

## **Illegal and Offshore Gambling**

Illegal and offshore gambling operations take as much betting from Hong Kong people - dollar for dollar - as the Hong Kong Jockey Club takes through all legal betting on horse racing. Conservative estimates are that, in the last racing season, illegal and offshore gambling, mainly betting on horse races and soccer matches, amounted to at least HK\$80 billion.

One example. In June 2000 ICAC and Macau law enforcement officers arrested 28 people running an illegal gambling operation taking bets on Hong Kong races. This syndicate alone was taking bets worth at least HK\$100 million on each Hong Kong race meeting (there are currently 78 race meetings each season). This one illegal operation was undoubtedly just the tip of the iceberg.

As well as the volume of illegal and offshore gambling, the range of betting and gambling activities is also expanding enormously: from Hong Kong and overseas horse racing to soccer, greyhounds, basketball and golf, from the Mark Six to overseas lotteries and casino games. Some of these activities have the potential to grow as rapidly as soccer betting has in the past few years.

Many offshore gambling operations are aggressively and openly soliciting bets in Hong Kong. Their activities, deliberately targeted at Hong Kong people, take various forms, including:

- advertising and promoting betting services in the local media, through press conferences, on buses, at sporting events
- offering betting odds in the local media
- operating betting service centres, across Hong Kong, providing account settlement and deposit services
- providing satellite betting services, using restaurants and bars, and recruiting agents, from bar tenders to housewives, to solicit bets
- settling bets through Hong Kong banks and Hong Kong issued credit cards

Illegal and offshore gambling relies largely on telephone betting, but increasingly also on the Internet. There are now more than 1,400 Internet gambling sites offering sports betting, casino games and lotteries. About 140 of these sites offer Chinese language services. Some offer discounts and bonuses on Hong Kong horse races and Mark Six draws.

## **The Financial Loss**

The Jockey Club pays tax to the Hong Kong SAR government - HK\$12 billion last year or HK\$104 billion over the past 10 years - some 11% of all government revenue from tax. (Betting duty in Hong Kong is the second highest of all major racing jurisdictions). As Hong Kong's largest single tax contributor, the Jockey Club supports the local economy and makes a direct contribution to maintaining Hong Kong's competitive low tax regime. Illegal and offshore gambling operations pay no tax in Hong Kong. In addition, through the siphoning of Hong Kong's betting dollars, they seriously threaten a major and consistent source of government revenue.

The Jockey Club is non-profit-making and donates surpluses from racing and betting to charities and community agencies. It is, next to government, Hong Kong's largest provider of charity funds. Over the last five years some 230 organisations have benefited. Club charity donations, HK\$1.1 billion last year or HK\$11 billion over the past 10 years, have been used to help people from all parts of the community, in particular the young, the elderly, the sick and the handicapped. Illegal and offshore gambling operations make no contribution to meeting Hong Kong's charity and community needs. Even worse, by attracting revenue from legal betting, they threaten the source of the donations on which many Hong Kong charities depend.

## **The Social Costs**

Hong Kong's gambling policy reflects community wishes in not encouraging gambling but allowing controlled legal gambling outlets to exist. It also thereby recognises that gambling is not just another industry, but one requiring a careful balance between the demand and the possible social costs. The Jockey Club's operations are accordingly regulated and controlled - through limited betting opportunities - to try to maintain this balance.

Illegal and offshore gambling, without any control or regulation in Hong Kong, upsets this balance and takes the decision out of the hands of the Hong Kong people and government. It is frequently associated with many serious social problems and even criminal activities:

- credit betting, debt, loan-sharking
- corruption, race-fixing, match fixing
- money laundering
- triad and organised crime activities

In other countries, particular concerns have been expressed about the likely harmful effects of uncontrolled and unlimited, 24-hour-access, credit-based Internet gambling: the risks of credit gambling leading to serious debt; under-age gambling; increases in problem gambling; and gambling fraud.

## **Other Jurisdictions**

Other countries have and are facing similar or related problems. It is widely recognised that a long-term solution requires a global consensus, but that this is likely to take many years to emerge. In the meantime other countries, especially those targeted by offshore gambling operations, have already taken action:

- in the U.S., to contain a rapidly escalating problem, existing legislation has been used as a deterrent and prosecutions have been successfully brought against offshore Internet gambling operations: several states have introduced legislation and a specific Anti-Internet Gambling Funding Bill is again before the House of Representatives
- in Australia, following earlier attempts at regulation, and reflecting government and community concerns about the huge growth in gambling and consequent heavy social costs, a moratorium has been imposed on new Internet gambling sites

- in Britain, it is an offence to conduct any business for negotiating, receiving or transmitting bets with an overseas bookmaker, or to advertise such services: in addition, to remove the incentive to use illegal and off-shore bookmakers, and to give British bookmakers an international competitive edge, government plans to abolish betting duty and replace it with a gross profits tax
- in France, legislation bans offshore gambling operations from advertising their services and accepting bets

There is evidence that having clear laws does help to deter and control the activities of illegal and offshore gambling operations. To avoid breaking the laws of the various countries concerned:

- offshore bookmakers do not advertise in Britain
- some offshore gambling operations do not accept bets from U.S. citizens
- many Internet gambling sites carry warnings about the need to check on local laws
- several banks have prohibited use of their credit cards for Internet gambling
- several credit card companies have issued warnings to U.S. customers about the use of their cards for illegal activities

The actions of these other countries mean that offshore gambling operations are now increasingly targeting locations which have high betting turnover and which are unprotected. Hong Kong is increasingly vulnerable.

## **Hong Kong Law**

Hong Kong's gambling legislation was framed in the 1970s and is now inadequate as a means to support the necessary police enforcement or to contain the enormous growth in illegal and offshore gambling. In essence the law makes gambling and bookmaking - the soliciting, receiving, negotiating or settling of bets - illegal unless authorised. In practice, offshore gambling operations, none of which are authorised to operate in Hong Kong, are exploiting a legal loophole by offering services in Hong Kong while having part of their operations offshore. On this basis they openly advertise and promote their services and accept bets from Hong Kong people, actions which are clearly against the spirit of the law, against long-established government policy, and which provide no benefit or return to the Hong Kong community.

At present, Hong Kong law is not sufficiently clear, does not support the necessary police actions and is not an effective deterrent against illegal and offshore gambling. Amendment of the law is urgently needed since failure to act now will open the Hong Kong community to **unlimited, unregulated and uncontrolled gambling**: in other words, a gambling 'free-for-all.' This, clearly, is not what the government or the people of Hong Kong want. Only by amending the Gambling Ordinance can the legal loophole be closed, the threat of illegal and offshore gambling contained, and the damage to Hong Kong's financial and social stability limited.

### Attachments

Examples of news articles and promotional materials referring to illegal and offshore gambling operations are attached.