdictions as a place to undertake e-commerce business both in terms of infrastructure and in terms of cost. Jersey is simply becoming too expensive in relative terms to continue as an e-commerce centre.** The development of e-gaming, however, offers a very real chance to not only arrest this decline in competitive edge, but to reverse it.

Scenario One – Rejection of e-gaming as a component of reform

If this Proposition is lost and the Gambling (Jersey) Law modernisation programme does not provide for the licensing of e-gaming then Jersey will, in all probability have no new digital products or business coming to the Island for the foreseeable future. There is potential for the development of the Intellectual Property market, but this is still some way off and certainly does not provide the level of cross-industry impact that e-gaming offers. **In 2005, there was a level playing field between the Islands, with Jersey having an internet capacity of 400 megabytes per second (Mb/s) and Guernsey 350 Mb/s. Since that time, however, Guernsey, through the Alderney licensing of e-gaming has upped its capacity to 10 gigabytes, whereas Jersey now lags behind with a decidedly inferior 2 gigabytes per second – a factor of 5 that plays heavily on companies who seek to invest in the Islands. What this means is that to send and receive electronic data into Jersey is slower and more expensive than Guernsey. According to JCRA figures noted in their Regulaid Report, Jersey is now 30% more expensive for telecoms services than Guernsey and the Isle of Man and for business internet services a massive 200% more than in the UK. Without the introduction of new investment this gap will only get bigger. This is a significant and growing competitive disadvantage.**

The lack of affordable high speed broadband is not only an issue for the business community, it affects every Jersey resident. The Island is already moving into the digital age with the advent of new digital television services after November 2010. If Islanders want to take advantage of hi-definition television, especially entertainment and educational services, then Jersey telecoms operators must invest and to do this a robust, demand led, investment case must exist. New and emerging web-based services, such as internet TV, require at least a 25 megabytes service into the home whereas the current Jersey service can deliver up to 8 megabytes at best, and more routinely 2 megabytes. **Guernsey can provide 25 megabytes to the home today – provided and paid for by an investment case driven by demand from the e-gaming industry.** In the absence of similar demand, if residents wish to benefit from such services the cost will be high and borne by the individual. EDD believes this represents an unacceptable and unnecessary burden on Jersey's residents.

Alternatively, Jersey could subsidise connectivity and ascertaining the quantum of this cost is more difficult to estimate. Jersey has benefitted from significant investment by Jersey Telecom in the infrastructure necessary to bring IP Bandwidth to the Island and this can be scaled up to accommodate new business if required.

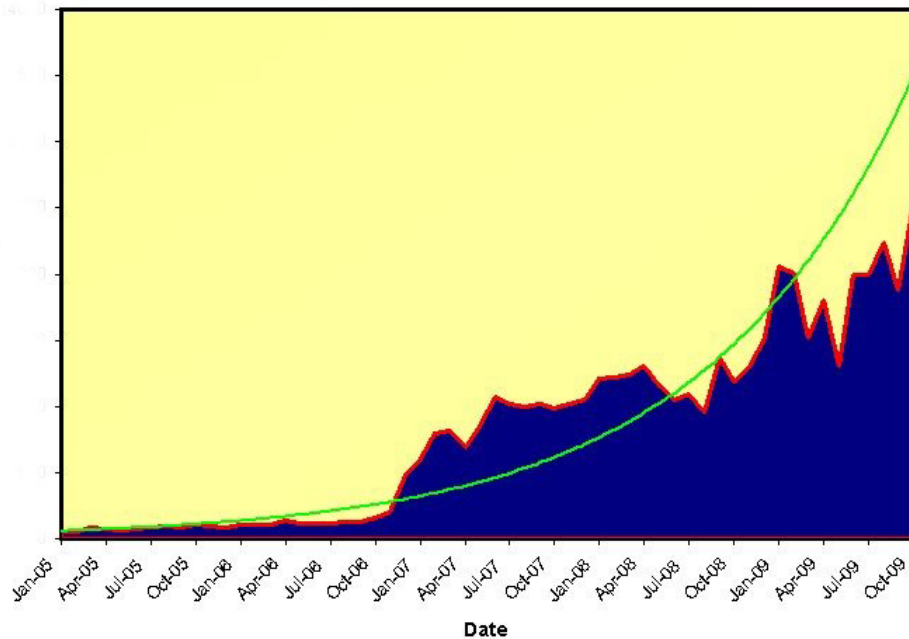
If Jersey is to develop itself to a level where it can compete with Guernsey it would likely have to pay circa £500,000 per month for connectivity. This would allow the Island's overall economy to benefit, but it would not deliver next generation digital services to the home. To achieve pan-Island benefit the Island must also reinvest in the copper wire infrastructure that links homes and businesses outside of the major population centres. By way of example, Guernsey is thought to have invested some £8-£10 million to upgrade this part of the network. Without subsidy, the Island would need to attract a level of business that will utilise and pay for this level of connectivity as it must be demand led. The department sees no immediate or even mid-term remedy for this or any alternative to e-gaming. Without such business, Jersey will stay at its present level or else it would have to subsidise its connectivity costs to the tune of £6-8 million per year with no clear economic benefit.

Costs of bandwidth, although important, are not the only costs. Jersey would also need to invest to match the data centre infrastructure in Guernsey which will continue to grow in size and expertise with the growth of gaming. Just being able to match the costs of bandwidth, therefore, will ultimately be insufficient in demonstrating that Jersey is committed to being a centre of excellence for e-business in the future. Guernsey and other e-commerce jurisdictions on the other hand will continue to see their connectivity and investment costs fall as e-gaming companies and their massive purchasing power make their systems ever more efficient. In short, there is no way that the Jersey taxpayer can match the scale, volume and efficiency of production that is produced by e-gaming companies. Leaving aside the questionable matter of whether the public investing in a dominant player is contestable under Competition Law, even if a States investment closed the gap in the short term, Jersey will remain at a structural disadvantage in an economic race that it simply cannot win.

The impact of not having e-gaming is particularly significant for the finance industry. Even though the Island currently has sufficient bandwidth to cater for its needs, it suffers in comparison with other jurisdictions because the unit cost of data transport is much higher. Bandwidth is bought in volume and the unit price falls as the amount increases. For this reason a finance centre, such as Guernsey, which also has e-gaming will benefit greatly from the efficiencies and lower costs driven by the gaming industry. Over time this will place the Jersey industry at a serious disadvantage. It is worthy of note that many individual gaming companies – in terms of scale to maintain their efficiency and market share – have a larger capacity than the entire Jersey finance industry put together.

As the graph below illustrates, October 2006 saw the real growth in e-gaming in Guernsey. Since that time Jersey has continued at approximately the pre-2006 levels while Guernsey (which now has more IP connectivity than South Africa) has grown even beyond the scale illustrated by the stylised green curve. In a situation where pressure on public finances is at an all-time high it is simply not realistic to expect either a commitment of literally never-ending and constantly increasing public investment, or to think that commercial operators will (or should) invest to deliver a comparable service without the business demand that will make it worthwhile.

Approximate Development of CI IP Bandwidth



Scenario Two – Inclusion of e-gaming as a component of reform

Should this Proposition be adopted, and an e-gaming licensing regime becomes law in Jersey then a very different scenario will develop. Jersey will be able to compete with the other jurisdictions that successfully operate e-gaming licensing regimes and access the worldwide market. The core strengths of the Island that has made it a world leader in financial services will also attract top quality e-gaming brands. These corporations want to locate in jurisdictions with good quality regulation and effective licensing, competitive taxation and business-friendly, stable and effective government. They want an educated and well skilled workforce and they need resilient and scalable infrastructure – Jersey can deliver all of these requirements. There is every reason to suppose that the investment in data centres and the increase in bandwidth that has happened in Guernsey will take place in Jersey. While Jersey is coming late to the market, there is still plenty of business to be had, not least in the quality sector of the market that the Island would be seeking to attract. This has been confirmed to EDD by the e-gaming business community. While commercial sensitivities preclude providing specific detail, business optimism for this sector remains high and significant investment plans have been developed to provide the capital expenditure necessary to make it happen.

This level of investment and capital development needs a minimum 6-12 month lead-in time and in that respect, the adoption of this Proposition by the States will give businesses the confidence to make these significant investment decisions. The Island desperately needs the injection of capital and business confidence that adoption of this Proposition will bring. In the short-term it will help to protect jobs in construction. In the medium term it will create jobs in the IT sectors and in the long term it will significantly increase the level of IT services available to business and the public, helping to increase choice and reduce costs. But this investment and these deliverables will only happen if the States decides to adopt the Proposition.

E-Regulation

There will of course be calls from those opposed to the gambling sector to reject this Proposition. They will cite the damage that gambling can cause and suggest that the Island's reputation will be sullied by it. These are serious issues and Members with these convictions clearly speak with sincerity and with a sense of deep conviction.

There is no doubt that a minority of people are predisposed to addictions of all types and there is no likelihood of this ever changing. It is important, however, to keep in mind that the introduction of e-gaming licensing is not, first and foremost, about introducing more gambling. Ironically, it would not necessarily do so, as e-gaming is freely available now to any Islander with an internet connection or an interactive television (Sky). What this Proposition is asking the States to do is to make a strategic decision to bring e-gaming into the Jersey regulated environment to enhance protection for Islanders and, in addition, derive the economic benefit and investment that the industry brings with it.

In respect of actual gambling activity and its potential social impact, the States has already made the decision in establishing the Jersey Gambling Commission to make changes to the gambling laws to make gambling safer, and to make education, counselling and research available. The States has provided for an effective modern regulator to properly regulate the industry. Success of other jurisdictions shows that this is, from a social and economic perspective, the best route to follow. In providing for an effective regulatory regime, the Island is protecting its reputation and ensuring the highest level of co-operation with other regulators can take place. But the Commission will only be able to help Islanders who participate in the sectors that it regulates. If e-gaming is not a licensed activity then the Commission will not be able to provide assistance to Islanders using funds derived from the regulated sector.

In many ways the Island faces a crossroads akin to that faced by our predecessors in the 1950s and 1960s. The development of the finance industry stirred as much passion then as e-gaming does now and strong arguments were put forward against the development of Jersey as a well-regulated offshore finance centre. The States of the day approved the move to legislate in favour of developing the financial services sector, however, not because they approved wholeheartedly of those types of business, but because they recognised that they had a higher duty to provide economic opportunities and employment for Islanders within a properly regulated environment. These issues are no less true now. The Island is clearly under pressure because of the world economic climate, while local business are holding up well compared to other economies, the States Strategic Plan clearly recognises the concentration risk in our economy and the need for diversification which the e-gaming sector can offer.

Whatever the States decides, investment and technological development for the Island will need to be provided. If the Proposition is adopted, then the e-gaming industry will create the demand that will justify these investments and provide the technologies that all Islanders can take advantage of. If the Proposition is rejected then this investment will continue to go exclusively to our competitors and Islanders will suffer lower levels of service and higher costs as the disparity between Jersey and our neighbours continues to grow.

E-gaming is another e-commerce industry activity that plays to the Island's strengths. It presents an extraordinary opportunity to redress the imbalance in Jersey's

communications costs and, in so doing, add value to all of the Island's existing industry sectors. It has the capacity to increase revenues at a time of fiscal pressure and will offer support, both in terms of revitalising other businesses and by offering new and diverse employment opportunities. The opportunities that are on offer are thus far greater than the actual merits of just having a new gambling sector and the reward potential is such that the effect of this decision will be noticed for years to come.

The European Perspective

In recent months the UK has moved to re-examine *white listing* criteria for approval of offshore, non-EU territories that licence and regulate e-gaming firms. White Listing in this context should not be confused with the OECD "White List" of cooperative offshore jurisdictions. For the purposes of e-gaming regulation, the *White List* is an informal term applied to those countries, territories or jurisdictions outside of the European Economic Area (EEA) which have received an exemption under the Gambling Act 2005. *White Listing* only applies to those jurisdictions able to demonstrate they operate a satisfactory regulatory regime in respect of gambling. Once these regulatory standards are established by the Department of Culture Media and Sport ("DCMS"), the jurisdiction may make representations to the Secretary of State, and be considered for a special 'exemption' under section 331(4) of the Gambling Act 2005. This 'exemption' permits e-gaming operators based in, and regulated by, the jurisdiction to advertise in the UK as if they were based in an EEA state or Gibraltar.

As matters presently stand, e-gaming operators located in the following places can advertise e-gaming legally in or to the UK –

- Malta and any other EEA state.
- Gibraltar.
- Alderney.
- Isle of Man.
- Tasmania (from 31 January 2008).
- Antigua (failed August 2007, admitted November 2008).

Therefore, it is illegal for e-gaming operators located in any other place to advertise in or to the UK including: Kahnawake, Curacao, Costa Rica and Belize.

It remains uncertain whether *White List* criteria will change from an enhanced system of mutual recognition to a dual licensing regime to allow overseas operators to advertise and provide services to British consumers. Proposals for change will be subject to review and consultation by the DCMS and the UK Gambling Commission.

However, it would be naive to suppose the free market approach previously taken by the UK will continue. Analysts at Morgan Stanley suggested the possibility of a tax on UK-facing e-gaming operators which would 'open the door' to taxing betting by UK customers on overseas websites. Alternatively, in the earlier part of 2009, the Conservative Party proposed kite-marking those firms undertaking business with UK citizens and this of itself suggested a mutual licensing arrangement by levying a small fee to cover the costs of the proposed regulation. However, tax yield from e-gaming activity remains the key driver and it is likely, whether a change of UK government happens or not, we may well see the adoption of the French model which links a licence regime with a new tax.

The thinking behind the UK Government's pending consultation on these issues has been influenced by the direction of events in other European jurisdictions in respect of tax and regulation. Gerry Sutcliffe the Minister for Sport stated –

'Online gambling has changed significantly in recent years with many European countries taking new approaches to regulation. It would be wrong of us to stand still where things are changing around us – especially where the protection of British consumers may be at stake.'

(DCMS Press release: 07.01.2010)

Gambling policy across other EU Member States is varied and takes a mixed position on e-gaming. These positions very much depend on whether there is a monopolistic approach to gambling, in that the state own and licence out or operate their own gambling concessions, or if the state is an advanced regulatory jurisdiction for e-gaming such as Malta.

Legislation already exists to regulate the provision of e-gaming and terrestrial services and to allow free and fair trade across internal EU borders. However member states remain in a state of flux with Malta and the UK retaining a free market position. The Electronic Commerce Directive allows an online business operator (retail, financial services, newspapers, lawyers etc) legally established in one Member State to provide services to customers in another. The Directive establishes harmonized rules on issues such as transparency, commercial communications and electronic contracts. For this reason, the DCMS has insisted the UK proposals do not conflict with European Union (EU) law with regard to the right to offer services across borders and the freedom of establishment.

The Services Directive establishes a general legal framework which favours freedom of establishment for providers as well as the free movement of services, while guaranteeing the rights of the recipient and a superior level of quality of the services. Both these measures exclude gambling from their scope of application. As Member States have often expressed their reluctance to accept harmonization in the area of gambling, an amendment of Electronic Commerce Directive (2000/31/EC) and Services Directive (2006/123/EC) at some future date would provide the solution for e-gaming to obtain the same status as other e-commerce industries.

In examining Jersey as a new entrant into this changing market, it is important to realise that all new law and regulations and legislative proposals, including the formation of the e-gaming disaster recovery provisions and the establishment of the Jersey Gambling Commission, have followed the criteria necessary for White Listing. Jersey as a signatory to the International Communiqué on Remote Gambling obligated all legislative reform to follow the key guiding principles of keeping gambling crime free, promote fair, transparent and responsible gambling and to ensure that the young and vulnerable are protected. The application of these key requirements in respect of e-gaming, including duties of suspicious activity reporting, software testing, age verification, self exclusion, technical standards and social responsibility requirements are discussed in more detail further in the report.

The Commission, once armed with verifiable robust legislation, such as those provisions already applicable for e-gaming in disaster recovery, will match and could exceed the regulatory toolkit of allied regulators. EDD continues to liaise with the DCMS in respect of mutual recognition of regulatory compliance. Other offshore

jurisdictions, Alderney and Gibraltar, have pursued bilateral agreements and Memorandum of Understanding with other Member States to undertake business. In short the flux in the current market should not be seen as an impediment or excuse for Jersey not to pursue an e-gaming regime. Many of the successful e-gaming companies already structure themselves so that they have to be licensed in multiple jurisdictions. In line with this form of business model, regulatory jurisdictions have kept in step with the evolving market place introducing collaborative or business to business licences. Earlier in this report we outlined the strength and popularity of the e-gaming business and the fact that it is here to stay. However, it will evolve and competition will be harder. But, Jersey is well known as a leading international jurisdiction and advanced dialogue is taking place with some key operators regarding relocation to the Island if the States approve the modernisation of the Gambling (Jersey) Law.

E-gaming and Social Responsibility

While positions are adopted on moral or ethical grounds in the belief that gambling is harmful or sinful or both, there remains as there always will remain a proportion of society that will gamble responsibly and a small minority that will not. There is no demographic demarcation to be had of the gambler, and people of all types, classes and interests enjoy the sector, although research does show that certain types of game attract different groups.

There is no doubt that licensing an activity confers legitimacy upon it that an illegal activity does not have and some Members may oppose the adoption of this Proposition for just such a reason. The States must be clear, however, what the aim is in reforming the Island's gambling laws and regulatory regime. There is no doubt that society has changed and that the majority of people gamble responsibly and consider gambling a harmless entertainment.

There is equally no doubt that for a small minority gambling becomes a cycle of addiction that puts them and their families and friends at risk. The only successful strategy in dealing with this issue is through proper licensing and regulation of all forms of gambling. Prohibition would be roundly condemned and turning a 'blind eye' by allowing Islanders to gamble while keeping the activity notionally illegal is equally unwise, but this is the situation that the Island currently finds itself in. The States has already decided that the gambling industry should be licensed and regulated. It has, in P.139/2009 passed a Law to provide a new regulator to put its wishes into effect. There is little logic in assuming that e-gaming has not made it to the Island's shores, or that the Island can hold back the tide of popularity that this type of gambling enjoys. The only way that the Island can protect itself from abuses and provide assistance to those who may need it is by introducing a licensing regime. Regulation through licensing and inspection is the best way to ensure a healthy and safe industry and this is exactly what Jersey is seeking to achieve with the creation of the Jersey Gambling Commission.

It is also important to recognise that the companies offering these services are not small and shady, but large corporations with the corporate governance and ethics necessary to hold their positions as publicly traded companies, listed in the UK and elsewhere. Virgin, Sky, Ladbrokes, Gala and Sega are the types of companies currently regulated in Guernsey and Isle of Man and Guernsey's experience suggests that, as with the financial services sector, good quality regulation both allows and attracts high quality businesses.

Despite the phenomenal growth in popularity of the e-gaming sector, UK research in the 2007 Prevalence Study has shown that there has been no change in the occurrence of problem gambling which remains at the same level (0.6%) as it was in 1999. Of this number, just 7.4% (of the 0.6%) developed a problem because of e-gaming. Any e-gaming company seeking to become licensed in Jersey will be expected to provide the Commission with a detailed plan of its social responsibility programme and how it intended to put it into effect. While the Gambling Commission (Jersey) Law provides for a social responsibility levy, it is also expected that these companies would voluntarily agree to make a donation to the Social Responsibility Fund and the Commission will make policing of this core licensing objective one of its premier tasks.

The management of the Social Responsibility Fund and the provision of services for education, treatment and research can only occur however, for sectors that are licensed and regulated. The land-based sector cannot be expected to pay the social costs of e-gaming companies and the circumstances where a gambling activity is legal if delivered in person but illegal if offered via the internet makes regulation more difficult and social responsibility more complicated. For the Commission's social responsibility functions to have the maximum benefit they must be extended to include the on-line sector and that sector must be licensed and regulated.

What would an e-gaming industry in Jersey look like and deliver?

Over the last 10 years the development of e-gaming has been dominated by major international corporations competing in a highly regulated market place. The sector is no place for amateurs out to make quick and easy profits; the e-gaming market is now the sphere of corporate business. Business plans must incorporate a budget and infrastructure for developing a gaming system compliant with the regulations of multiple jurisdictions. To operate successfully and profitably, operators know they must be licensed. The award and retention of a licence is dependant upon demonstrable compliance with the rules and requirements of the Regulator. Businesses are therefore established and maintained in accordance with regulatory requirements including the hiring of competent personnel and selecting business partners capable of meeting the 'fit and proper' scrutiny of due diligence investigations.

The investment for the operator is significant: creating or acquiring robust software, the integration of these systems into a capable telecommunications framework, construction and maintenance of a security system able to defend against internal and external attack, the forging of secure partnerships with technology providers, transaction processors, marketing services, accredited testing laboratories and auditing firms. The operator further requires systems capable of deploying social responsibility programmes and player protection – such as player tracking systems and age verification tools. Combined with responsible gambling is counter money laundering oversight, enhanced due diligence measures and the application of trigger mechanisms that identify potentially suspicious or addictive play and transaction analysis at pre-set levels. This is not a 'simple win' industry and to operate profitably comes at a price for these businesses. The investment to secure and retain a licence brings with it kite-marked security for the player which creates a trusted brand.

Regulatory Controls

The Commission has a duty under Article 4 of the Gambling Commission (Jersey) Law in the performance of all of its functions, to have regard to the principles that any gambling services provided –

- should be conducted responsibly and with safeguards necessary to protect children and vulnerable people;
- should be regulated in accordance with generally accepted international standards to prevent fraud and money laundering, and should not be permitted to be a source of crime; and
- should be verifiably fair to consumers of those services.

The Commission also has powers under the Gambling Law and Regulations. Whilst most of the Regulations are due to be updated this year, the States only passed the Gambling (Remote Gambling Disaster Recovery) (Jersey) Regulations in 2008 and hence its powers and duties in this area are already comprehensive. Although a degree of change will be needed to make the existing Regulation capable of allowing an e-gaming licensing regime, the majority of regulatory controls for e-gaming already exist.

Existing regulatory controls fall into two categories –

1. A series of controls upon local companies that offer hosting facilities. These companies will have a number of duties and obligations placed upon them to show that they are fit and proper and report gambling activities to the Commission to ensure that only licensed activity can indeed take place. The hosting companies will need to be in possession of a hosting facilities licence and, in order to receive one, they will need to undergo a rigorous form of probity investigation. Typically, probity investigations concentrate on criminal and financial health checks, both at the company level and of its key staff, directors and ultimate beneficiaries. Applicants sign waivers to disclose information in files held in their host jurisdiction and elsewhere in order to ensure that the Minister has full access to all relevant information. The Regulation provides for access to information relating both to the company applying for the licence and its linked or subsidiary companies. Probity is undertaken on a cost recovery basis and fees are not refundable. In the event that a probity check uncovers any form of criminal links, undeclared convictions or adverse history to indicate that the candidate is unable to prove that they are fit and proper, they will, of course, be denied a licence. While the risk of such an event is low for a Jersey based company, it is important that they are not exempt.
2. Controls on companies who wish to have e-gaming systems operating from Jersey. These controls are necessarily strong to ensure that the States and the Commission can have confidence that a licensee can only undertake sanctioned gambling activities. The same probity checks, as for the hosting company, apply but the Commission will also have powers to add any other conditions to the licence that it sees fit. An example of where this might apply is with regard to responsible gambling, where an applicant might be deemed to require additional staff training or to provide additional information to their players. As noted previously, the sorts of companies that the Island would be

seeking to attract are the most established, most respectable and successful. These companies operate multi-jurisdictional operations and are typically licensed across a number of different territories in order to take advantage of the particular benefits of each and also because having their operations structured in this way reduces risk that would otherwise occur at a single point. To that end, a company's behaviour impacts not just on their local licence, but on all of their licences and the threat of losing a Jersey licence can be expected to attract the adverse attention of regulators and other law enforcement bodies worldwide. This is a powerful tool in ensuring compliance.

In addition, through the work of the Shadow Commission, international co-operation between Jersey and other jurisdictions in the field of e-gaming is well developed. The groundwork for this co-operation was agreed in October 2006 at the first inter-governmental summit on e-gaming, organised by the UK and attended by over thirty different jurisdictions. Governments agreed to actively explore the scope for greater international co-operation in the regulation of e-gaming through the auspices of IAGR, the International Association of Gambling Regulators. Staff from the Shadow Commission attended that summit and have been key and active participants ever since. Work has developed to identify the core standards necessary to address the risks associated with e-gaming and staff from these international agencies meet regularly to share knowledge and experience. Jersey is currently represented in a number of working groups and international fora, including –

- The IAGR working group on e-gaming.
- The Gambling Regulators European Forum, where representatives of the Commission sit on the GREF Executive Board, co-Chair the working group on technical issues and attend the working group on e-gaming.
- The International Masters of Gaming Law.

As well as regular attendance and participation at these meetings, Commission personnel are regularly asked to speak and give papers on gambling regulation at events worldwide. The Commission also has practical experience of putting its regulatory regime into practice.

Passing regulatory hurdles is an onerous task for a potential operator. Under existing e-gaming disaster recovery regulations, two local data centres have so far undergone probity investigations and received hosting licences from the Minister and a major probity exercise for the Island's first operators licence is currently underway. These investigations are extremely thorough and time-consuming, taking a minimum of three months to complete and often longer. Key personnel have to submit to highly intrusive investigation in order to show that they are worthy of receiving a Jersey licence and the company's technical competencies are closely examined. Of these the most important are Age Verification, KYC principles, Player tracking, ID thresholds and Identity tools.

Age Verification and Identity Tools

Age verification and identity tools are vital weapons in the armoury of both the regulator and the operator. For licensing reasons, brand protection and to display social responsibility, operators do not want under age persons using their products and

services and invest significant sums in technological tools to identify their clients and ascertain that they are who they say they are.

Age Verification, although drawing on a range of identification tools and databases, is an efficient and effective process that can proceed using as little data as a name and postcode.

The databases and technology that are employed to verify age for global customer bases typically include –

- Voter databases such as the UK Electoral Roll.
- Credit reference data from credit reference agencies.
- Global identity token checks using data in passports, travel visas, national identity cards, tax numbers or national insurance numbers.

Voice print capture can also be used where an automated call is made to the customer during the transaction to request verbal confirmation of age.

Figure 1 illustrates the range of tools utilised to ensure accurate, robust age verification.



Source: <http://www.192business.com/document/113>

Figure 1 – E-gaming Age Verification Tools

These tools will be made mandatory by the Commission consistent with best practice in the UK where the 2008 Social Responsibility Code of Practice issued by the UK Gambling Commission notes that a licensee must put in place measures –

- a) Warning potential customers that underage gambling is an offence.
- b) Requiring customers to affirm that they are of legal age.
- c) Regularly reviewing their age verification systems and implementing all reasonable improvements that may be made as technology advances and as information improves.
- d) Ensuring that relevant staff are properly trained in the use of age verification procedures; in particular customer service staff must be appropriately trained

- in the use of secondary forms of identification when initial verification procedures fail to prove an individual is of legal age.
- e) Enabling their gaming websites to permit filtering software to be used by adults (such as parents or within schools) in order to restrict access to relevant pages of those sites.
 - f) In the case of any UK resident customers who deposit money using any type of payment method other than a credit card, and unless the licensee has established that a third party has satisfactorily carried out age verification, the following age verification procedures –
 - a) verifying additional information about the customer, such as carrying out searches of credit reference and other databases that list names and addresses of individuals over the age of 18;
 - b) carrying out secondary age verification checks in any circumstances which gives the operator reason to suspect the person may be underage;
 - c) not permitting the customer to withdraw any winnings from his or her account until age verification has been satisfactorily completed; and
 - d) in the event a requirement that if age verification has not been satisfactorily completed within 72 hours of the customer applying to register to gamble and depositing money –
 - i) the account will be frozen,
 - ii) no further gaming will be permitted until age verification has been successfully completed,
 - iii) if on completion of age verification the customer is shown to be underage, the operator must return to the customer any money paid in respect of the use of gaming facilities, but not winnings, shall be paid.
 - g) In the case of any customers who register to gamble and deposit money using a credit card, conducting a programme of random checks of credit card users for compliance with age restrictions.

There are many commercial companies offering advanced age verification identity tools and Know Your Customer (“KYC”) products. Such products are a feature of other types of e-commerce business, including internet retailing (fulfilment) and Jersey’s financial services sector where age verification and KYC principles are core licensing requirements. Player tracking tools are also used by operators to detect unusual play that may give rise to suspicions under Anti-Money Laundering requirements, or indicate potential erratic behaviour that may indicate a client has a gambling problem. These products are utilised by all e-gaming companies as a management and control tool to provide important data for both the operator and the regulator. Importantly, these products are now increasingly sophisticated and can be adapted to take account of different risk profiles. Individual customers, products, channels and even the customer’s originating country all represent different levels of risk. A customer who originates from the US or uses a US credit card can therefore be blocked from registering. Although these products are extremely well constructed and offer important protection, they are not enough by themselves. An additional layer of protection is used as the Commission will also undertake ‘mystery shopping’ from time to time to ensure that the standards demanded by the licence are satisfactory and in place.

As well as the detailed requirements that the Commission will introduce by way of licensing conditions, e-gaming operators will also be subject to other legislation. In line with Financial Action Task Force recommendations and compliance prior to the IMF review of Jersey's regulatory standards in October / November 2008, the business of operating a casino was included within the Money Laundering (Jersey) Order 2008 (the "MLO"). What is meant by the business of operating an e-gaming casino and other similar operations was defined, by amendment, in paragraph 5 of Part B of Schedule 2 of the Proceeds of Crime (Jersey) Law 1999⁵ and specific thresholds were put in place via Article 4 of the Money Laundering (Jersey) Order 2008 –

- a transaction amounting to not less than 3,000 Euros carried out in the course of operating a casino; or
- two or more transactions carried out in the course of operating a casino –
 - where it appears at the outset to any person handling any of the transactions that those transactions are linked and that the total amount of those transactions is not less than 3,000 Euros, or
 - where at any later stage it comes to the attention of any person handling any of those transactions that clause (i) is satisfied.

Identification measures now apply under the MLO where a business relationship is formed or one-off transaction is conducted. Article 4 of the MLO defines a one-off transaction for the business of operating an e-gaming casino. Where a person carries on the business of operating an e-gaming casino, then they must register under the Proceeds of Crime (Supervisory Bodies) (Jersey) Law 2008 (the "SBL") – level 1 registration. This involves a fit and proper assessment and use of the extensive powers that are available under the SBL. Unlike many jurisdictions, AML/CFT requirements apply to any activity conducted by a company that is incorporated here and which conducts activities anywhere in the world. Subject to amendment of the MLO, the Jersey Financial Services Commission is the designated supervisory body for the business of operating a casino on agreement and until such time as the Jersey Gambling Commission is established.

In addition, the Gambling Regulations extend the application of AML/CFT requirements to any gambling activity that is conducted through a server that is located in Jersey. To the extent that the business that is carried on through a Jersey-based server is an e-gaming casino business, then that business must be registered under the Gambling Regulations as well as the SBL and (as a result of the Order issued under the SBL) the JFSC will have AML/CFT oversight responsibility under the SBL.

⁵ Paragraph 5 of Part B of Schedule 2 of the Proceeds of Crime (Jersey) Law 1999:

Casinos (including internet casinos)

- (2) For the purposes of this Law, a casino is an arrangement whereby people are given an opportunity to participate in one or more casino games.
- (3) "Casino game" means a game of chance –
 - (a) that involves playing or staking against a bank (whether described as a "bank" and whether or not controlled or administered by a player); and
 - (b) where the chances are not equally favourable to all participants.

Cost Benefit Analysis

Cost

The costs of e-gaming relate primarily to the regulatory burden placed upon the Commission. As was noted during recent debates, the current costs of gambling regulation are being gradually increased towards a position of full cost recovery and the States supported this move by adopting the Gambling (2010 Fees) (Jersey) Regulations in early 2010.

Once the Commission is incorporated and established as an independent body, the situation changes insofar as EDD will no longer be directly responsible for its costs. Income will pass directly from licensees to the Commission and the department will allocate an annual grant to the Commission. A provision of £225,000 has been made in the approved EDD 2010 Budget and Business Plan to cover this expenditure. As a result of increased revenues from traditional and e-gaming, the EDD grant will reduce, over time. It is anticipated that the Commission will be self-funding in 3 to 5 years. In the event that the States does not adopt this Proposition, the Commission will have to readjust its costs downwards and generate sufficient income to ensure that it is cost neutral to the tax payer within 5 years. This will be achievable under the current plans for modernisation which currently provide for the licensing and regulation of commercial card clubs and the limited introduction of gaming machines into private members clubs⁶.

Benefits

Should the States choose to adopt this Proposition and include e-gaming within the forthcoming Gambling Law, increased costs of regulation will be offset by increases in direct revenues and broader economic benefits. If we compare the proposed size and structure of the Commission, including e-gaming regulation with those of its nearest comparators it is designed to be an efficient and relatively low cost operation. The Commission would expect to keep this structure for the first year of operation and then adjust to deal with workload according to need. Importantly, any increase in staff will have to be funded from licence fee and probity income which will need to be ongoing – **there would be NO additional burden on States finances**. The Commission intend to take an extremely cautious approach to the size of the cost of the organisation in order to achieve a balance whereby costs to the industry are kept at a reasonable level when balanced against the workload and productivity that the industry will naturally demand.

The table below shows Jersey in relation to the largest e-gaming licensing regimes in Europe. Of these the two closest in terms of scale are Alderney (which is a dedicated e-gaming market) and Malta which has a mix of terrestrial and remote licensees.

⁶ For the avoidance of all doubt the Minister will not permit any gambling machine to be sited in an area accessible by children and will not allow the types of machines recently approved by the States which will continue to only be permitted within licensed betting offices.

Comparative Staffing Analysis

Jurisdiction	Commissioners	Staff	Total
Jersey	3	4	7
Alderney	4	16	20
UK ⁷	12	300	312
Malta	5	38	43

In terms of costs, the following table shows Jersey's existing costs (i.e. nil growth in e-gaming) but the other jurisdictions figures include their e-gaming figures. Both Alderney and Malta make significant surpluses in licence fee income from the sector.

Comparative Cost Analysis

Jurisdiction	Cost (£)	Income (£)	Surplus(Deficit) (£)
Jersey	403,000	262,000	(141,000)
Alderney	1,700,000	3,900,000	2,200,000
UK ⁷	15,300,000	12,800,000	(2,500,000)
Malta	750,000	15,000,000	14,250,000

Alderney is an excellent example that Jersey should seek to emulate should it enter the e-gaming market. The Alderney Gambling Control Commission financial statements for 2008 show that 42 e-gaming licences were in force, together with a further 12 associate certificates. This provided an annual licence fee income in 2008 of £3,258,050, up from £2,545,650 in 2007. Additional fees charged to applicants came to £399,760 with bank interest of £126,128 and sundry income of £111,714. This provided a total income of £3,895,652 for 2008. Expenditure including salaries, premises, travel and depreciation (amongst others) came to £1,716,992 and a further £3,637,963 was distributed to the States of Alderney to fund a capital project. For this exceptional reason the Commission actually ran a deficit for the year, but when offset against the Commission's reserves (retained surplus) it remained in the black to the tune of £2,667,512. This is clear evidence that not only can a Gambling Commission achieve self-funding within the e-gaming arena, it can also move to provide additional capital to the States once it has established itself and its reputation. Jersey will have a significant advantage over the Alderney regime because of the mixture of business, both terrestrial and remote that it could hope to attract.

Turning to other economic benefits, the development of an e-gaming licensing regime has the potential to revolutionise the Island's telecommunications systems and architecture. It has been estimated by industry sources that just 2 of the 42 Alderney licensees utilise more bandwidth through Guernsey than the entire Jersey bandwidth usage! Guernsey can also take advantage of increased broadband bandwidth paid for by investment driven by demand from the e-gaming industry to provide much higher specification content and systems to people's homes. Because of this industry the Bailiwick of Guernsey is presently far better placed to develop in the digital age than Jersey. The Island can also expect to gain additional value added through the provision of fiduciary, legal and other services in much the same way as it currently does from

⁷ UK data is given for information. Due to scale and tax impact on the e-gambling sector it is not a valid comparison.

the finance industry. With a European e-gaming market expecting growth to €12.3 billion by 2012 only a tiny proportion of the market moving to Jersey can be expected to yield significant results.

Recommendation

Having fully considered all issues of social responsibility and the potential economic benefit to the Island's business and broadband infrastructure, the Minister for Economic Development recommends that the States approves the inclusion of an e-gaming licensing and regulatory regime in the reform of Jersey's gambling legislation that will be brought to the States for approval in 2010.

As demonstrated in this Report, e-gaming represents the most viable opportunity to develop the Island's e-commerce industry and deliver the "genuine economic diversification" demanded by the States Strategic Plan. E-gaming is available to Jersey residents through the internet but, in Jersey, this activity is currently totally unregulated. The existence of the Jersey Gambling Commission with its primary emphasis on effective regulation and social responsibility will ensure that the e-gaming industry in Jersey will develop in a controlled manner.

It is clear that significant additional economic benefit will be afforded by the development of e-gaming through investment and upgrading of the Island's communications infrastructure. This represents a one off opportunity to harness this benefit at nil cost to the taxpayer.

The positive impact of e-gaming on our neighbour's communications infrastructure is patently obvious, for example new hi-definition television, entertainment and education services will demand 25 megabyte broadband to home and schools. Jersey faces a choice: either government invests in the upgrade of the infrastructure, or it is accepted as a bi-product of e-gaming. The disparity is huge; Jersey has 2 gigabytes capacity in comparison to Guernsey's 10 gigabytes. 24 megabytes broadband costs in the UK, on average around £19 per month, whereas in Jersey, for 2 megabytes, the monthly cost is in the region of £36⁸.

Jersey is now 30% more expensive for telecoms services than Guernsey and the Isle of Man and for business internet services a massive 200% more than in the UK. Without the introduction of new investment this gap will only get bigger. This is a significant and growing competitive disadvantage. The lack of affordable high speed broadband is not only an issue for the business community, it affects every Jersey resident.

Moreover, encouraging the industry to move to Jersey will –

- diversify the economy and reduce concentration risk in the employment and tax base;
- increase States licensing and tax revenues;
- encourage the development of other businesses that support e-gaming or can benefit from greatly increased broadband connectivity;
- offer new and diverse employment opportunities.

⁸ Based on Jersey Telecom 2 megabytes broadband business service (<http://www.jerseytelecom.com/templates/LayoutB.aspx?id=1326>)– excludes telephone line rental

Local industry is supportive of the development of e-commerce. Indeed, there have been constant calls from the local business community to develop this sector for at least the last 8 years. In 2007, the Chamber of Commerce produced a report entitled *Silicon Island*, encouraging the development of a wide range of e-commerce opportunities. A priority of that report, which included input from more than 100 companies, asked for the introduction of gaming legislation to enable Jersey to start to compete in this booming sector.

The States needs to show that it is a government with vision that not only talks to business about the need for investment and diversification, but has the courage and the foresight to help them to achieve it. The States must inspire confidence by showing that it is willing to move with the times and keep the Island's legislative base fit for purpose, dynamic and competitive.

Any suggestion we do not move to regulate e-gaming in Jersey runs the risk of ignoring a basic reality: we are powerless to prevent Jersey residents partaking of e-gaming through the internet. Reversing the States decision of P.62/2004 would leave e-gaming unregulated in Jersey and render vulnerable local residents who might already have developed an unhealthy attachment to e-gaming, unprotected.

The Department has monitored the moods of the market place and is in close contact with the UK in light of proposed *White List* reforms. To date, overtures have been made by some key market players to locate to Jersey, their interest has not waned, they wait for legislative change.

Whatever our views on the nature of the industry, e-gaming has arrived and will not go away.

The evidence of our own nearest neighbours shows that the industry presents safe, unobtrusive and legitimate opportunities for economic diversification in areas of e-commerce that are already being exploited elsewhere to the Island's cost. The economic and social evidence solidly supports this Proposition and will assist the Department to deliver on its business plan and the States Strategic Plan.

Importantly, Members should reflect that adopting this Proposition does not mean that e-gaming will be introduced without further debate. All this Proposition asks is the Assembly reaffirms the confidence of the States in 2005 and commit to the inclusion of e-gaming regulation in the reform of the gambling laws to reflect modern, international best practice.

Manpower and financial implications

This proposition asks the States to make provision for the regulation and licensing of e-gaming within the draft Gambling (Jersey) Law 201-. As law drafting time has already been allotted to **this** work programme there are no additional manpower or financial implications to the States.

However, if the draft Gambling (Jersey) Law 201- is adopted there will be the following manpower and financial implications.

Manpower

In December 2009, the States approved the Gambling Commission (Jersey) Law 201-, which empowers the Gambling Commission with the responsibility for all gambling related matters in the Island. The Commission will be an independent body of the States and hence there are no additional manpower implications.

Financial

The “Cost Benefit Analysis” section of this proposition deals with both the direct financial benefits to the Island as well as the future infrastructure growth potential for both business and home users. The Gambling Commission will levy fees and charges to cover its own operating costs and will also receive, for a period of 5 years, a grant of £225,000 from the Department as the Commission moves to a position of full cost recovery.

Provision for the grant has been made in the approved EDD 2010 Budget and Business Plan to cover this expenditure and is expected to reduce over time. In the event that the States does not adopt this Proposition, the Commission will have to readjust its financial projections and generate sufficient additional income to ensure that it is cost neutral to the tax payer within 5 years.