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OFFSHORE GAMBLING IN PACIFIC ISLANDS TAX HAVENS

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This article analyzes offshore (including Internet) gambling in Oceania—particularly its uneven development in Vanuatu, the Cook Islands, Norfolk Island, and Palau. Offshore gambling's evolution and future prospects are examined in terms of tensions between (1) the drive by entrepreneurs and regional tax-haven promoters to increase the volume and variety of gambling among the array of services that Pacific Islands tax havens provide and (2) the growing moves by metropolitan countries to curb tax avoidance and evasion, economic loss, money laundering, and other forms of crime and deviant behavior associated with offshore gambling.

PACIFIC ISLANDS TAX HAVENS and offshore financial centers offer a range of attractive offshore gambling services to clients around the world,[1] but they are often resisted or attacked by metropolitan governments. Although offshore betting enterprises in Oceania frequently operate by telephone and fax, their evolving Internet activities allow far greater powers of action and a new system of laissez-faire and low-tax betting that threatens to undermine metropolitan gambling regulation and taxation systems.

The chief obstacle to the development of Pacific Islands offshore gambling has come from metropolitan governments. There has always been at least some social opposition to gambling and even the most permissive of metropolitan states have set boundaries. But promoters of offshore betting (particularly in its new Internet form) attempt to escape these limitations and vastly expand the availability of gambling (bringing it into the home). The advent of the Internet has allowed businesses in offshore financial centers to create online casinos, bingo games, and lotteries and the World Wide Web has made offshore sports betting the fastest growing of all forms of gambling (Thompson 2001:355–367). Critics have blamed offshore Internet gambling for expanding opportunities for organized crime as well as extending the pervasiveness and severity of social problems such as theft, workplace and family abuse, divorce, depression, and suicide. Critics fear that offshore sports betting is corrupting organized athletics and that video casinos are nurturing the most addictive form of gambling and creating a detached environment that does not curb gambling beyond one's means. As one prominent opponent of offshore Internet gambling, the Republican U.S. Senator Jon Kyl of Arizona, has put it, "Virtual casinos [are the] hardcore cocaine of gambling" (U.S. Senate 1999:2). Kyl fears that "children can wager with Mom's credit card—click a mouse and bet the house" (*BNA Washington Insider*, 29 July 1997) and points out that "experts have testified that youth gambling will soon rival drug abuse as the biggest problem facing our children" (*Reason*, January 2000). Since 1997 Kyl has sponsored anti–Internet gambling legislation that supplements the federal Wire Act (which already bans offshore telephone betting). Anti–Internet gambling bills have passed both houses of the U.S. Congress with heavy bipartisan support, only to die before differing Senate and House versions can be reconciled. American anti–Internet gambling bills continue to target offshore financial centers as well.[2]

While Americans furnish almost 70 percent of global Internet gambling revenues (*Financial Times*, 25 July 2002), the U.S. public expresses stronger opposition to it than to any other form of gambling. Only 20 percent of Americans approve and 75 percent disapprove of "legalized gambling or betting using the Internet," according to a 1999 Gallup Poll (Mason and Nelson 2001:82). Offshore Internet gambling brings together four things that make many people uneasy: the Internet, gambling, credit cards, and offshore tax havens. The United States has led a prohibitionist crusade against offshore (particularly Internet) gambling. The country's official report to its Congress recommends complete prohibition (National Gambling Impact Study Commission 1999). The current focus of this prohibitionist effort is on enjoining domestic banks, financial institutions, and credit-card companies from engaging in transactions with offshore gambling firms.

On the other hand, defenders of offshore and Internet gambling assert the right of individuals to make their own choices. Supporters propose limited regulation—only enough to minimize criticism of the industry, strengthen consumer confidence, and present the image of Internet gambling as wholesome entertainment. They concede some light governmental regulation and minimal taxation might possibly be involved. These defenders consider moves toward prohibition as attempts to shore up the powers and monopoly rents of big metropolitan governments, which unjustifiably weaken the sovereignty of tax-haven countries that have enacted laws facilitating offshore betting. Proponents view these metropolitan vested interests as concocting side has, on occasion, been subverted from within—in unexpected ways. The largest Internet casino in Vanuatu was closed by massive credit-card frauds perpetrated on it by some of its Indonesian clients. Various state and local governments in Australia have, at times, formed alliances with offshore promoters in Vanuatu in ways that diverted many millions of tax-revenue dollars from Australia. The development of offshore gambling in the Pacific Islands has therefore been affected by a variety of contingencies.

Offshore gambling in the Pacific Islands has followed a pattern of uneven development, concentrated in Vanuatu and, to a far lesser extent, the Cook Islands, Norfolk Island, and Palau, with the region's other offshore financial centers having little or no involvement.[3] Most gaming ventures in Oceania have risen and fallen rapidly—initially raising great expectations, which have usually been quickly dashed. Despite this history, entrepreneurs and investors continue to be drawn to offshore gambling opportunities in the region. Certain ventures have been more successful than others: it is noteworthy that the most profitable (the Number One Betting Shop in Port Vila) brought existing onshore Australian clients offshore to Vanuatu in 1993 (before returning onshore to the Northern Territory in 2002). Yet even a strong preexisting onshore history and presence were not enough to guarantee the viability of Crown Casino's Vanuatu online casino, which opened in January 2002 but was unable to develop strong onshore-offshore synergies before closing in May 2003. Operations that are more purely offshore—with relatively little onshore credibility or history—have been equally unsuccessful, despite early optimism.

Pioneering Ventures in Vanuatu

Offshore gambling in the Pacific Islands began in 1989 with Vanuatu's private Great World Lottery. With actor Omar Sharif as its figurehead, the lottery was aimed at American and Australian gamblers and promised a lump-sum prize of US$20 million, tax-free in Vanuatu. Although at one time the venture employed twenty clerks and typists to sell six million tickets at US$20 each and was negotiating with the government in Port Vila for an exclusive license for (at least) lotteries, the company never succeeded in the way that had been proposed. Offshore gambling in Vanuatu simply receded into obscurity for several years before being revived, in a dramatic manner.

In 1993 the reemergence of offshore gambling in Vanuatu was accomplished by a number of men who had been accused of a variety of crimes and misdemeanors in Australia and the South Pacific. Relocating offshore was an attractive option for these bookmakers. Tax minimization and tricks of the trade that might bring prosecution in the metropole could be quite acceptable and profitable in Vanuatu.

outrageous "horror stories" to create unrealistic fears. For example, supporters contend that the frequently reported vision of a minor in the United States using a parent's credit card to gamble the family into bankruptcy ignores the facts that a parent cannot be liable for any more than US$50 of a child's credit-card debt and that gambling debts are voidable and unenforceable in many parts of the United States and other countries (see Loscalzo and Shapiro 2000:14).

Defenders of offshore gambling contend that their most powerful critics are claiming to be worried about the welfare of gamblers but in fact are only concerned with increasing the bettors' gambling costs through high taxes and heavy expenses incurred to travel and stay at expensive onshore casinos. Gambling taxes and the land-based gambling companies' high overheads and hefty profits are taken directly from gamblers. According to offshore-gambling defenders, offshore financial centers are increasingly providing strong competition to this old onshore system of "bilking" clients. In their opinion, Internet gambling benefits the "consumer": it is cheap, easy, and takes place at home, a more salubrious environment than land-based gambling facilities with their noisy, smoke-filled rooms and bars. Defenders also maintain that by creating a competitive market, offshore Internet gambling will contribute to making payoffs larger and more trustworthy. According to these defenders, offshore Internet gambling cannot be stopped. The Internet's architecture was designed to frustrate the interdiction of messages—which are broken up, sent along unpredictable routes, and reassembled only at the final destination. No matter how easily legislation passes to prohibit offshore Internet gambling, enforcing the ban is impossible. This scenario has Internet gamblers forming a growing political constituency in favor of such gaming, creating pressure for legitimation (and access to courts and legal remedies to resolve disputes) and opposing excessive regulation and taxation. Defenders contend that in the end, gambling will be treated as an ordinary business operating in freely competitive markets—and much of it will be done in offshore financial centers and over the Internet. According to them, Internet gambling is only the latest and most advanced form of offshore gambling—and the one that metropolitan governments generally find the most threatening (Bell 1998, 1999a, 1999b; Cabot 2002; Dean 2000; Paul 2001; Post 1998; Schneider 1998).

Uneven Development

The historical trajectory of offshore gambling in the Pacific Islands has been principally defined by conflicts between offshore promoters and their clients, on one hand, and onshore metropolitan governments, on the other. Yet each

The first company to receive a bookmaking license was Number One Betting Shop, which began operating in May 1993 and for a time used a location in the Victorian country town of Yarrawonga as an Australian office. Number One was established by Tommy Carroll, a former Queensland bookmaker who had moved to Port Vila after unsuccessfully attempting to open a substantial SP ("starting price" or illegal fixed-odds betting) business on a remote island off the coast of the Northern Territory. Number One handled bets for horse racing and sports (mostly rugby league and Australian Football League). Most significantly, Allan Tripp had a substantial interest in Number One. Tripp had reputedly been one of the biggest SP bookmakers in Australia and he had been convicted numerous times. He was mentioned frequently in the Costigan Report on Australian organized crime (centering on the Painters and Dockers Union) in the early 1980s (Costigan 1984:48–55). Tripp became the official head of Number One in July 1995, when Carroll left to establish his own gambling operation (including twenty poker machines) on the northern island of Espiritu Santo. Warnings from the Australian government to Vanuatu's about the probity of the Number One operation had little effect on the willingness of the finance minister, Willy Jimmy, to license the operation.

The second license was issued to Chung Corporation, a private, Brisbane-based company, which started operating in Vanuatu in August 1993. It was headed by Christopher Chung, who was born in Tahiti and had lived in Vanuatu and New Caledonia before moving to Australia, where he became a naturalized citizen. Chung had criminal convictions (which he did not disclose to the Vanuatu government) for procuring prostitutes to work in New Caledonia and for illegally exporting contaminated seafood from Australia.

A third license was granted to the Vanuatu and Pacific Islands International Totalisator Agency Board (VITAB),[4] in which a prominent role was played by Peter James Bartholomew (a Melbourne racing identity who was the brother-in-law of Allan Tripp). Bartholomew (like Tripp) also featured in the Costigan Report, and both Bartholomew and Tripp were sons-in-law of Jack Dow, who was reputed to have been an important SP bookmaker (Costigan 1984:48, 51). Bartholomew had been arrested twice but not charged in relation to illegal gambling activities.

Vanuatu laws freed the bookmakers from metropolitan regulation and taxation as well as shrouding their activities in secrecy. These laws also enhanced the powers of some Vanuatu politicians. The Betting (Control) Act No. 1 won assent on 19 February 1993 and took effect shortly after, on March 8. The law gave the minister of finance, then Willy Jimmy, considerable power over the industry, including approving and revoking totalizator and bookmaking licenses and otherwise regulating the industry. The penalty for breaching the secrecy of bookmaking operations was a fine not exceeding VT 500,000 (equivalent to US$4,150 in 1993) or a prison sentence of two years or both (Vanuatu 1993:16). The bookmaking firms helped to shape the legislation that defined their powers of action, for example, the provisions giving them 10.8 percent of the turnover (total bets) and the Vanuatu government only 1.08 percent (p. 8).

These three Vanuatu-registered bookmaking firms approached Australian totalizer agency boards—TABs—proposing that Vanuatu should be their nearby low-tax portal to tap a large, rapidly expanding, and unsatisfied Southeast Asian betting market. Two agreements were approved: of Chung Corporation with Victoria's TAB and of VITAB with the TAB of the Australian Capital Territory.

Opening in Port Vila on 1 May 1993, by mid-1994 Chung Corporation had an annualized turnover estimated at A$50 million (US$38 million). Chung was also negotiating with the New South Wales TAB and had discussions with the Queensland TAB, although the latter was at the time prohibited by law from operating offshore and had been requesting changes in legislation to enable it.

The former prime minister and former leader of the right-wing faction of the Australian Labor Party, Bob Hawke, was a major shareholder in VITAB. Hawke helped to negotiate an agreement between it and the Australian Capital Territory Totalisator Agency Board (ACTTAB), allegedly to facilitate betting by foreign gamblers (particularly from Hong Kong and Singapore) through the territory. A connection with VITAB was supposed to raise the chronically unprofitable ACTTAB from the smallest to the largest TAB in Australia, producing substantial revenues for the ACT government. VITAB projected minimum turnover as A$20 million for the first year, A$50 million for the second year, and A$60 million for the third. VITAB commenced operations on 18 January 1994.

The (conservative) Liberal Party opposition successfully attacked the VITAB deal in the ACT's parliament, leading to the contract's termination in April 1994, effective as of July 18. Similar pressure from the Labor Party opposition in Victoria resulted in VicTAB's termination of its contract with Chung Corporation on 17 May 1994. On 10 August 1994 VITAB settled its lawsuit against ACTTAB for breach of contract—receiving A$3.3 million (US$2.5 million). During the half-year in which it operated with ACTTAB, VITAB's profits were about A$1.5 million (US$1.2 million); turnover was A$7.5 million (US$5.8 million), which was accelerating until the agreement foundered.[5]

Persistent questioning by Paul Osborne, an independent member of the ACT Legislative Assembly, about the A$3.3 million settlement with VITAB eventually led to an inquiry by prominent Sydney barrister Richard Burbidge between June and December 1997. Burbidge concluded that the real beneficial ownership of VITAB had been obscured behind a number of smokescreens, including Vanuatu and British Virgin Islands offshore shell companies: VITAB and the Number One Betting Shop (across the hall from one another in Anchor House, Port Vila) were virtually the same operation. According to Burbidge, certain members of VITAB (including Bartholomew and Tripp) were aware of the fraud, which consisted of (1) the illusion that VITAB was to tap into some allegedly lucrative Asian gambling market to increase Australian tax revenues,[6] (2) the concealment of its true purpose of channeling Australian bets through the tax haven of Vanuatu, and (3) the hiding of the identity of some of the real principals of VITAB, who might not be able to satisfy probity tests.

Burbidge concluded that while certain people at VITAB and ACTTAB were engaged in elements of fraudulent misrepresentation, other VITAB shareholders (including former Prime Minister Bob Hawke, who held 11 percent of VITAB's stock) were not aware of the deception. Yet all but one of the shareholders in VITAB were revealed to have been clients of Tripp (who was also a major shareholder in VITAB) and the Number One Betting Shop. The bulk of VITAB's turnover arose from Number One and from two other professional bookmakers, Zeljko Ranogajec and his associate David Walsh, who together held 20 percent of VITAB's shares. Expert opinion contended that 87 percent of VITAB's turnover had come from an SP bookmaking operation.[7]

In 1993 the Queensland TAB had strongly criticized its rivals in Victoria and the ACT for "pursuing growth at any price" by entering into agreements with offshore TABs in Vanuatu (*Courier-Mail,* 27 November 1993). Nonetheless, in 1994 the Queensland parliament passed laws to allow the state's TAB to accept business from TABs in offshore financial centers and negotiations were soon started with interests in Vanuatu (*Courier-Mail,* 2 November 1995).

Bob Gibbs, a powerful member of the right-wing faction of the then-ruling Queensland Labor Party government, played a prominent part in negotiating with the Vanuatu company. The Queensland TAB was like the TABs of Victoria and New South Wales, and unlike ACTTAB, in being large enough not to have to pool its bets with any other TAB. After both Victoria and the ACT terminated their relationships with Vanuatu-based TABs, in December 1995 the Queensland TAB quietly reached a five-year agreement with a new Vanuatu-based company, Asia Pacific Totalisators, of which 10 percent was owned by former Prime Minister Bob Hawke. As with VITAB, the flamboyant Sydney stockbroker and investor Michael Bastion was a shareholder.[8] Two of Asia Pacific directors, Con McMahon (the major shareholder and chief executive officer) and Michael Dowd (also a shareholder), both former bookmakers, had also been heavily involved in VITAB. The Queensland Criminal Justice Commission was said to have done a complete probity check of Asia Pacific Totalisators. Additionally, the contract granted an extensive range of termination rights to the Queensland TAB, including the right to void the agreement if the agency believed that more than 10 percent of Asia Pacific's bets were originating in Australia.

Asia Pacific Totalisators started operating in March 1996 and paying fees on a sliding scale to the Queensland TAB for merging its pools in a satellite-based system. Within six months the company was reported to have a growing turnover of about A$250,000 (US$200,000) a week. Queensland estimated that its TAB's profits from the agreement for the first year could exceed A$1 million (US$800,000) on an initial investment of about A$200,000 (US$160,000) in the joint venture, which was seen as introducing new and previously untapped funds into the betting pools. The Queensland TAB claimed that Asia Pacific Totalisators had a non-Australian telephone-betting client base, principally in Asia. Officials from other state TABs, however, contended that it was very difficult to monitor business going to the tax and secrecy haven of Vanuatu (Totalisator Administration Board of Queensland 1997; *Courier-Mail,* 22 December 1995; *Sun-Herald* [Sydney], 11 February 1996; *Sunday Mail* [Brisbane], 6 October 1996).

Allan Tripp's Number One Betting Shop, which had an estimated annual turnover of about A$15 million (US$10.5 million) in its first full year of operation in 1993–1994, grew spectacularly in its offshore base of Port Vila. From 1998 to 2000 Number One's turnover grew at a compound rate of 72 percent per year—from A$176.6 million (US$108.4 million) in 1998 to A$328.7 million (US$214.9 million) in 1999 and then to A$525.6 million (US$291.2 million) in 2000. In 2000 the turnover topped the reported revenues of all licensed bookmakers combined in either of Australia's largest states—New South Wales (A$497.5 million, US$275.6 million) or Victoria (A$369.6 million, US$204.8 million)—and Number One had become the second-largest bookmaking operation in the world (the biggest being Victor Chandler's in the Gibraltar offshore financial center). Number One's reported trading profits (untaxed in Vanuatu) were A$2.6 million (US$1.6 million) in 1998, A$12.1 million (US$7.9 million) in 1999, and A$9.3 million (US$5.2 million) in 2000 (*Herald Sun,* 3 March 2000; *Kalgoorlie Miner,* 2 May 2001; Sportingbet.com, media release, 15 March 2001).

In March 2001 Tripp's Number One operation (with its twenty-nine employees and five thousand active Australasian customers as of 2000) was acquired by Sportingbet.com PLC.[9] In January 2002 Number One moved to Australia's Northern Territory after the government there agreed to lower the turnover tax for bookmakers from 1 percent to 0.33 percent—far lower than the tax in any Australian state. The move "onshore" opened previously unavailable advertising channels, permitted people in New South Wales and Victoria to bet with the company lawfully,[10] and presented an image of better regulation and increased legitimacy than when the operation was offshore (*Herald Sun*, 21 February 2002; Sportingbet PLC, media releases, 15 March 2001, 26 June 2002; *Sydney Morning Herald*, 2 May 2001). Nevertheless, the onshore location also subjected it to greater tax and other pressures, the most threatening being the growing hostility of the racing heads of the six Australian states and moves by some of those ministers to cut the Northern Territory out of betting pools unless taxes were raised and bookmakers there were forced to make substantial contributions to the racing industry (*Canberra Times*, 6 March 2002; *Daily Telegraph* [Sydney], 7 August 2002; *Northern Territorian*, 22 February 2002; *Sydney Morning Herald*, 21 February 2002). It is therefore conceivable that bookmaking operations that have moved back onshore to favored sites such as the Northern Territory may flee offshore once again if there is a serious threat to their special onshore privileges (*Daily Telegraph* [Sydney], 19 February 2003).

Sportingbet is itself incorporated in the Channel Islands offshore financial center of Alderney. An important competitor, the highly successful Internet- and telephone-based Dial-A-Bet, remains in Vanuatu. It is worth remembering that Number One was created by Tommy Carroll (with assistance from Allan Tripp) after he fled to Vanuatu from the Northern Territory. Furthermore, recent Australian attempts to restrict Internet gambling have led to threats by Lasseters Casino in Alice Springs to move its existing Internet operations from the Northern Territory to Vanuatu (*Northern Territorian*, 2 April 2001).

While revenues flowing to Internet gambling sites around the world were growing dramatically, competition also increased as more sites emerged. Starting with sports betting in early 1995, offshore bookmakers such as Number One supplemented telephone betting with Web pages that presented a wide variety of alternatives. Many gamblers made the transition from telephone betting to Internet gambling, with an increasing tendency to use credit cards rather than checks or wire transfers (Balestra 2000:18–19). Still, almost all Internet sports and race gambling operations, no matter how Web-based, continue to take bets by telephone as well, and it would be more accurate to term their activities "long-distance wagering" (Rose 2000).

The Cook Islands

On 18 August 1995 the world's first online casino appeared. Internet Casinos Inc. was developed for only US$1.5 million and operated from the Caribbean offshore financial center of the Turks and Caicos Islands (Janower 1996). Another of this initial wave of small-capitalization Internet casinos opening in offshore financial centers was Casinos of the South Pacific (CSP), which arose in the Cook Islands. Although there has been confidence in the prospects for Internet casinos among offshore promoters in the Cook Islands, Norfolk Island, Palau, and Vanuatu, online casino ventures in the Pacific region have so far been less than fully successful.

When CSP launched real-money wagering (initially accepting only Swiss francs) in the Cook Islands on 16 May 1997, the company faced the common problem of brand recognition in an industry where no well-known land-based casino in the world had yet established an online site that accepted real-money bets. This situation represented opportunity for small, lightly capitalized companies such as CSP and its associates. Torrey Pines Nevada, which held rights to 80 percent of CSP's net revenues, changed its own domicile to the Cook Islands in June 1997 and in January 1998 merged into Netbet, another Las Vegas–based company traded on the over-the-counter stock exchange. With six hundred shareholders and a mere US$3 million in assets, Netbet was in turn 32 percent owned by another over-the-counter company, United Casino Corporation.

The ease of entry into Internet gambling for companies with so little capital created intense competition, with a large number of failures. The relatively low level of equity in companies such as CSP meant that they were in a poor position to withstand adversity. Bad news could be particularly damaging in an industry where casinos in Caribbean offshore financial centers had disappeared from the Internet after failing to pay out winnings, feeding concern that OFCs registered virtual casinos but did little to prevent fraud.

Nevertheless, the low taxes and fees that CSP was required to pay in the Cook Islands gave it some advantages over competitors, even those based in the laissez-faire offshore gambling center of Antigua in the Caribbean, where seventeen offshore Internet gambling sites were each required to pay at least US$100,000 at the outset for an operating license (*Economist*, 13 December 1997). Vanuatu currently charges US$75,000 as an application fee, along with an annual fee of US$50,000, 0.1 percent of gross turnover, and 2.5 percent of the operation's gross profit after excess bandwidth charges and bad debts have been deducted (*Republic of Vanuatu Official Gazette*, 9 February 2003). But in the Cook Islands CSP incorporated as an international (offshore) company that was structured to pay no tax whatsoever to the government (other than an annual US$1,500 registration fee), despite the fact that it had a substantial onshore presence in Rarotonga and an investment of well over US$1 million in its Web sites there. The Cook Islands general public discovered the situation and became indignant about it in March 1997; until as late as May, CSP's response was that its clients were offshore and thus the company should be treated as an offshore (untaxed) entity. As this position became increasingly untenable politically, CSP agreed in June 1997 that it should remit some (unspecified) percentage of its income to the Cook Islands treasury (*Cook Islands News*, 15 March, 22 May, 19, 27 June 1997).

Later, a somewhat similar (but locally unpublicized) situation arose when Cbet.com (Cook Islands) Ltd., a subsidiary of Exbet.com and an affiliate of Toronto Stock Exchange–listed International Pursuit Corporation, received tax exemption from the Cook Islands government in February 2000. That April, Cbet began operating a patent-pending financial betting system where clients from around the world made fixed odds, tax-free bets on major stock indexes. Allowing bets as small as a dollar by nonprofessional investors, the Rarotonga-based Web site (www.cbet.co.ck) accepted credit-card payments via the Bermuda offshore financial center—the Bank of Bermuda being the major player in the Cook Islands offshore banking industry (International Pursuit Corporation, media releases, 31 March, 7 April, 24 May, 29 June 2000).

Despite a promising start (CSP received US$15 million in bets in its first two weeks of full operation in January 1998 and ranked fifth in turnover among the world's online casinos), the company was soon beset by problems from which it could not recover. In the United States, the State of Wisconsin targeted CSP for allowing residents to gamble on its Rarotonga-based site. State and local governments have traditionally controlled legal gambling in America, but Wisconsin Attorney General James Doyle, a Democrat who launched the suit against CSP, had chaired a working group of the National Association of Attorneys General, which in 1996 made the unusual recommendation that action on the federal level was necessary to control Internet gambling. Most state Attorneys General did not think that American states (individually or collectively) were capable of dealing with the problem without national action against offshore sites, which would involve amendments to the federal Wire Act (Modisett 2002). Usually American states resist the federalization of crime (which takes power away from the states), but in this case they recommended it. The original Kyl bill (introduced in the Senate on 19 March 1997)[11] grew out of the recommendations of Doyle's working group. Doyle became a leader of the crusade against Internet gambling, working closely with Kyl and frequently testifying before the U.S. Congress (U.S. House of Representatives 2000b:40–44, 2000c:19–20; U.S. Senate 1997:7–12, 1999:6–9).

Doyle even showed a videotape of the CSP Web site to the U.S. Senate Subcommittee on Technology, Terrorism, and Government Information on 28 July 1997, emphasizing that the operation was located in the "exotic" Cook Islands (U.S. Senate 1997:7–12, 8). "Gambling on the Internet is much like the Wild West, and foreign jurisdictions have become the hideouts of the bandits," Doyle contended (U.S. House of Representatives 2000b:43). The primary goal of his crusade was to warn American Internet users about the dangers of online gambling and to make clear that bettors could not turn to their state and federal governments for help if they lost money to unscrupulous operators or found that their financial information was being used in harmful ways (U.S. Senate 1999:6–9).

In May 1998 Netbet, which operated CSP, agreed in a consent decree to refrain permanently from accepting wagers from Wisconsin and to provide all of its Internet gambling records to the state for two years. CSP also agreed that its Web site would display in bold type the following statement: "Participation in this Internet gaming site, through registration, opening of an account or placing wagers, by persons physically located within the state of Wisconsin is unlawful and may subject the player to prosecution" (Kelly 2000:160; *Wisconsin v. Net Bet, Inc.*, No. 97-CV-2520, 6©, 9 [D. Wis. May 6, 1998, consent decree, injunction and judgment] at 6[e] at 3, 4).

Worse still, CSP became a target in a landmark lawsuit concerning offshore Internet gambling. California plaintiff Cynthia Haines brought a countersuit against her credit-card providers when these companies sued her for failing to repay US$70,000 that she had lost in gambling with offshore operations. Haines claimed that the companies' claims were void since gambling debts were unenforceable in California and the credit-card companies should not have provided accounts to offshore online casinos, which were not proper legal entities in the United States because offshore Internet-casino gambling was (according to her) unlawful. Providian National Bank of San Francisco, which had supplied her MasterCard and Visa card, settled out-of-court with her, forgiving all her gambling debts and paying her attorneys' fees of almost US$225,000, in October 1999.[12] This settlement encouraged other disgruntled gamblers to sue their credit-card providers (Hammer 2001). Some gamblers claimed not only that their debts could not be collected but also that all money already paid to credit-card companies for their offshore Internet gambling should be refunded to them (Philippsohn 1999:333). After only two years of full operation in the Cook Islands, CSP closed and eventually sold its equipment to an Internet casino in the offshore financial center of Costa Rica.[13]

Despite these problems and growing international pressures against Internet gambling (especially from the U.S. state and federal governments), the global volume of online wagering continued to grow dramatically (Balestra 2000).

Norfolk Island

As problems increased for CSP in the Cook Islands, Norfolk Island—an external territory of Australia—enacted laws permitting the registration of offshore gambling operations. Norfolk Island's tax haven had reportedly for a long time been a convenient place to register commercial entities used by illegal SP bookmakers operating from Queensland's Gold Coast in relation to races in Sydney, Melbourne, Brisbane, and Adelaide (*Sunday Mail* [Brisbane], 10 October 1993), but its orientation toward building its own offshore gambling enterprises emerged only in 1997. In December 1997 the Norfolk Island legislature passed two bills that received assent from the Australian government in April 1998 and allowed the licensing of offshore gambling via the Internet, telephone, and other telecommunications—the most substantial legislation ever proposed to revive Norfolk's offshore financial center, which had been subjected to persistent debilitating pressures from the Australian government since the mid-1970s (van Fossen 2002). Norfolk called for a low tax on Internet sports wagering: not more than 0.5 percent (Cabot 2001b:40).

By January 1999 the Australian Media Company Proprietary Ltd. (AMC), a privately held company incorporated in Norfolk Island, had signed an exclusive memorandum of understanding with the island's government. This memorandum concerned worldwide delivery of interactive home gambling via telephone, the Internet, and a satellite pay-television channel with programs that would be produced in Sydney. The Nevada-based software development company New Directions Publishing Corporation (NDP) licensed its gambling technology in return for royalties. Internet service providers from around the world were to link into AMC through Norfolk, which was seen by the island's promoters as destined to become a major offshore financial center in the Australasian region.

In May 1999 NDP purchased 50 percent of the International Building and Investment Society (IBIS), an established New Zealand building society (savings and loan association) that was to assist AMC with online banking and be transformed into an innovative Internet financial-services provider. The next month AMC received permission to conduct all forms of offshore gambling from the Solomon Islands, which, despite the country's political troubles, advanced the process of uniting AMC, NDP, and IBIS to create an offshore world of Internet gambling and online banking. Soon Visa reached an agreement with the group to form an electronic money system where its cards would allow high levels of financial privacy for those who did not want their payments or gambling proceeds to go through conventional metropolitan bank accounts.[14] As CEO and Chairman Peter Michaels of NDP put it, "Our aim is to provide on-line services enabling people access to banking and investment facilities in some of the South Pacific off-shore and tax-free safe havens from anywhere in the world. We will now be seeking to establish office representation for the Savings and Loan (Building Society) in Australia and elsewhere in the South Pacific" (Professional Public Relations, Sydney, media release, 7 May 1999)

The online casino issue led Norfolk Island to more intense conflicts with Canberra. On 29 March 2000 Norfolk issued its first virtual casino license to uBET.com, a subsidiary of the U.S. company Silicon Gaming, and hoped to see it operating within six months. The casino was optimistically projected to generate over A$2.5 billion in betting from gamblers around the world who would be drawn to Silicon Gaming's highly innovative multimedia technology, boosting the Norfolk Island government's revenue by well over 700 percent—to at least A$100 million annually. Norfolk Island wanted new revenues to improve its roads, hospital, and other infrastructure. The Australian federal Commonwealth Grants Commission estimated that about A$85 million was needed to bring these up to the standards of the rest of Australia and had threatened to act to introduce income taxes on the island to raise the necessary funds.

Norfolk's move was seen to be in direct defiance of advice from the Australian communications minister, Senator Richard Alston, who was pushing for a moratorium on new online casino operations. At the time Australian public opinion was beginning to turn against gambling, and increasing pressure for a global prohibition on Internet gambling was coming from the United States. On 9 June 2000 Alston, who was reported to be angry, flew to Norfolk for discussions about the growth of problem gambling in Australia and to emphasize the federal government had ample constitutional power to halt any attempts on the island to defy a moratorium.

Norfolk officials complained that the problems of Australian gamblers were irrelevant since Norfolk interactive casino licenses prohibited bets to be taken from Australian or New Zealand players, and the federal government had not fulfilled its previous promises to consult with the island's government on the proposed prohibition. But the islanders conceded that they had little choice but to comply with a moratorium—no matter how nonsensical it was. On 28 July 2001 the Australian parliament (overriding the states and territories that have traditionally had jurisdiction over gambling) passed legislation (the Interactive Gambling Act 2001) and made it unlawful for online casinos based in Australia to accept bets from residents in Australia and other jurisdictions with similar laws. It also prohibited Australian online casino operations unless they had existed before 19 May 2000. But the legislation resulted from compromises with minority parties in the Australian parliament and it exempted telephone betting and most forms of Internet gambling: on horse, harness, greyhound, and sporting events as well as lotteries (Vuaran 2002).

The Norfolk Island Gaming Authority issued three bookmakers' licenses for betting on races. One went to uBET.com. The second was obtained by Australian Online Casino. Both companies were licensed to conduct sports betting and wagering in addition to their Internet casinos (Nettleton 2002:449). The third license was granted to World Wide Totalisators Pty. Ltd., operated by Tom Burns, former Queensland Labor Party deputy premier, and Mike King, Norfolk's chief minister from 1994 to 1996. World Wide Totalisators had reportedly made an agreement to link its Norfolk Island offshore terminals with the Queensland TAB (*Sydney Morning Herald*, 20, 21 June 2000). Norfolk had complied with the letter, but not with the spirit, of the Australian fèderal government's initiatives.

The problems for offshore gambling development on Norfolk have been less matters of entrepreneurial drive or consumer demand than of the perspective of the Australian federal government. There is obvious (but frustrated) potential for development when a well-known and substantial company such as Jupiters (which operates large land-based casinos in Queensland) has had to delay the introduction of its proposed Norfolk-licensed online casino, Jupiters.com, until Australia removes regulatory and legislative obstacles (Australian Associated Press, 1 December 2001).

Palau

In August 2000 Palau's National Congress passed controversial legislation enabling offshore Internet gambling. Passage occurred at the end of the legislative session, without public notice or hearings. President Kuniwo Nakamura signed the bill into law on 22 August 2000 despite strong community opposition, especially from churches and women's groups. Nakamura justified allowing offshore gambling by claiming that Palauans would be barred from using the sites and that the initiative would help Palau attract other Internet businesses.

Palau's initial offshore gambling venture was oriented primarily toward offering Internet versions of the pinball-like *pachinko* game, whose total gambling payouts in Japan rival all the money won in the casinos of the United States (Thompson 2001:202–205). Midtech, a company closely associated with a local politician and offshore promoter, Delegate Alan Seid, received an exclusive *pachinko* concession and entered into agreements with Japanese interests to construct an offshore gambling Web site (*Tia Belau*, 5 August 2000).

In October 2000 Palau signed another exclusive contract, allowing Paragon Investments International, a company registered in the British Virgin Islands offshore financial center, to provide an offshore Internet digits lottery game. On 21 December 2000 all of Paragon's officers and directors were British, with the exception of an Australian general manager, but later Paragon's Web site indicated that its vice-chairman was the Palauan presidential adviser Johnson Toribiong.

Promoters promised that the concessionaires would pay millions of dollars each year to the Palau government in fees and a 4 percent tax on gross receipts after payouts to winners, although the operators would be exempt from any other taxes. Paragon had agreed to pay US$2.5 million a year as a minimum to the Palau government after it began to operate. After almost two years, however, the company still had not commenced operations and had paid only US$25,000 (on 20 October 2000). Paragon was also accused of violating British laws by offering its shares at five pounds each to U.K. investors without issuing a proper prospectus and by advertising for British agents to promote its lottery, although promoting an overseas lottery is illegal in the United Kingdom. On the other hand, Midtech's chairman, Alan Seid, who had left the legislature and been defeated in his bid to become Palau's vice president, presented the company's first payment to the government (of US$125,000) on 20 May 2002 and forecasted that revenues to the government from the Internet gambling operation would increase to between US$5 million and US$10 million a year (*Guam Business*, December 2002; *Tia Belau*, 5, 26 August, 2, 28 October 2000, 25 May, 21 September 2002).

Another type of offshore gambling was also creating controversy in Palau. A proposal to allow the remote island of Angaur to offer gambling to foreigners was becoming an important political issue in the country. Palau's national legislature, Angaur's politicians, local referendum voters, and fifteen of Palau's sixteen state governors had endorsed the proposal. Promoters emphasized that Angaur had few other options for making money and that gambling could be combined with beautiful beaches and World War II relics to provide attractions for a tourism industry (*Palau Horizon*, 6 April 2001).

Opponents claimed that a casino on Angaur would bring environmental damage, drugs, prostitution, foreign workers, organized crime, money laundering, harm to families, and severe problems for the gamblers themselves. Furthermore, critics claimed the bill's provisions that excluded Palauan citizens from gambling, while allowing tourists, nonresident workers, and other expatriates to do so, violated rights to equal protection in Palau's constitution—foreigners should deserve the same protection from the harmful effects of gambling as Palauans.

Most Palauan critics oppose both offshore and onshore varieties of gambling, and foes mobilized effectively to defeat a number of pro-gambling candidates and incumbents (including Alan Seid) in the 2000 election. The new president, Tommy Remengesau Jr., strongly opposes gambling. In contrast to his predecessor, who had signed the offshore Internet gambling bill into law two years earlier, Remengesau in late 2002 referred the bill allowing gambling by foreigners back to Palau's legislature, saying he would not sign unless it was substantially amended. In January 2003 he called for a referendum on whether the government should allow gambling, if only by foreigners (*Palau Horizon,* 10 May, 27 September 2002; Radio Australia, 29 January 2003; *Tia Belau,* 9 June 2001, 14 May, 19 October 2002).

Vanuatu's Internet Casinos

Operating from Vanuatu's offshore financial center, My Casino Ltd. started as one of the "digger.coms," Australian mining companies that used backdoor listings on the Australian Stock Exchange to reinvent themselves as technology enterprises after gold prices declined and the mania for Internet stocks began. Euroz, Perth's "float factory," had transformed Western Minerals into Adultshop.com, Livingstone Resources into Webspy, and Abador Gold into My Casino[15]—all companies having as a central director and significant shareholder the Swiss banker Hans-Rudi Moser. My Casino operated an Internet casino and an online sportsbook in Port Vila as well as owning a company that had established an Internet banking facility for them based in the Channel Islands offshore financial center of Guernsey, where it liaised with Barclays Bank. My Casino claimed not to target Australia and not to accept bets from the United States, but instead to concentrate on Southeast Asia and northern Europe.

Despite trading for the first time on "Black Monday" (17 April 2000), My Casino shares went as high as A$1.15 (US$0.71), almost six times the initial offering price of A$0.20 (US$0.12) at which 34,410,000 new shares had been sold to the public in the period between Abador Gold's suspension from the Australian Stock Exchange in December 1999 and its relisting as My Casino. The renamed company was listed on the Australian, Berlin, Frankfurt, and Stuttgart stock exchanges and issued a total of 104,943,890 quoted and 65,600,000 restricted (unlisted) shares.

My Casino handled A$22 million (US$13 million) in betting turnover in May 2000 and A$36 million (US$22 million) in June, spurring managing director Gordon McIntosh to reportedly claim that My Casino was the "world's most successful online gambling company" (*Australian,* 4 July 2000, p. 4) and that "no other online gaming competitor . . . has been able to match or exceed our turnover performance" (*West Australian,* 4 July 2000, p. 31). For July 2000 its reported revenues rose to A$50 million (US$30 million). My Casino in Port Vila was apparently accounting for over 20 percent of all global Internet gambling revenues, estimated at US$1.485 billion for 2000 (Nua Analysis 2002). My Casino's management expected to convert 5 percent of its turnover into profits—a higher profit margin than land-based casinos with higher cost structures.

However, in late July and early August 2000 the company admitted that "uncleared" credit-card transactions totaled A$7.8 million (US$4.8 million) and that it would temporarily disable credit-card processing to deal with fraudulent and suspect transactions. Yet the management continued to report optimism about future prospects and on 11 August 2000 its shares closed at A$0.66 (US$0.39), over three times the recent public offering price.

More than a month passed before My Casino resumed credit-card processing, which it did on 6 September 2000. By September 12 its shares had fallen to A$0.33 (US$0.18). The final blow occurred after its disabled computers were reactivated: a software fault led to the casino's loss of A$560,000 (US$310,000) in two and a half hours of baccarat play.

In May 2001 My Casino announced plans to close its Internet gambling sites based in Vanuatu, admitting that it had lost more than A$4.4 million (US$2.2 million) by accepting bets charged to more than one thousand false and stolen credit cards and paying winnings to other accounts. Ironically, in April 2000 Vanuatu Telecom had requested that My Casino provide credit-card processing for its telephone accounts.[16] Offshore Internet gambling sites are particularly vulnerable to hacking since they contain a great deal of credit-card information and are located in offshore financial centers that often lack the technological sophistication of metropolitan data centers (*International Gaming and Wagering Business,* October 2002).

In July 2001 My Casino announced plans to sell its Vanuatu Internet gambling assets (including computer equipment and two licenses, for Internet sports betting and casino gambling) to Southern Equity Ltd. for stock worth A$300,000 (US$150,000). The deal was conditional, though, on Southern Equity's acquisition of WaterhouseBet, which was controlled by the colorful, Sydney-based Waterhouse racing family. WaterhouseBet owned a chain of ten Grant's Waterhouse betting shops in Fiji—with a monopoly, a turnover of over A$6 million (US$3 million) a year, and former coup leader Sitiveni Rabuka as its chairman. The Waterhouse family was to control between 50.04 percent and 66.96 percent of the resulting entity, depending on future profitability. Business growth was supposed to come primarily from Asia, especially Hong Kong. The previous month Robbie Waterhouse, who was to become a director of the new firm, had won a seventeen-year battle to regain his bookmaker's license after he and his father, Bill, had been warned off racetracks indefinitely by the Australian Jockey Club in 1984 for their part in the Fine Cotton horse-substitution scandal at Eagle Farm racecourse in Brisbane.

By mid-October 2001 the deal had collapsed. Robbie Waterhouse blamed the 11 September 2001 terrorist attacks in the United States and the resulting stock-market decline and uncertainty for Southern Equity's failure to raise the necessary capital. On 10 May 2002 My Casino changed its name to Euraust (*The Age,* 5, 21 July 2001; *Asia Pulse,* 19 October 2001; *Australian,* 5 July 2001; *Australian Financial Review,* 5 July 2001; *Courier-Mail,* 5 July 2001; *West Australian,* 4 July 2002). On 26 February 2003 Euraust shares were trading at A$0.019 (about one U.S. cent).

Although the purely online My Casino was crushed by credit-card fraud, a subsequent Vanuatu-based venture was later viewed as pointing to the future of Internet casinos in the Pacific Islands and the world. In January 2002 Kerry Packer's large and successful Crown Casino of Melbourne established one of the world's first cash-collecting Internet gambling Web sites owned by a major casino. Crown escaped Australia's restrictive measures by locating its online casino in Vanuatu.[17] This was regarded as signaling a structural change in the global offshore casino industry: providing a for-cash betting site with unparalleled credibility and possibly starting a process that would sweep away a number of small and more-dubious operators. Crown had a strong brand and a partnership with the innovative Australian slot-machine manufacturer Ainsworth Games Technology (*International Gaming and Wagering Business,* April 2002) and with Microsoft; these alliances were seen as allowing it to gain a substantial market share for a minimal investment (see Cabot 2001a). Crown's Vanuatu operation was accessing the company's large database in Melbourne to target high-rolling Asian players (*International Gaming and Wagering Business,* August 2002) in an industry where the costs of customer acquisition were high (*Financial Times,* 7 November 2002). Well-capitalized and premier-brand casinos that could present the image of honesty and integrity were often viewed as having the potential to make extraordinary profits—in the range of 10 percent of turnover (McGuigan 1998).

The richest (and arguably the most powerful) man in Australia, the media magnate and billionaire Kerry Packer, controlled Crown Casino and this placed pressure on the Australian government to adopt a softer line on Crown's offshore operations in Vanuatu. Packer was an avid bettor, with a long-standing inclination to use offshore financial centers for tax minimization and little sympathy for onshore governments' restrictions on gambling, one of his favorite activities (Barry 1993:431–444, 466–486). Packer had the capacity to make his views known through his company, Publishing and Broadcasting Ltd. (PBL),[18] which owned Australia's most popular television network (Channel Nine), numerous mass-circulation magazines, and Crown Casino. Packer and his son, PBL Chairman James Packer, were actively involved in shaping Crown's Vanuatu site, receiving daily reports on it. Onshore governments' attitudes toward the offshore realm are sensitive to the structure of onshore power—and ambivalent compromises may result, as when the Howard government (which had halted new Internet-casino development in Australia and its external territory of Norfolk Island) did not criticize Crown's move to Vanuatu.[19] Crown contended that its Vanuatu Web site did not accept monetary bets from Australia, New Zealand, or the United States; instead, Crown's online casino was apparently oriented toward Asia, where the company had strong brand recognition (*International Gaming and Wagering Business*, April 2002). In Port Vila Crown's venture was seen as signaling a new era. As A$30 million (US$15 million) of equipment for Crown's operation was being installed on a leased floor in Vanuatu's National Provident Building, Geoffrey Sheehan, the head of Interactive Gaming Consultants Ltd., Vanuatu's Internet gambling regulator, stated that "we're at the coalface of a new industry . . . it will fundamentally change the economy of Port Vila" (*Sydney Morning Herald*, 18 June 2001, p. 4).

Crown's online venture in Vanuatu was viewed as marking a new stage of evolution and a new maturity of approach. In this case a substantial, settled, well-capitalized, and land-based offline casino was providing a base of credibility for development of an associated offshore Internet gambling site. Crown had the additional advantage of a strong casino brand in an industry characterized by unfamiliar names and inadequate marketing (Dandurand 1999).

The optimism about Crown's Vanuatu venture was to prove unfounded. In 2003 Crown and the other two reputable names that had entered the Internet-casino industry closed their online sites: Crown in Port Vila, in May (reporting losses of more than A$5.6 million [US$3.6 million] for the most recent six months); and Kerzner (Sun) International and MGM Grand, both operating in the Isle of Man offshore financial center, in January and June, respectively. None lasted a full two years. All cited heavy losses, intense competition from less "regulated" offshore operators, an unsupportive international political and legal environment, and problems involved in rejecting as many as 70 percent of potential customers who approached them, that is, anyone who had connections with the United States or other countries where laws, public officials, credit-card companies, or banks had made collection of payments precarious. Nevertheless, though officers in these three substantial firms saw Internet gambling's short- to medium-term prospects as bleak, they forecasted that in the longer term it would become quite profitable (Interactive Gaming Council, media release, 11 June 2003; *Las Vegas Review-Journal,* 30 January 2003; Pacnews, 12 May 2003).

Future Scenarios

Gambling has been legalized and commercialized on a grand scale only since the late 1960s (McMillen 1996:1) during a period that has been characterized as oriented around post-Fordist and postmodern "flexible accumulation" (Harvey 1989). The demand for gambling has increased in those metropolitan countries (such as the United States and Australia) where Fordist-Keynesian expectations of job security, full employment, and rising standards of living have been the most weakened; where class polarization, insecurity, and downward mobility have been the most pronounced; and where people have become increasingly convinced that luck (not only hard work or insight) determines whether one can become rich (Brenner and Brenner 1990:88–90). Gambling "sells hope" and acts as a conservative "safety valve" in a time of economic uncertainties, declining real opportunities, and social strains (Smith 1998).

Nevertheless, it was only when the public was persuaded that legal gambling involved voluntary taxes (and could be used to reduce personal and property taxes) that onshore gambling promoters became successful in the United States (Roberts 1997:606–607) and other countries. As a result of the government's increasing dependence on gambling taxes, public officials have often become gambling promoters. Gambling was legitimized and the general public's resistance was further reduced through convincing people that some gambling taxes were being earmarked for schools, hospitals, sporting facilities, or other areas that were generally supported (Smith 1998). But, if gambling is increasingly done in offshore tax havens, a lack of local benefit may alter public attitudes toward gambling in general.

Just as workplaces have moved from large city-center buildings to suburban malls, and now into the home, so permitted gambling has been evolving on a similar path—with the result that it is coming closer to where people live. Under these circumstances, criticism and public policy debates are likely to become more pronounced. Internet and other forms of offshore gambling may become the center of continuing controversy as the ability to wager becomes more commonplace in the home and erodes the profits of land-based onshore gambling operations, at the same time drawing money away from restaurants, cinemas, and other "legitimate" local businesses. It is also possible that Internet technology will make gambling too accessible, too stimulating, and too disruptive to the extent that American ambivalence toward permitted gambling will turn into hostility, though this does not seem likely at the present time (Eadington 1999:190–191). Rose (1991) contends that gambling in the United States rises and falls in periodic waves, and he forecasts that the current wave will bring nationwide prohibition on gambling in about 2029 after a general reassertion of conservative morality and a "devastating deluge of public scandals" (p. 74) involving compulsive and child gambling, suicides, cheating by gambling operators, winners not being paid, official corruption, the bribery of athletes, and perhaps the rigging of a major sporting event such as the World Series or the Olympics. However, the effects such a prohibition (if it occurs) would have on offshore financial centers are contestable: the Internet may have technological abilities that allow offshore gambling operators to avoid land-based restrictions (Rose 2000).

While prohibitionist sentiments are strong in the United States, which plays a dominant role in establishing global norms and criminal laws, global prohibition regimes can be undermined by weak or dissident states. There are few international prohibition regimes and even fewer global ones. Although newness makes Internet gambling more vulnerable to prohibition (since it has not yet developed powerful constituencies or been integrated into key social functions), it is also not generally seen around the world as very dangerous—which explains why prominent prohibitionists such as U.S. Representative James Leach of Iowa have attempted to connect it to activities that are more widely condemned, such as money laundering and terrorism (U.S. House of Representatives 2001a:21–22, 2001b:5–6, 15, 2001c:4–8; see also Rose 2002; van Fossen 2003). The indictment of leading figures of Vanuatu's offshore financial center on charges of money laundering in relation to a lottery may make offshore gambling in the Pacific Islands more amenable to this type of criticism.[20] Yet even almost-universal moral condemnation of an activity (for example, prostitution) does not necessarily result in a global regime to prohibit it (Nadelmann 1990).

The defenders and opponents of offshore gambling differ about how effective any prohibition regime can be. At the center of the dispute is the credit card, used to open 90 percent of Internet gambling accounts and an area of controversy since the Cynthia Haines case. Prohibitionists point to the fact that political pressure on a Visa executive to defend his company's business dealings with offshore Internet gambling operations before a U.S. Congress hearing on 12 July 2001 (U.S. House of Representatives 2001a:25–27, 155–168) led credit-card companies to become very restrictive. As a result the credibility of offshore gambling enterprises suffered, since the American card-issuing banks increasingly refused to allow cardholders to charge wagers or, worse yet, refused to accept credit back on gambling—meaning that offshore gambling operations could not pay winnings or refunds in an efficient and timely way. Even promoters of offshore Internet gambling (e.g., Schneider 2002; Sinclair 2002) admitted that operations that depended heavily on U.S. customers faced declines of between 50 percent and 80 percent in their revenues during the second half of 2001. By October 2001 most major credit-card-issuing banks in the United States disallowed the offshore gambling transactions of their clients (*International Gaming and Wagering Business,* October 2001). This crisis resulted in a number of operations being offered for sale, given back to their software suppliers, or being acquired by larger firms.

Many promoters regard these setbacks as limited (e.g., Cabot 2002:517). Their view is that credit cards (while convenient for customers and the standard medium for conducting online business) have always been a temporary expedient until better monetary-transfer instruments are developed for Internet gambling. Credit cards are undependable because gambling debts are unenforceable in many common-law countries (as reflected in the Haines case) and because credit-card companies are subject to political pressures. Many of the most successful offshore Internet gambling operators pioneered moving customers away from credit-card transactions to debit- and cash-based transactions (Sinclair 2002). Defenders of offshore gambling claim that the moves by some credit-card companies to refuse Internet gambling transactions led some American gamblers to deposit and leave substantial sums in OFC bank accounts rather than try to send the money back to the United States (*Wired,* 23 September 2002). Balestra forecasts that worldwide Internet gambling revenues will continue their steady and spectacular growth—from US$4.45 billion in 2002 to US$10.69 billion in 2005—despite the problems with U.S. credit-card companies and banks (2002:37). Furthermore, respected outside observers note that certain operations continue to be extremely profitable; for example, Costa Rica's leading offshore site for multiplayer poker (paradisepoker.com) was reported to have annual net profits of over US$100 million in 2001–2002 (*Financial Times,* 7 November 2002).

Conclusion

Pacific Islands offshore financial centers have been at the forefront of developing offshore (including Internet) gambling, which has been plagued by a legitimacy deficit. Offshore gambling is illegitimate to the degree that such wagering is not generally supported, accepted as appropriate, or able to justify its right to existence. The Internet has vastly expanded the possibilities, but most people have not been socialized to see this as desirable and Internet gambling has not had an opportunity to build popular acceptance (see Mezias and Boyle 2002). Thus Internet gambling has become a prominent target for metropolitan politicians and public officials, especially in the United States. Within U.S. political circles the legitimacy of Internet gambling is so low that attacks on it are far more likely to be radical (advocating prohibition) than reformist (favoring regulation), with a number of American states having already enacted prohibition. The movement of Internet gambling operations to OFCs in the Pacific Islands and elsewhere, where they achieve some distance from metropolitan policing and prosecutors, has acted to consolidate an image of these tax havens as centers for disreputable activities, places where operators and clients go to escape legal and ethical obligations. Recent actual or threatened sanctions against Internet gambling and Pacific Islands OFCs (van Fossen 2003) and the frequent failures of Internet gambling operations in Pacific Islands tax havens have tended to weaken the perceived legitimacy of both. The strong moral crusade against offshore Internet gambling (especially in the U.S. Congress) has threatened the financial transactions and credit-collection systems of these operations as a whole; prior to attracting political attention the use of credit cards, checks, and other noncash payments in the business had been relatively unproblematical. The current legitimation crisis of offshore gambling in Pacific Islands tax havens will be difficult to resolve. And this crisis is likely to result in further economic turmoil for the industry, the companies within it, and the Pacific Islands tax havens that host them, at least in the short and medium term.

In the longer term, promoters contend that offshore gambling (which is still in its infancy) will become ever more pervasive as it matures and the Internet expands and deepens. Prohibitionists believe offshore gambling will be stifled by preventing onshore agents (such as banks and credit-card companies) from assisting it, especially in its new and threatening Internet form. In either case, the fate of offshore gambling in the Pacific Islands is increasingly a crucial test for the viability of a new kind of minimal social unit: a single individual at a home computer withdrawing from conventional society to risk money in private communications with virtual sites in small and distant islands.

NOTES

All exchange rates between currencies are based on the average for the particular year.

1. *Offshore gambling* is the process through which foreigners play a game of chance for money or other stakes with a company that is registered in a tax haven. Increasingly, offshore gambling takes place over the Internet. A *tax haven* is a jurisdiction that allows residents or foreigners to minimize tax payments. An *offshore financial center* is a tax-haven jurisdiction that has at least one significant institution primarily engaged in accepting de-

posits and investment funds, and where intentional government policy is oriented toward attracting the business of foreigners by creating legal entities and structures or facilitating immigration, naturalization, residence, or the acquisition of passports to allow foreigners to minimize taxes, regulation, loss of assets, unwanted financial disclosure, and forced disposition of property. All offshore financial centers are tax havens. Not all tax havens are offshore financial centers (e.g., the Federated States of Micronesia and Pitcairn Island are tax havens but not offshore financial centers).

2. "What this bill is primarily directed at are the 1,400 offshore sites that are illegal, unregulated, untaxed, and sucking over $2 billion a year out of the country" (U.S. Representative Robert Goodlatte, Republican of Virginia, a leading sponsor of anti–Internet gambling bills, in U.S. House of Representatives 2002:43).

3. Niue's ambition to become an offshore Internet gambling site (encouraged by Canadian businessman Michael Hillman, who had an exclusive license to operate Niue's online casino, sportsbook, and state lottery) was frustrated when the New Zealand government prevented the Niue government from using its consulate in Auckland as the prime computer-server site (*Niue Economic Review*, April, July 1998). In 2003 the Nauru government received a proposal to give a ten-year monopoly over its offshore financial operations (including offshore gambling) to AFCON, a consortium including the lawyer Nic Petroulias, a former senior official with the Australian Taxation Office then facing fraud charges (Radio Australia, 3 March 2003). Nauru's OFC has a reputation problem, even in offshore gambling circles, not least because it was reported to be the registered home for rogue telephone companies that were hijacking the connections of Web surfers to Internet betting sites. The victimized gamblers did not realize until they received their bills that very large amounts of their money were being funneled into the hijackers' offshore bank accounts (Dow Jones International, 6 April 2003).

4. A *totalizator agency board* or *TAB* adds up (totalizes) all bets and pays winners a relatively fixed percentage of total revenues, leaving the remainder for taxes, administration expenses, and profits.

5. An example of this acceleration was VITAB's A$3.1 million (US$2.4 million) in turnover for the five weeks between 22 May and 25 June 1994, which might have constituted 30 percent of ACTTAB's total turnover for that period (Burbidge 1997: annexure t).

6. Although not noted by Burbidge, it appeared strange, in view of the supposed Asian clientele of Vanuatu's totalizator operators, that Vanuatu's laws stated that totalizator bets could be accepted only in vatu (the national currency) and Australian dollars (Vanuatu 1993:6).

7. *The Age*, 25 April 1993, 19 April 1994; *Australian*, 18 May, 16 June, 2, 12 August 1994; *Australian Financial Review*, 26 November 1993, 15 April, 17, 19 May, 27 June 1994; Burbidge 1997; *Canberra Times*, March–August 1994, passim, also 4, 13 December 1997; *Sydney Morning Herald*, 21, 23 February, 18 June 1994.

8. In March 2000 Bastion climbed out of his penthouse apartment and plunged six floors to his death. At least A$50 million (US$31 million) that Bastion had been managing for 354 investors was missing (including A$1 million for Allan Tripp). From December 1995 to May 1998 Bastion had been a director of Mansaw, a commercial property developer

in Melbourne; Peter James Bartholomew was also a Mansaw director (*Sydney Morning Herald,* 29 April 2000).

9. In March 2001 Sportingbet acquired Number One from VITC, a trust company whose chief beneficiaries are Tripp's family, for a package of cash, shares, and other payments worth up to £39.8 million (Sportingbet.com, media release, 15 March 2001).

10. New South Wales and Victoria had responded to the competition from Vanuatu by enacting laws that prohibited their residents from betting with bookmakers who were not licensed in Australia. These laws were widely regarded as ineffectual.

11. Kyl first proposed prohibiting Internet gambling in an amendment to the Crime Prevention Bill of 1995 (Rose 2000). This failed and he later formulated his prohibitionist program in freestanding bills.

12. Even though it was not a party to the litigation, Cryptologic Inc., a leading supplier of Internet gambling software, paid most of the settlement. The company claimed that the settlement of the Haines case out of court meant that it could set no precedent (Hugel and Kelly 2000:139).

13. *The Age* (Melbourne), 28 July 1997; Casinos of the South Pacific, media releases, 29 January, 27 May 1997; *Dominion* (Wellington), 17 June 1997; *Economist Intelligence Unit Report,* 15 December 1997; *Interactive Video News, 26* May 1997; *International Accounting Bulletin, 27* February 1997; *International Gaming and Wagering Business,* April 1997; *Internet Week,* 30 June 1997; NBC 1997; Netbet Inc., media releases, 18 August, 26 December 1997, 15, 30 January 1998; *Pacific Islands Monthly,* June 1998; Torrey Pines Nevada Inc., media releases, 16, 20, 27 May, 17 June, 29 July 1997; United Casino Corp., media releases, 27 June, 4 October 1996, 14 February 1997.

14. *Australian,* 4 March 1999; Australian Media Company Pty., media release, 21 July 1999; New Discoveries Publishing Corp., media releases, 12 January, 23 February, 1, 3 March, 9, 30 April, 7, 19 May, 14, 30 June 1999.

15. A backdoor listing occurs after a listed shell company with negligible assets is acquired, renamed, and used for new enterprises, thereby avoiding laws that require a prospectus to be issued for a new stock offering. Of these "digger.coms," Webspy provides real-time Internet monitoring and management, services designed to detect employees chatting online or accessing gambling, pornography, personal investment, or shopping sites at work—leading causes for disciplinary action and termination (Webspy, media release, 22 May 2002). Adultshop.com sells sexually oriented materials online.

16. Australian Associated Press, 28 March, 12 September 2000; *Business Review Weekly,* 11 May 2001; *Herald Sun,* 15 August 2001; My Casino, media releases, 14 April, 28 July, 4 August, 6, 12 September 2000; Reuters, 15 October 1999; *Shares,* August 2000; *Sydney Morning Herald,* 22 February 2000, 4, 12 May 2001; *West Australian,* 18 April, 4 July, 12 August 2000, 4 June 2002.

17. In May 2002 Pacific Star Resorts proposed a similar onshore-offshore venture. It planned to raise A$35 million (US$19.3 million) in a public float to develop a new Vanuatu cyber-casino to be aligned with its acquisition of the new five-star, seven-story, sev-

enty-five-room Grand Hotel Casino in Port Vila. The intention was to expand into sports betting and lotteries. However, the company failed to reach the minimum subscription of A$6 million (US$3.3 million) in its fund-raising effort, which was not underwritten. The A$6 million was seen as the minimum required to establish the online gambling facility, exclusive of the hotel acquisition. Charles Blunt, a former member of the Australian parliament who led the federal National Party from 1989 to 1990, chaired Pacific Star Resorts (*Australian Financial Review*, 25 May 2002; *Gold Coast Bulletin*, 29 July 2002). Other purely online Vanuatu gambling ventures have had difficulties with initial public offerings. Gamble.com.au, which operates an Internet casino in Port Vila and also planned to target cricket, hockey, and soccer betting in India and Sri Lanka, did not succeed in its A$16 million (US$8.8 million) float of 25 percent of the company, which was intended to gain a listing on the Australian Stock Exchange by June 2000. The float failed despite a well-known management team and support from prominent Melbourne businessmen and Clubs Victoria, an association of more than five hundred sports clubs, which owned 5 percent of the shares before the float (*The Age*, 21 March 2000, 26 June 2001). Two attempts to list on the Australian Stock Exchange by a company that held online gambling licenses in both Vanuatu and Norfolk Island also failed. After the November 2000 float of Australian On-line Casino was unsuccessful, it changed its name to Leisure & Gaming Corp. but could not raise the A$4 million (US$2 million) it sought in October 2001 (*The Age*, 15 October 2001; *Australian Financial Review*, 12 October 2001).

18. The Packer family's Consolidated Press Holdings owned 37.8 percent of PBL on 20 September 2001 (Anonymous 2001:414).

19. Richard Alston, the Howard government's communications and information technology minister, was extremely moralistic when he acted to ban new Internet-casino operations in Australia. In relation to Crown's proposed move to Vanuatu, however, he said, "We have always made it plain that it is not a matter for Australia to make moral judgments about what happens elsewhere" (Reuters, 29 May 2001).

20. In early December 2002 two leading figures in the Vanuatu OFC, Thomas Montgomery Bayer and Robert Murray Bohn, were among seventeen people indicted by a grand jury in Memphis, Tennessee, for their alleged involvement with offshore gambling operations that took money disproportionately from elderly Americans who bought lottery tickets they never received. Bohn, the head of Vanuatu's flag-of-convenience registry (van Fossen 1992), was arrested and imprisoned in New Orleans. The headquarters of the offshore lottery-ticket operation (which was led by Canadians from Vancouver) moved frequently and assumed more than thirty corporate names. The U.S. investigation started when victims began telephoning operators of the IDM lottery enterprise in the OFC of Barbados to complain but called the Caribbean country's FBI legal attaché office (which had a similar number) by mistake. The offshore lottery operation (in its various incarnations) received more than US$100 million since it started in 1989. Bayer said that the U.S. charges (including money laundering, racketeering, conspiracy, and mail fraud) arose from the association of his Vanuatu-based European Bank, of which Bohn is CEO, with the Barbados-based IDM during the mid-1990s. In February 2003 Bohn was granted bail, which required him to stay in the United States. Bayer and Bohn contended that they were innocent but the damage to the reputation of Vanuatu's offshore financial center could continue for years, as the case was not expected to be heard until 2004 at the earliest

(*Commercial Appeal* [Memphis], 6 December 2002; *Globe and Mail,* 10 December 2002; *Lloyd's List International,* 10 December 2002; Pacnews, 10 February 2003; Radio New Zealand International, 16 January 2003).

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