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Scandals And Mafia Allegations May Force Malta To Reconsider Its Reliance On Online Betting

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Italian Anti-Mafia Prosecutors in the region of Catania are investigating 336 individuals and have ... [+] GETTY

In 2004, the Mediterranean island nation of Malta began its transformation from sleepy tourist spot to international gambling mecca. As Malta became the first European Union member state to regulate online betting, proponents of the legislation saw the country as a trailblazer. It could generate billions of dollars in tax

revenue, with companies able to offer on-shore betting to customers across the European Union's 27 member states. By placing bets through an EU-registered sportsbook, customers received reassurance. Companies, meanwhile, benefited from tax breaks that can often only be secured offshore.

Seventeen years later, Malta—in the view of Transparency International, bilateral law enforcement agencies and several members of the European Union—is a cause for concern. Against the backdrop of the public inquiry into the assassination of journalist Daphne Caruana Galizia, Malta has been rocked by a series of scandals this month, which saw the Malta Gaming Regulator's former anti-corruption tsar charged with corruption. Meanwhile, anti-mafia prosecutors in Italy allege that the Malta Gaming Authority-licensed site RaiseBet24.com laundered \$74.2 million for the Cosa Nostra.

Scandals have been mounting since 2017. The extent to which Malta's once-attractive remote gaming license will now appeal to legitimate multinational gambling companies is—for now—unknown.



People gather for a protest called for by the family of killed journalist Daphne Caruana Galizia and ... [+] AFP VIA GETTY IMAGES

Boom To Bust

Malta's 2004 regulation of remote betting attracted numerous well-regarded multinational sports betting companies to the country, from Ladbrokes to Paddy Power, William Hill Unibet and GC Sports.

Testimony from whistle-blowers and EU officials, however, suggests that Malta's regulators were overwhelmed. In 2000, the country reported just two registered online casinos that offered a remote gaming option. By 2018, 300 companies with the same licenses were operating from the island. Today, Malta is home to roughly 10% of the gambling companies in the world. The Malta Gaming Authority issued licenses that delivered tax receipts of more than \$1.4 billion in 2019—a sum equivalent to 12% of the nation's entire GDP.

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Yet this huge inflow of money has allegedly had a corrosive affect on the country's institutions.

Malta's gambling problem did not fully surface until 2017, when a series of devastating accusations against the island's institutions and politicians emerged. In May 2017, whistle-blower Valery Atanasov, who had been dismissed from the MGA, showed *Reuters* email exchanges that demonstrated that the regulator had broken its own rules between 2012 and 2014. Atanasov told the news agency that Malta's lax supervision of betting companies "creates conditions that allow suspicious financial operations, money laundering and other criminal practices." The same



month, 150,000 documents about Maltese companies and institutions were leaked. The independent Brussels-based NGO JournalismFund.eu called “The Malta Files” a roadmap to “how the smallest EU country became a haven for global tax avoidance.”

Malta had bet the house on gambling. Now it was out of control.



On March 8th 2018, Heathcliff Farrugia was appointed as new head of Malta's Gaming Authority. ... [+] AFP VIA GETTY IMAGES

A Failure By Regulators

By 2018, *Bloomberg* reported that the European Union was furious with Malta—which the outlet termed “a cryptocurrency and online gambling hub plagued by allegations of corruption and money laundering.” An EU delegation dispatched to investigate reported an atmosphere of fear on the island, where organized crime was said to operate with impunity.

In a reputation-saving exercise, Malta enacted a new Gaming Act on March 8, 2018. Heathcliff Farrugia, who headed the regulator, expressed his belief that the legislation “builds on the foundations of the previous laws and empowers the Authority to further

strengthen the way it regulates the industry.” Exactly three years after his appointment, on March 8, 2021, the *Times of Malta* reported that Farrugia had been charged with corruption. Specifically, it is alleged by the *The Times* that the former MGA boss “provided commercially sensitive information concerning rival casino operators” to Jorgen Fenech, a businessman who is currently standing trial for commissioning Caruana Galizia’s murder. Fenech has tendered a not-guilty plea to court but was prevented by the Maltese military from fleeing the island aboard his yacht 17 Black. The magistrate issued a warrant used to prevent Fenech’s “attempted escape.”

The Malta of 2019 was a far cry from the nation that joined the European Union in 2004. Unfortunately, things were about to get worse.

Mafia Allegations

The Italian Anti-Mafia Directorate’s “Operation Double Game” saw law enforcement bodies in the Italian region of Catania authorize the investigation of 336 individuals, resulting in 23 arrests across four regions of the country. Assets worth \$95.8 million were frozen in three countries. This was the second such operation to show millions of dollars in laundered money passing through Maltese betting companies from Italy alone.

Italian prosecutors state that RaiseBet24.com operated as a simple laundromat for one of the most feared families in the Cosa Nostra, who created a veneer of credibility and access to financial institutions by gaining a gaming license from the MGA.

A gambling license issued by Malta’s regulator does not permit land-based gambling in other EU member states—only online bets, placed via a company’s Maltese server. However, land-based sports betting shops are permitted to allow gamblers access to

computers inside their premises for customers—presumably, in this case, to access their accounts with RaiseBet24.com.

Prosecutors allege that the Cosa Nostra eschewed credit card payments and insisted on informal cash bets taken from gamblers to lay bets by gambling premises instead. The practice of receiving sports bets in cash is illegal but relatively common in Italy, and tolerated by some land-based operators in other parts of Europe.

This system would have allowed the Cosa Nostra to create a payment collection system, where gambling funds were collected directly from the owners of gambling premises as foldable currency to the mob.



SANTA MONICA, CA - NOVEMBER 03: Billionaire Oleg Boyko and Cinema Fund's Elena Vladislavovna ... [+] ERIC CHARBONNEAU/INVISION/AP

Reputation Management, Or Complete Rethink?

A former deputy finance minister to a European Union member state who requested anonymity told me that remote gaming made headlines because of its criminal connections “but accounts for just 5% of the problem [as] 95% is hidden in company registers, offshore structures, residency programs and cryptocurrency.

These interlink with gaming but pose an equivalent or [even] greater threat to the European Union's principles and rule of law."

A series of investigations published by the Black Sea and MaltaToday—the latter of which was cited by the former lawmakers—describe the case of billionaire Oleg V. Boyko. As the reporters explain, Boyko used Maltese companies to pay extremely low tax rates on \$69 million in profits during 2011-12, amounting to just \$2.7 million. For the avoidance of doubt, Boyko paid the correct tax calculated in Malta and is not alleged to have broken any law.

"It is my understanding that Boyko advises the Russian Federation's Paralympic Committee and was also listed as a prospective target for U.S sanctions in 2018 due to his proximity to President Putin," the former minister told me. "Like many other high-net-worth individuals who now operate from Malta—including sportsmen and the wider industry—individuals like Mr. Boyko have not behaved illegally, a point I must underscore. Provided investigations are correct, Boyko paid the tax applicable in the jurisdiction, promptly and according to the letter of the law."

The former minister continued: "European Union accession depends, by definition, on a prospective member's commitment to the European project and shared goals. It is discomfiting to many that a billionaire known to the president of Russia is able to operate so easily, and so legally, within the European Union—but that it took the leak of 150,000 documents for facts like this to emerge. This doesn't support our condemnation of Putin for his treatment of Alexander Navalny. It shows that EU states offer complete secrecy, and lower tax than you would pay at home."

Malta can now choose to subsist via the offshore and gambling sectors—while angering its fellow EU members—or it can choose



reform and diversification, which after a 17-year addiction to gambling revenue would leave an enormous hole in the country's budget. The outcome may hinge on which new revelations emerge during the inquiry into Daphne Caruana Galizia's murder.



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