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TESTIMONY

of

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on

**“The Expansion of Internet Gambling: Assessing Consumer
Protection Concerns”**

**before the
Subcommittee on Consumer Protection, Product Safety and Insurance
Committee on Commerce, Science and Transportation
United States Senate**

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— BUILDING ON A PROUD TRADITION —

Good morning, Madam Chairman, Senator Heller and the distinguished members of the Subcommittee on Consumer Protection, Product Safety and Insurance. My name is Chuck Canterbury, National President of the Fraternal Order of Police, the largest law enforcement labor organization in the United States, representing more than 330,000 rank-and-file police officers in every region of the country.

I want to thank you for inviting me here this morning to share the views of the Fraternal Order of Police on the impact Internet gaming may have on public safety and the need to update and modernize the Wire Act.

The 2011 Memorandum Opinion for the Assistant Attorney General of the Criminal Division in the U.S. Department of Justice held that the Wire Act of 1961 did not prohibit State lotteries from selling tickets online. It also reinterpreted the statute much more narrowly, holding that the Act only prohibited sports betting and not other forms of online wagering.

We are in a wireless age and it is clear that the Wire Act is an old law ill-suited to addressing our new problems. The Interstate Wire Act was enacted in 1961—a time when the great-grandfather of the

Internet, ARPANET, was still in its embryonic stage. The FOP strongly believes it is time for our nation's legal framework to catch up to the technology it seeks to regulate.

The FOP has been very active on these issues and we have repeatedly urged the Administration and Congress to work with us to update this law and give law enforcement the tools they need to successfully investigate and prosecute these crimes.

In 2006, the FOP supported the enactment of the "Unlawful Internet Gambling Enforcement Act." This law did not address expand or redefine any criminal activity but it did require financial transaction providers to block and refuse transactions associated with illegal gambling. The aim of law enforcement in supporting this legislation was not only to enforce existing gambling laws—like the Wire Act as it was interpreted and applied at that time—but also to help combat the use of these offshore gambling operations to launder money from other criminal enterprises. It is clear from testimonies given before Congress on this issue and the new application of the statute as interpreted by the Justice Department that law enforcement needs a better, clearer framework as well as new tools if we are to achieve these ends.

Money laundering is hardly the only threat. Millions of Americans wager regularly on offshore Internet gambling sites beyond the reach of the Federal government. Without the authority previously provided by the Wire Act, there is no legal or regulatory framework for law enforcement to shut down illegal activity and millions of Americans will have no recourse if they become the victims of fraud or other criminal acts to seek redress. There is no enforcement mechanism to provide prompt and accurate payments, to prevent criminals from entering the marketplace, rigging games, taking advantage of children, or misusing customer identification and financial data.

The U.S. Department of State's 2012 International Narcotics Control Strategy Report (INCSR) stated:

While not a major regional financial center, Costa Rica remains vulnerable to money laundering and other financial crimes, including various schemes that target U.S.-based victims. Money laundering activities are primarily related to the foreign proceeds of international trafficking in cocaine. A sizeable internet gaming industry also launders millions of dollars in illicit proceeds through Costa Rica and offshore centers annually.

The Costa Rican government reported that their nation is primarily used as a "bridge" to send money to and from jurisdictions and other offshore financial centers. The State

Department noted several obstacles preventing the Costa Rican government from properly investigating and prosecuting money laundering offenses by not fully utilizing law enforcement tools like cooperating witnesses, confidential informants, electronic surveillance and undercover operations. In addition, money laundering cannot be charged as an additional offense to another crime in Costa Rica. You can prosecute and convict an individual for narcotics trafficking, but then they cannot also be charged with laundering the profits from the drug sales.

Organized criminals engaged in money laundering know that they can exploit these shortcomings in countries like Costa Rica, which is why they set up shop there. This is starkly demonstrated by the fact that 4 of the 11 individuals indicted by the U.S. Department of Justice for operating online gaming sites listed their residence as Costa Rica.

These 11 defendants were charged for violations of UIGEA and the Illegal Gambling Business Act (IGBA). The latter Federal statute was adopted by Congress in 1970 in an effort to attack the profits of organized crime. Apart from the individual making the

wager, the statute allows any person that plays a role in the business or organization of conducting a gambling business to be charged with violating or conspiring to violate the Act. A key component to this law, however, is that there must be a *State* statute prohibiting the activity, which then would allow the Federal government to investigate and prosecute the case.

The IGBA does provide law enforcement with some means to investigate organized money laundering based offshore. It also presents some questions about the reach of the law because the activation of the statute is dependent upon the State law. The indictments I mentioned earlier were brought using the State of New York, which defines gambling as taking place based on the location of the bettor. In other States, bettors may be able to call in their wagers to an offshore bookmaker and not be in violation of State law, thus precluding the Federal government from using the IGBA to go after these criminal enterprises.

Recent reports and investigations in Europe demonstrate that organized crime in Italy is laundering what one law enforcement official described as “enormous amounts of money” using online

gaming sites in Germany. In 2007, the individual German states took over regulation of gambling, but there are no criminal penalties for using or operating an illegal gambling site. The illegal online gaming market is booming in Germany and criminal enterprises are taking advantage of it.

We know this for certain: organized crime is using offshore online operations to launder their profits. We also know that terrorist organizations are or could be using the same strategies to launder funds. According to counterterrorist analysts at Jane's Strategic Advisory Service, there are indications that terrorists in Afghanistan have been using illegal gaming sites to launder their money.

Illegal profits from unlawful activities are not of much use to criminal operations unless the money can be cleaned through legitimate channels. Without money laundering, organized crime could not exist. With changes in the how the Wire Act can be used, the limitations of both the UIGEA and IGBA, law enforcement in the United States does not have the means to effectively identify and shut down these operations.

The FOP is not advocating for any expansion in defining what online gaming activity is deemed unlawful. This was the position we took when we supported UIGEA and it is the position we still hold.

I believe U.S. law enforcement can rise to the challenge and successfully attack online fraud, money laundering and illegal gaming. Frankly, it is ridiculous that the Federal government continues to regulate dynamic, ever-changing technology with legislation crafted in 1961. In 1961, we were dealing with the Bay of Pigs, the Beatles were first performing and President Obama was born. Time certainly has marched forward and it is vital we address this issue before we fall even further behind. Continuing to wait on this issue will only cause it to become more serious.

We need Congress and the Administration to work with Federal, State and local law enforcement to devise an enforcement and regulator framework that will allow us to identify and go after organizations and businesses that are participating in or funding illegal activity. I am confident that we can do that if we work together.

**I want to thank you again, Madam Chairman and Senator Heller,
for the invitation to testify here today and I am ready to answer
any questions you may have.**