

Costa Rica's Lax Laws Shield Online Gambling Industry

Think of Costa Rica and flashes of colorful birds, bright beaches and long hikes through the rain forest come to mind.

But several recent arrests and indictments have thrust the country into the spotlight for another, less savory reason: its cozy relationship with the online gambling industry. The industry is under fire from U.S. authorities, helping create the notion that this small Central American nation is the cybernet version of 1950s Cuba.

Earlier this month, police arrested British national Peter Dicks, a top official of Sportingbet, at JFK Airport in New York. In July, authorities picked up BetonSports CEO David Carruthers, also a British citizen, at Dallas/Fort Worth airport. Both companies operate in Costa Rica.

Ten other Betonsports employees have been arrested in the United States. All are out on bond while facing charges ranging from tax evasion and racketeering to wire fraud and illegal gambling.

Also in July, U.S. prosecutors indicted four men, two of them Costa Rican citizens, in California and arrested one of them on charges of running an illegal online gambling operation in Costa Rica.

The moves by the U.S. Justice Department have industry insiders scratching their heads and shares of online gambling companies tumbling on international stock markets.

"It baffles me," said Eduardo Agami, president of the Costa Rican Association of Call Centers and Electronic Data, which represents 19 of the online gambling companies here. „Why go after companies that are trying to operate legally?"

The legal arguments are based on the 1961 Wire Act, which forbids gambling over the telephone, but until recently few actions had been taken to slow this business.

Online gambling has been going on since the mid-1990s, and Betonsports and Sportingbet are both publicly listed companies that operate legally and are audited in several countries. Still, with half of the betting coming from the United States, federal prosecutors and lawmakers seem bent on going after the USD 12 billion industry.

“Internet gambling threatens our families by bringing addictive behavior right into our living rooms,” Senate Majority leader Bill Frist said earlier this month on the Senate floor.

In July, the House of Representatives passed a bill expanding the Wire Act to include Internet gambling; the Senate is expected to move on the legislation before it recesses Oct. 9 for mid-term elections.

“The U.S. has clearly stated that they want to stop international companies from accepting Internet wagers from U.S. residents,” Internet gambling mogul Calvin Ayre – who is one of Forbes magazine’s 1,000 richest men in the world and whose Internet site, Bodog.com, also operates in Costa Rica – said in a statement following the Dicks arrest.

“The only surprise is to find a director of a public company that accepts wagers from the U.S. to be traveling in the U.S. at this time,” Ayre added, referring to Dicks and Carruthers.

In the middle of this fray is Costa Rica, a country of nearly 4 million people known more for peaceful democracy than for gambling. An estimated 200 online gambling companies have operations here. Some operate more secretly than others; all of them like the advantages that Costa Rica offers.

The Costa Rican government treats gambling like any other

business. The companies operate with little oversight and pay less in taxes than they might in other countries that do regulate to avoid money laundering and other criminal activities often associated with the industry.

Costa Rica also offers companies a secure legal framework and an educated population, many of whom speak English with a flat Costa Rican accent.

Online gambling, a capital-intensive industry, has given the Costa Rican economy a boost as well. The industry employs close to 10,000 people directly and scores of others indirectly through rents, infrastructure and maintenance. Most of the employees are students or recent college graduates struggling to find a job in their field but making more money than they might even if they did.

Alex Schultz, 28, who speaks Spanish, English and German, got a degree in political science at a local private university. He worked at a human rights group before getting a job at Bodog.com in 2002. Now he's setting the betting lines on games.

"Here you can finance your studies, pay your expenses and your rent," Schultz said.

In the current climate, Costa Rica also may offer a safe refuge. Betonsports founder Gary Kaplan is allegedly in Costa Rica, although employees here say he hasn't been around in years.

There's an extradition agreement between Costa Rica and the United States, but Costa Rica's Vice President and Justice Minister, Laura Chinchilla, said someone would have to be breaking Costa Rica's own laws in order to be extradited.

"If they're only accused of illegal gambling in the United States, then we can't proceed [with the extradition]," she told The Miami Herald.

Initially, industry watchers suspected the U.S. government was targeting Betonsports because of Kaplan, alias "Greg Champion" or "G." Kaplan started his career as a runner for bets on the streets of New York and was arrested there in 1993 on charges of illegal gambling before moving his operations to Florida, then Antigua and finally Costa Rica.

Indeed, the indictment against Betonsports reads like something against the Sicilian mafia or Colombian drug lords. Filed in the Eastern District of Missouri, it's littered with supposed aliases, front companies and massive bank transfers that went to Ecuador and Belize.

Costa Rican officials are feeling the pressure from the U.S. government as well. They have promised to better regulate the industry, and in March, the government raided Ayre's multimillion-dollar home after neighbors said he was holding an illegal gambling event. Authorities said they found nothing.

"We're interested in incorporating them into the financial system," Chinchilla said about the industry. „We need to set up clear rules. We don't want companies that are fugitives.“

Legislation or no, there seems to be little stopping online gambling.

"The public has spoken: They want online gambling," Agami said. „It's not something that you're going to stop by throwing two stodgy old Brits into jail and treating them like criminals.“