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WTO Rules U.S. Web Gaming Ban Illegal; Shares Jump (Update5)

By Warren Giles

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March 30 (Bloomberg) -- The U.S. ban on offshore Internet gambling payments is illegal, the World Trade Organization said today, upholding a previous decision that allowed for possible sanctions.

Shares of online gambling sites including PartyGaming Plc rose after the WTO said the U.S. ignored its previous ruling that challenged the U.S. ban on payments to gaming Web sites while allowing bets on its own soil.

Antigua and Barbuda, a Caribbean nation of 80,000 people, has challenged Bush administration efforts to close the estimated \$12 billion global business to U.S. residents, who account for half of the market. The U.S. banned credit card companies from processing payments to betting sites such as SportingBet Plc and Empire Online Ltd., which then ceased U.S. operations or sold them for nominal amounts.

Today's ruling `` vindicates all that we have been saying for years about the discriminatory trade practices of the United States," Antiguan Finance Minister Errol Cort said in an e- mailed statement.

PartyGaming shares, which jumped as much as 16 percent after the decision, rose 1.75 pence, or 3.5 percent, to 51.75 pence in trading on the London Stock Exchange.

Shares of SportingBet, which said this week it plans to transfer its London offices to the Channel Islands because of U.K. regulation, rose 1.5 pence to 66.75 pence.

Antigua Victory

Antigua, the smallest government ever to lodge a WTO complaint, scored an initial victory against U.S. online gambling restrictions when the WTO found in April 2005 that the U.S. had pledged to open the industry to competition 10 years earlier. Today's ruling rejects a U.S. appeal against that.

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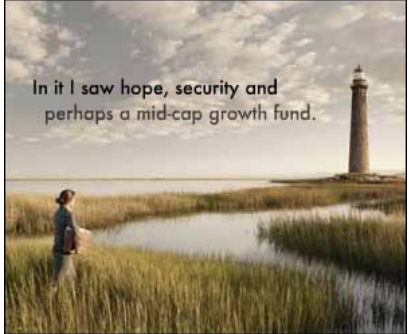
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The U.S. agreed that today's ruling finds it failed to comply with the two-year-old decision.

Still, the U.S. says the report allows it to maintain a ban on Internet gambling to ``protect public order and public morals" as long as it doesn't discriminate against foreign companies, Gretchen Hamel, a spokeswoman for the U.S. Trade Representative's office in Washington, said in an e-mailed statement.

``We are currently reviewing our options," Hamel said.

Gary Kaplan, a fugitive and founder of British Internet sports book Betonsports Plc, was arrested March 28 in the Dominican Republic and transferred to U.S. authorities, federal prosecutors said today in a statement.



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Grand Jury

Kaplan, 48, was indicted by a U.S. grand jury last June along with his company and 10 individuals for racketeering and conspiracy related to illegal Internet gambling. He was caught at a hotel in Santo Domingo following a "worldwide search," St. Louis U.S. Attorney Catherine Hanaway said in a statement. Prosecutors are seeking the forfeiture of \$4.5 billion.

The U.S. has argued that the prohibitions pre-dating the October law apply to both foreign and American betting services, and the WTO's decision only applies to gambling on horseracing, which is allowed to discriminate against foreign companies.

The U.S. "had an opportunity to remove the ambiguity" between legalized betting on horse racing across state borders and bans on other forms of gambling, the WTO judges wrote in today's 41-page decision. "Instead, rather than take that opportunity, the U.S. enacted legislation that confirmed that the ambiguity at the heart of this dispute remains," today's report concludes.

The U.S. says that its latest law isn't covered by the WTO ruling and said that its 1995 commitment to open gambling to foreign companies was an oversight by the Clinton administration.

Allow Gambling

Analysts questioned whether U.S. would allow online gambling based on today's ruling.

"I have no idea at this stage what measures they could put in place to force America's hand," said Julian Easthope, an analyst of online gaming stocks at UBS AG in London.

Antigua may seek sanctions in the form of withdrawing intellectual property protection for U.S. trademarks or copyright. Known as "cross-retaliation," such sanctions are legal at the WTO when an economy can't afford to impose sanctions in the form of higher customs duties on goods.

"We're really hoping that as their options run out and the U.S. sees that they can't delay any more, they'll enter into negotiations with us," Mark Mendel, chief legal counsel to Antigua said in a telephone interview from the Caribbean.

"The writing is on the wall, and anyone who takes the time to read the report will realize it's not true" that the ban can be justified on moral grounds, he said.

32 Casinos

Income for the 32 registered online casinos in Antigua and Barbuda has fallen to \$130 million a year from \$1 billion in 2000, the Antiguan government says. The country developed online gambling to boost a tourism-dependent economy after several hurricanes in the 1990s.

Antigua successfully argued in its complaint that the U.S. protects a domestic gambling industry while failing to live up to its international commitments.

Charlie McCreevy, commissioner for the European Union's internal market, labeled the U.S. law "a protectionist measure" on Jan. 30, saying the EU should complain to the U.S. after Congress passed the legislation barring credit card companies from processing payments. President George W. Bush signed the measure into law on Oct. 13.

At the time, U.K. Culture Secretary Tessa Jowell compared the U.S. law to the American alcohol ban of the 1920s, saying the measure may force online gambling underground into an unregulated black market.

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