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US Fights WTO Over Internet Gambling

By JIM ABRAMS – 1 day ago

WASHINGTON (AP) — With time running out, the tiny Caribbean island nation of Antigua and Barbuda holds the cards in a dispute over Internet gambling that could ultimately cost the United States billions of dollars.

If arbitration efforts fail, Antigua and other aggrieved parties, including the European Union, could begin exacting sanctions as early as next month over the U.S. decision to withdraw from a World Trade Organization accord recognizing the legality of Internet gambling.

Antigua is seeking sanctions worth \$3.4 billion, and has suggested it might claim that sum by becoming a harbor for pirated intellectual property such as movies and musical recordings. Total sanctions claimed by the EU, India and other countries approach \$100 billion, although the United States, in negotiations, contends that appropriate levels of compensation would be far less.

Eight House Democrats, including Judiciary Committee Chairman John Conyers and Financial Services Chairman Barney Frank, on Monday wrote U.S. Trade Representative Susan Schwab expressing surprise that the USTR had moved on the issue without consulting with Congress on possible solutions. The lawmakers said they viewed the administration action "as a drastic step which could have significant consequences for the entire WTO system."

Antigua in 2003 initiated WTO dispute proceedings against U.S. federal and state laws barring foreign participation in U.S. Internet gambling markets. The WTO, in rulings in 2004 and 2005, found that the United States had violated its 1994 General Agreement on Trade in Services, or GATS, which the WTO says allows Internet gambling.

The USTR responded last May by asserting that U.S. laws banning interstate gambling have been in place for decades. When GATS was being negotiated, said Deputy U.S. Trade Representative John K. Veroneau, "no WTO member could have reasonably thought that the United States was agreeing to commitments in direct conflict with its own laws."

The United States, he said in his May statement, had decided "to exclude gambling from the scope of the U.S. commitments under the GATS."

"This might be regarded and is regarded by many as a cynical manipulation of the system — you lose the game, so you try and change the rules," WTO arbitration expert Joseph Weiler, a professor at the NYU School of Law, told Conyers' committee last week.

"It also charts a way and creates a political precedent which might harm U.S. interests when other countries emulate such behavior," said Weiler, who said he had been retained by several law firms with clients indicted or threatened under U.S. law for offering betting services from outside the United States.

Specifically, former USTR director of policy planning Naotaka Matsukata told the same committee, China and Russia would welcome a means of reducing its commitments required as part of accession to the WTO. "A global trading order doesn't fall all at once, but one rule at a time," he said.

John Pappas, executive director of the Poker Players Alliance, said some \$80 billion to \$100 billion is wagered online around the world every year, with providers taking in from \$15 billion to \$20 billion in revenues. He said some 10 million Americans played Internet poker for cash in the past year.

The legality of online gambling can be a gray area. The government says almost all forms of gambling are illegal, but Pappas disagreed. The Wire Act from the 1960s, one legal basis for the prohibition, was enacted to stop bookies from taking bets over the phone. An act passed last year bars financial institutions from handling gambling transactions, with exceptions for lotteries and horse racing.

The issue, Matsukata said in an interview, is not one of legality but of discrimination against foreign providers such as Antigua and, to a far larger scale, the EU. He noted that negotiations are now under way, with the WTO set to make a decision on the Antigua case at the end of this month and a mid-December deadline for others. While Antigua is asking for \$3.4 billion in compensation, the United States has offered about \$500,000, he said.

USTR press secretary Stephen Norton said in a statement that the administration would

review the letter from the lawmakers and "work with Congress and our trading partners to address this matter."

In 2002 the EU threatened to impose \$4 billion in sanctions after the WTO ruled that a U.S. law granting tax breaks to exporters was illegal. The threat was withdrawn after Congress repealed the law in 2006.

Financial Services Committee Chairman Frank earlier this year introduced a bill that would lift bans on online gambling for properly licensed operators. Licenses would include protections against underage gambling, compulsive gambling and money laundering.

Rep. Robert Wexler, D-Fla., is promoting a more narrow bill to make betting on skill games such as poker and chess legal.

On the Net:

- Congress: <http://thomas.loc.gov>
- USTR: <http://www.ustr.gov>
- Poker Players Alliance: <http://www.pokerplayersalliance.org>