

Gambling Law Update
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Do Your Part to Make a Difference

Activists in the Internet gambling arena are taking action as state and federal governments push further in their attempt to restrain American use of Internet casinos and sports books. As a result, they are calling on all U.S. players to participate in this fight. The Interactive Gaming Council (IGC), a trade association for the international interactive gambling industry, has launched a Web site (www.profreedom.com) in which users can e-mail their elected representatives to oppose federal legislation that would block the use credit cards, checks or any other instrument of a U.S. bank for Internet gambling. Visitors to the site fill out a form to voice opposition to the House Bill, H.R. 21, introduced by Rep. James Leach (R.-Iowa), and the Senate Bill, S. 627, introduced by Sen. Jon Kyl (R.-Ariz.). When the visitor submits the form, the message is automatically e-mailed to his or her representative and senators. The routing is based on the visitor's zip code, so the service can only be used by U.S. residents.¹ Leach's bill passed out of the House Financial Services Committee on a voice vote in March, while Kyl's legislation is pending before the Senate Committee on Banking, Housing, and Urban Affairs. Sue Schneider, chairman of the IGC, remains optimistic regarding the outcome of this campaign. "Not only are there enough online gamblers to have political clout," she stated "but we also expect to hear from people concerned about these deliberate efforts to diminish basic freedoms on the Internet. You don't have to be a gambler to be wary of the Big Brother implications of these bills. Americans treasure freedom of personal choice and the right to privacy, and do not

¹ Press Release, *Call for U.S. Residents- Urgent!!* www.igcouncil.org/read_news.php?id=1 (04.04.03)

want the government to force banks to monitor every transaction that is done online." The IGC is also providing banners that link the IGC site to gambling sites and any other sites that want to encourage their U.S. visitors to take action.² The author has preached for years about using the strong political power wielded by online gaming webmasters, given the number of individuals who can be influenced via their Web sites. Here's a good example of online grass roots politics in action!

Not only are Internet gambling advocates coming together to curb legislation aimed in their direction, but they have also announced a major initiative focused on reducing global poverty. A group of "industry insiders" have joined forces to create the IGIPRP, the International Gaming Industry Poverty Relief Project, which aims to raise \$1 billion by 2006 to help ease global poverty. A registered charitable organization, IGIPRP describes its vision as one in which a united, healthy, secure, and growing international gaming industry provides funds to measurably relieve world poverty. "Gambling has always been a way of funding social causes, from bingo money for food banks, to casinos for community services and to lotteries for health and education spending. Many of the folks in the Internet gaming industry have felt that there should be some way for gambling at this scale - it's really a global activity - to help a global cause," explained Paul Lavers, a founding member of IGIPRP, CEO of Comprehensive Sports Information and operator of covers.com, regarding the ideas behind its formation. The IGIPRP website outlines some of the steps that will be required to make this innovative project a reality.

² Roy Mark, *Web Gambling Group Rolls Lobbying Dice*, www.dc.internet.com/news/article.php/2184751 (04.11.03)

A council will be formed, with the goal of regulating and improving the international gaming industry. Please visit www.igiprp.org for more information.³

International Gambling Outlook

As legislation moves forward in Congress to ban Internet gambling, one Caribbean island is concerned the proposed new law will annihilate licensed Internet casinos operating on its shores, and rob it of much-needed revenues. Antigua and Barbuda, two specks of Caribbean sand that have become legalized havens for Internet casino operators, have taken action in the World Trade Organization (WTO), challenging U.S. authority to outlaw Internet betting. Antiguan authorities contend such a prohibition would breach international trade protocols. Antigua, for its part, says that with the downturn in the tourism industry, the country has come to rely on revenues generated from licensing and taxing of Internet casinos on its territory. "What we want is survival, not blood," said Sir Ronald Sanders, Antigua's ambassador to the WTO. The Internet betting industry employs 3,000 people in Antigua, and officials say that any attempt by the U.S. to ban Internet gambling would be in violation to its commitments under the WTO's commercial services agreement. Without business from American gamblers, Sanders said, Antigua's economy could once again be devastated.⁴ Antigua is not alone in their quest to license Internet gambling. All online gaming companies within or hosted in Panama have to be registered under the Online Gaming Act of November 12, 2002. The regulation allows for Internet international wagering. The telecommunications system is via a fiber-optic system. Internet gaming companies located in Panama enjoy complete tax exemptions, and customs duty concessions are

³ Press Release, *Online Gambling Industry Tackles World Poverty*, www.igiprp.org/media/release.asp?ID_PR=5 (04.03.03)

⁴ Rick Alm, *Gambling & Tourism: Changes in Missouri Gambling are a Long Shot*, www.kansascity.com/mid/kansascity/business/5497555.htm (04.01.03)

given for imports needed to carry on Internet gaming. Offshore companies, such as Internet gaming companies are not subject to foreign exchange control. There is also a new call center incentive and training program that boasts numerous qualified bilingual workers, and a proposed law in the legislative assembly to make English the second official language, therefore eliminating the need for translations for official documents and procedures. Applications for both Internet Casinos and Sports Books are processed and issued by International Cybergaming Corp, a Master Licensor.⁵ Costa Rica has also had their eye on further expanding Internet gaming. BoDog Sports book & Casino has taken the first step to becoming one of the first sports book and casino operations to be officially licensed by the government of Costa Rica. "The licensing fee was something we welcomed with open arms," said Rob Gillespie, BoDog President. "It shows the world that both private enterprise and governments can work together to better serve an industry." Based in San Jose, Costa Rica since 1995, BoDog is very comfortable with continuing operations in the country and officially paid their licensing tax.⁶

The Future of Internet Gambling

Former casino regulators, Frank Catania and Keith Furlong, spent five years helping New Jersey enforce its laws on gambling at Atlantic City casinos. Now, they are fighting for a far less admired segment of the gambling industry. As consultants for the Interactive Gaming Council (IGC), they are pushing a highly skeptical Congress to give up its attempts to prohibit Internet gambling. At a hearing recent hearing, members of the Senate Banking Committee joined witnesses representing college athletics and state and federal government in condemning Internet

⁵ Panama, www.gamblinglicenses.com/licensedatabasedetail.cfm?licenses_ID=112&Region=Central%20America (04.15.03)

⁶ Press Release, *Costa Rican Government Gives BoDog First Official Thumbs Up*, www.winneronline.com/articles/march2003/costa.htm (3.31.03)

casinos as prone to fraud, and alluring to minors. Catania, formerly the head of New Jersey's Division of Gaming Enforcement, was a lone voice who spoke in support of the \$6 billion industry. He urged Congress to appoint a panel to study legalizing, regulating and taxing it. "In recent history there has not been an issue more deserving of further study than Internet gaming policy," stated Catania. He also recently stated in an interview, "I'm basically saying that this is an industry that we will not be able to stop. Therefore, we need to legitimize it. The vast majority of Internet casino sites -- the federal government estimated there were 1,800 last year -- are run by operators based in places like Costa Rica and Antigua, beyond the grasp of U.S. law enforcement. And the enormous reach of the Internet has complicated efforts by lawmakers to define what is illegal. Sue Schneider, chairwoman of the Interactive Gaming Council, said Catania and Furlong speak with authority because they have studied efforts by other nations, such as Great Britain, to embrace Internet gambling."⁷

State governments have not completely given up their fight for a piece of the gambling pie. Gov. Kathleen Sebelius has not given up on her proposal to expand legal gambling in Kansas. "Nothing is dead," Sebelius said recently during a news conference. Sebelius has proposed allowing slot machines and other electronic gambling devices at the state's five dog and horse tracks and permitting a casino in Dodge City, with local voter approval. But the Dodge City provision was not included in a bill endorsed by a Senate committee to permit slot machines at tracks where voters in the surrounding county and adjacent counties approved. The bill remains in limbo during an extended recess.⁸

⁷ Laurence Arnold, *Former Casino Regulator Now Working in Internet Gambling*, www.newsday.com/news/local/wire/ny-bc-nj--regulatingonline0413apr13_0.844161_story?coll=ny-ap-regional-wire (04.13.03)

⁸ Associated Press, *Governor Not Giving Up on Gambling Proposal*, www.lasvegassun.com/sunbin/stories/gamming/2003/apr/16/514955655.html (04.16.03)

Net Gambling Innovations

Internet gamblers are increasingly faced with the stress of credit card rejection as their issuing banks reject gaming transactions at disproportional rate. Over the past 12 months credit card rejection rates at online casinos have approached fifty percent contributing to considerable stress and embarrassment for cardholders who are otherwise in good credit standing with Visa and MasterCard. Adding to player stress is the fact that their successful credit card purchases are placed through un-regulated intermediaries who are not subject to the high degree of regulatory scrutiny as their land-based bank. In response to this situation, a few companies have come up with their own solution. AT&T is set to introduce prepaid cards for online purchases. AT&T's new Prepaid Web Cents cards will be sold in varying dollar amounts with each containing a serial number and authentication PIN to be entered online. The cards, introduced this month, are so far being sold for separate sites, and though AT&T is gearing them toward parents who don't want to fork over credit card numbers to their kids, Internet watchers believe an equal or greater profit may lie in tailoring this type of card toward the last things most parents want their kids going anywhere near: Internet gambling and adult sites. AT&T expects the cards to be available in 4,000 Uni-Marts and Speedway SuperAmerica stores by May, 2003, with more stores and Web sites added in coming months. Although several previous ventures have offered alternatives to credit cards for online purchases, this is believed to be the first and only prepaid digital-content card sold in retail locations by a major company.⁹ Another solution may lie with a UK-based company. Moneybookers (www.moneybookers.com) has developed an e-wallet solution, which allows players to transfer funds into a secure and fully regulated account, and subsequently fund Internet casino purchases through that account. Moneybookers reportedly uses

⁹ Michael P. Regan, *For Sale: Prepaid Web Cards Next to the Mints*, www.southbendtribune.com/stories/2003/04/14/business.20030414-sbt-MICH-B8-For_sale_.sto (04.14.03)

advanced fraud screening systems to help qualify cardholders thus reducing embarrassing rejections, and Moneybookers submits itself to UK Financial Services Act (FSA) regulation - the only e-wallet to do this insuring financial security.¹⁰

Mobile communications technology has been taking Europe by storm, so the success of mobile gaming, or "m-gaming," comes as no surprise. Europe offers a strong market for software, hardware and phone companies as Europeans use short messaging service (SMS), or text messaging, to gamble on the Internet.¹¹ However, advertisers are hoping timely, personalized marketing messages to cell phones, handheld computers, and other wireless devices will capture consumers' attention. The emerging avenue is compelling because it costs a fraction of the price of a traditional campaign of similar scope, and it offers a relatively easy way to track who sees an ad and who acts on it. "From what we can tell, we were very pleased with the results," said Richard Loomis, vice president advertising and marketing for Comedy Central, which recently advertised its program "Chappelle's Show" by sending text messages to its target audience. "We're always looking for new and different ways to connect with our audience. Both the young guys and the urban African American audience, we know, are early adopters of wireless technologies." British research firm Ovum estimated in a report last year that global revenue from mobile advertising will reach \$16 billion by 2006.¹² While location-based advertising is not yet possible in the United States due to the inability of third-party firms to access location information, advertising firms say they must tread carefully. But as with unwanted e-mail ads, or "spam," mobile marketing could offend its intended targets. In Europe, cell phone owners occasionally receive messages inviting them to dial sex lines or dating

¹⁰ Press Release, *Safe and Easy to Get your Sterling into Sterling House Casino*, www.winneronline.com/articles/march2003/sterling.htm (03.31.03)

¹¹ Paul, *Europeans Mad for Mobile Gambling*, www.onlinecasinonews.com (04.22.03)

¹² Yukari Iwatani, *Ads Heading to Cell Phones, Mobile Devices*, www.reuters.com/newsarticles.jhtml?type=technologyNews&storyID=2553854 (04.12.03)

services. Travelers might receive unprompted welcome messages from the networks onto which they roam.

Smoke and Mirrors

Online Bookmaker Sportingbet Australia has filed an appeal of a Supreme Court judgment ordering it to pay back \$2.6 million to Mt. Gambier trucking company, K&S Corp, which is owned by Australian trucking tycoon Allan Scott. Civil proceeding were launched in South Australia last year by Scott's group to recover \$2.68 million from Sportingbet, which was part of \$22 million allegedly stolen by the company's former secretary, Dennis Telford.¹³ Mr. Telford pleaded not guilty last month to stealing the funds from K&S Corp and the case is continuing. In January the London-based firm said customer numbers had risen to 837,000, making it one of the biggest online sports bookies in the world with operations in Europe, the US and Asia. Chief executive Nigel Payne has spent months in the US lobbying legislators to allow the company to trade onshore. Corporate executives aren't the only ones accused of weaseling money out of the Internet gambling industry. A phoenix couple has pleaded guilty in the U.S. District Court to a \$400,000 scam that involved using dead people's identities to obtain credit cards. According to federal prosecutors, Ernesto Galvez, 28, and his wife Shakiya Galvez, 22, each admitted to a single felony. According to court papers the couple devised a scheme to open bank accounts and obtain credit cards under false identities, sometimes assuming the names and personal identification of deceased people. As part of his plea, Ernesto Galvez admitted making Internet gambling wagers and buying credit reports. He faces up to 15 years in prison.¹⁴

¹³ *Bet Agency to Appeal Against Court Ruling*, www.theadviser.news.com.au (03.18.03)

¹⁴ *Pair Admit Stealing Identities of Dead*, www.azcentral.com/arizonarepublic/local/articles/0331phxscam31.html (04.01.03)

Gambling Woes

A federal prosecutor has accused EBay Inc.'s PayPal subsidiary of violating the law when it facilitated Internet gambling payments last year, according to EBay documents filed with the Securities and Exchange Commission. In a letter sent to the San Jose online auction firm, U.S. Atty. Ray Gruender of St. Louis argued that PayPal violated a 17-month-old federal anti-terrorism law, the USA Patriot Act, when it handled payments for Internet casinos. The provision prohibits the transmission of funds that are known to have been derived from a criminal offense, or are intended to be used to promote or support unlawful activity. Gruender has yet to file charges against EBay. Instead, his letter proposed a settlement in which EBay would forfeit an amount equal to PayPal's casino-related earnings from Oct. 26, 2001, when the law went into effect, to July 31, 2002, when EBay agreed to buy the electronic-payments company for \$1.5 billion. In November PayPal stopped processing payments for Internet gambling companies, an activity that accounted for about 6 percent of PayPal's 2002 revenues, eBay said.¹⁵ The U.S. attorney's letter represents a new federal application of a law designed to help terrorism investigators. Passed only six weeks after the Sept. 11 attacks, the USA Patriot Act gave federal authorities broader powers to track money laundering and monitor online activities, among other things. In a press release, eBay stated users will no longer be able to use its PayPal online payment service to purchase items in the Mature Audiences category. PayPal will no longer process payments for adult items anywhere on the Internet. "PayPal must find the right balance between serving its community while minimizing financial risk," the announcement stated. "PayPal management feels that exiting the adult business with a clear and consistent policy is the best decision for its business." There are approximately 78,000 items currently listed in eBay's

¹⁵ Alex Pham, *EBay's PayPal Accused Over Gambling Transfers*, www.latimes.com/la-fi-ebaylapr01,1,440211.story (04.01.03)

Mature Audiences category. Users over the age of 18 who wish to view those items must log in and agree to special "Terms of Use."¹⁶

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¹⁶ Press Release, *EBay Removes Billpoint, Limits PayPal use in 'Mature Audiences' Category*, (04.13.03)