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United States Senate

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GOVERNMENTAL AFFAIRS

WASHINGTON, DC 20510-6250

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Witness List Hearing on Asian Organized Crime, Part 4 August 4, 1992

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Staff Investigator to the Minority
Senate Permanent Subcommittee on Investigations
accompanied by
W. Leighton Lord III
Staff Counsel to the Minority
Senate Permanent Subcommittee on Investigations

David Cohen
Associate Deputy Director for Intelligence
Central Intelligence Agency
accompanied by
Brian Soderhold
Assessments Group
Counter Narcotics Center
and
Martin Roper
Deputy Director
Counter Narcotics Center

Johnny Kon aka Kon Yu-Leung
Convicted Heroin Smuggler
Former Leader, Flaming Eagles Gang/Big Circle Gang
Member, Wo On Lok Triad

"Bully"
Japanese Yakuza Associate

STATEMENT OF SENATOR WILLIAM V. ROTH, JR.

August 4, 1992

Hearing Before the Permanent Subcommittee on Investigations
Asian Organized Crime

For the past 10 months, we have been holding a series of hearings on the important topic of Asian Organized Crime. Our Chairman, Senator Nunn, and his staff have provided outstanding cooperation and support during the course of this long investigation, and I want to commend and thank him for that effort.

We have learned a great deal during three previous hearings about Asian crime groups and their operations, both domestically and internationally. Testimony from federal and local law enforcement agencies, combined with first hand stories of former members of Asian crime groups, have clearly demonstrated that Asian organized crime presents a unique and growing threat in the United States and around the world.

This threat is most acute in our nation's Asian communities, whose residents suffer disproportionately as victims of Asian gangs. The concerns of the victims were clearly voiced in our first hearing on this subject when we heard testimony from several brave victims of Asian gang activity, including one man who was shot and stabbed nine times during a robbery, and others whose businesses were routinely extorted in New York's Chinatown. They were brave because they were willing to talk about their experiences, something which many victims are too frightened to do.

As I have stated at every previous hearing on this topic, but it still bears repeating, the vast majority of Asian-Americans are hard working and law abiding. We cannot allow these honest citizens, who are making important contributions to our society, to continue to fall prey to Asian gangs. That is one of the important lessons of our hearings.

These hearings have also underscored the need for greater federal law enforcement focus on Asian organized crime. Asian crime groups are highly mobile; most have regional, national and even international connections. In fact, some Asian crime groups, in my view, constitute a new breed of international criminal. These new international criminals, aided by the change to more open borders, greatly increased international trade, and possessed of the most modern communications technology, represent a new and serious challenge to law enforcement worldwide.

Unfortunately, we have found that U.S. law enforcement is not currently equipped to deal effectively with the myriad of problems that Asian crime groups present. There are too few Asian language speaking officers; too few with adequate knowledge

of Asian culture and customs; and too little in the way of intelligence gathering. In addition, law enforcement cooperation on an international level must become a priority. Law enforcement agencies mentally and physically bound to their borders will not win the war against the new international criminal.

Today's hearing focuses on Chinese and Japanese crime groups as two distinct units of Asian organized crime activity in the United States.

We have previously learned that Chinese crime groups have substantially taken over the heroin importation business previously dominated by La Cosa Nostra. Today several witnesses will help us understand the role played by Asian organized crime in the heroin trade. We will hear important testimony from Johnny Kon, who once ran a multi-million dollar, worldwide heroin trafficking enterprise with a far flung network stretching from Hong Kong to South America, Canada, Europe and the United States. The Central Intelligence Agency will also detail its understanding of the heroin trade and the involvement of various Asian crime groups.

We will also hear the first Congressional testimony from an insider intimately familiar with yet another major Asian organized crime group, the Japanese Yakuza. Japanese organized crime boasts over 88,000 members, compared to the estimated 2,000 members of La Cosa Nostra active in the United States. As a close associate of some of Japan's largest gangs, today's confidential witness will provide detailed insight into the methods used by Japanese crime groups to invest and launder money in the U.S. The Japanese National Police estimates that the various Yakuza groups, also called the Boryokudan, or "the violent ones," have a combined yearly income in excess of \$10 billion. Clearly, the Yakuza has prospered, along with the rest of Japanese society.

I believe that the evidence we hear today will make clear that it is absolutely critical for American and foreign law enforcement agencies to better address this new breed of international criminal. We need much better international cooperation among police agencies, including improved exchange of evidence and intelligence. We can no longer tolerate the inaction of countries which refuse to share evidence and information or which effectively serve as havens for international criminals. In short, we need new thinking and new approaches, both domestically and internationally, in the battle against Asian organized crime.

STAFF STATEMENT OF SCOTT E. ORCHARD
STAFF INVESTIGATOR
PERMANENT SUBCOMMITTEE ON INVESTIGATIONS
AUGUST 4, 1992

Mr. Chairman, Senator Roth. One of the important elements of Asian organized crime is the Japanese Yakuza, also known as the Boryokudan, which means "the violent ones."

Yakuza is a term that Japanese gangs have applied themselves with an ironic sense of pride. Ya-Ku-Sa is the number 8-9-3 in Japanese and is a losing hand in a popular Japanese card game. Thus, Yakuza roughly translates to "loser." The Yakuza have cultivated their "underdog" image over the years, and have used this to elicit some degree of respect from the Japanese public. Japanese gangs have existed for many years as public entities, whose headquarters' buildings carry their names and whose members hand out business cards. Scrutiny of Japan's gangs is rising, however, and they appear to be fighting back. A new Japanese law targeting Japan's estimated 88,600 gangsters went into effect on March 1 of this year, and the gangs have publicly demonstrated against the new law.

The largest gang in Japan is the Yamaguchi-gumi, which currently has an estimated 26,170 members, who owe allegiance to a total of 944 affiliated gangs. We are presenting charts today which identify the leadership of the main Japanese Yakuza gangs. As in the past, each name has been independently corroborated by at least 2 law enforcement agencies and an exhibit identifying those sources is being submitted under seal. The chart of the Yamaguchi-gumi lists the six top figures in the gang. Yoshinori Watanabe is the Boss of the gang, which is based in both Kobe and Osaka. Watanabe is only the fifth boss in the gang's 77 year history.

Yoshinori Watanabe is closely tied to five other important figures in the Yamaguchi-gumi, each of which commands a number of sub-gangs. The highest advisor to Watanabe is Kazuo Nakanishi, who was the acting boss of the gang in 1989, prior to Watanabe's rise to power. Masaru Takumi is the Underboss, or Wakagashira of the group, and holds this position in Osaka. Takumi has been tied to Yakuza operations in Guam and Hawaii. Saizo Kishimoto is the Headquarters Chief in Kobe. His assistant, Tetsuo Nogami, is also a very high ranking leader in the group. Keisuke Masuda holds the position of Head of Brotherhood, or Shatagasheira, and is based in Nagoyo. Nakanishi, Takumi, Kishimoto, Nogami and Masuda all command various sub-gangs of the Yamaguchi-gumi.

Yamaguchi-gumi activity in the United States has been identified on several occasions. In 1985 U.S. authorities in Hawaii arrested the brother of the former head of the group and other Yamaguchi-gumi members for conspiring to sell Southeast

Asian heroin, and attempting to purchase guns and rocket launchers which were intended for use in a "war" against the Ichiwa-kai, a now defunct gang established by disgruntled Yamaguchi-gumi members which was then challenging the Yamaguchi-gumi.

In 1988, Asahi Juken, a Japanese company run by a former member of the Yamaguchi-gumi, purchased \$164 million worth of real estate on Oahu, Hawaii, including the Turtle Bay Hilton Resort. The President of Asahi Juken, Kizo Matsumoto, founded the company shortly after resigning his affiliation with the Yamaguchi-gumi. The practice of resigning from a gang in Japan is often a method of gaining legitimacy, but many so called "retired" gangsters maintain close ties with organized crime. While we have no information tying Kizo Matsumoto to current Boryokudan activity, his brother, Takao, has been more recently linked to the Yamaguchi-gumi. Both brothers have been prosecuted for visa fraud in the United States, after failing to report their criminal records.

In 1991, a Yamaguchi-gumi backed front company, ASA Development, proposed a \$300 million casino project on the island of Tinian, a U.S. possession in the Commonwealth of the Northern Marianas Islands. The casino proposal was denied but additional efforts are currently underway for various Yakuza groups to gain entrance to the Casino business on the island of Tinian, located in the CNMI.

Japan's second largest Boryokudan group is the Inagawa-kai. As of 1989 the Inagawa-kai included 8,682 members in several hundred sub-gangs. The Inagawa-kai is headquartered in Tokyo, and is currently led by Yuko Inagawa.

The third largest Boryokudan group is the Sumiyoshi kai. The Sumiyoshi-kai includes over 7,000 members in hundreds of affiliated gangs. The Sumiyoshi boss is Shigeo Nishiguchi, who leads from the gang's headquarters in Tokyo.

A fourth major Boryokudan group of particular importance to the United States is the Toa Yuai Jigyo Kumiai or TYJK. This group has only an estimated 886 members, but many of the groups members and associates have been linked to the U.S. The current boss of the gang is Morihiro Okita, also known as Nam-kil Oh, one of the many prominent members of the gang who are of ethnic Korean descent.

Hisayuki Machii is the so-called "retired" boss of the TYJK and he has spent a significant amount of time in the United States, often as a guest of the gang's associates in Hawaii, Las Vegas, Los Angeles and Denver. Ken Mizuno, a close associate of Machii and the TYJK, owns \$400 million worth of assets in the U.S., including golf courses in Nevada, California and Hawaii. He also holds the lease to a restaurant in the Tropicana Hotel/Casino in Las Vegas. Mizuno was arrested in Japan in

February of this year on corporate tax evasion charges. He was allegedly involved in the fraudulent sale of golf memberships, generating some \$800 million.

Ties to the golf industry are in fact widespread among the Japanese Yakuza and their associates. Two such associates are Yasumichi Morishita and Minoru Isutani. The Japanese police have estimated that there are ten associates per Yakuza member. We recognize that the term "associate" can have many meanings, but it essentially means someone who works closely with, or at the bidding of a Yakuza member. This definition excludes victims of Yakuza activity.

Yasumichi Morishita, also known as Mamushi or the "snake", runs a finance company called Aichi Corp. in Japan. Morishita has used members of the Sumiyoshi kai Yakuza group to handle debt collection for his company. Morishita currently owns two golf courses in California, and one in Arizona. He also owns a large shareholding in Christie's Auction House in New York, and has bought over \$80 million worth of art at auction for his prominent Tokyo art gallery. His purchases have included works by Van Gogh and Picasso, and most have been made in New York.

Finally, the most notable purchase of an American property by an alleged Yakuza associate involved in one of America's most famous golf courses, the Pebble Beach Country Club in California. Pebble Beach was bought by Minoru Isutani, through a number of holding companies, including Cosmo World Company for a reported price of \$841 million in September of 1990. In the wake of the purchase, questions were raised regarding some of Mr. Isutani's previous criminal activities and associations in Japan. Isutani sold Pebble Beach in February of 1992 for \$500 million, 40 percent less than his original purchase price, to a Japanese investor group.

Isutani's financing for the Pebble Beach purchase involved a complicated web of transactions. Sumitomo Bank issued letters of credit to a subsidiary, Itoman & Co. Itoman then put up guarantees worth \$860 million, which were reportedly used to obtain a loan from Mitsubishi Bank to cover the purchase. Itoman is a firm of questionable reputation in that several of Itoman's principal officers have been convicted of fraud in Japan and have also been linked to the Yakuza.

Isutani has been identified by a high ranking member of the Inagawa-kai as having used Yakuza connections in his golf business. The Inagawa-kai member also claimed that Isutani ran gambling rackets when he was younger. Mr. Isutani has also been involved in other businesses which fit the so-called "Yakuza profile", including companies which run bath houses, a popular Yakuza business in Japan.

Moreover, Isutani has been linked to one of Japan's biggest scandals, known as the "Recruit" scandal. This scandal involved

insider trading by several top politicians, yakuza members and other prominent figures in Japan in the shares of Recruit Co. Japanese press reports have alleged that Isutani coached the key figure in the scandal, Recruit Co. Chairman Hiramasa Ezoe, in "buying and selling stocks and how to distribute the capital gain among politicians."

Isutani sold Pebble Beach to an investor group which includes a separate subsidiary of Sumitomo Bank. The involvement of Sumitomo in both transactions raises questions about the new ownership of the country club, but staff has not been able to reach any conclusions.

Independently, Minoru Isutani owns Ben Hogan Co., a golf equipment company based in Fort Worth, Texas. He has also been involved in development projects in Hawaii, Los Angeles and Las Vegas worth hundreds of millions of dollars.

I have to emphasize that Minoru Isutani's ties to the Yakuza are not clearly developed. It is important to note, however, that it is often quite difficult to obtain criminal intelligence information from the Japanese National Police. This has been a constant criticism voiced by virtually every law enforcement agencies we spoke to during the course of this investigation. We did invite the Japanese National Police to testify here today, but they declined.

We will hear further testimony about Japanese organized crime from a close associate of several of Japan's largest gangs.

On another subject involving Chinese organized crime, the Subcommittee has previously heard substantial evidence that Chinese organized crime plays a dominant role in the Asian entertainment industry in Hong Kong and North America. Hong Kong-based triad societies play a major part in the Asian entertainment industry, including production and distribution of movies and video cassettes and in the promotion of Asian singers, actors and actresses.

Today we present a link chart which graphically illustrates the involvement of Asian organized crime figures in the U.S., Canada and Hong Kong in controlling Chinese entertainers touring North America. I would like to also submit for the record a memorandum detailing the precise relationship among Chinese organized crime members involved in the entertainment industry as well as with other individuals who are not known to be involved in organized crime but nevertheless serve as links with the organized crime members.

Recent tours we tracked have included stops in Atlantic City, San Francisco, Los Angeles, Chicago, Boston, Toronto, Montreal, Calgary and Vancouver. Such tours are supposedly controlled by New York producers who hold contracts with Atlantic

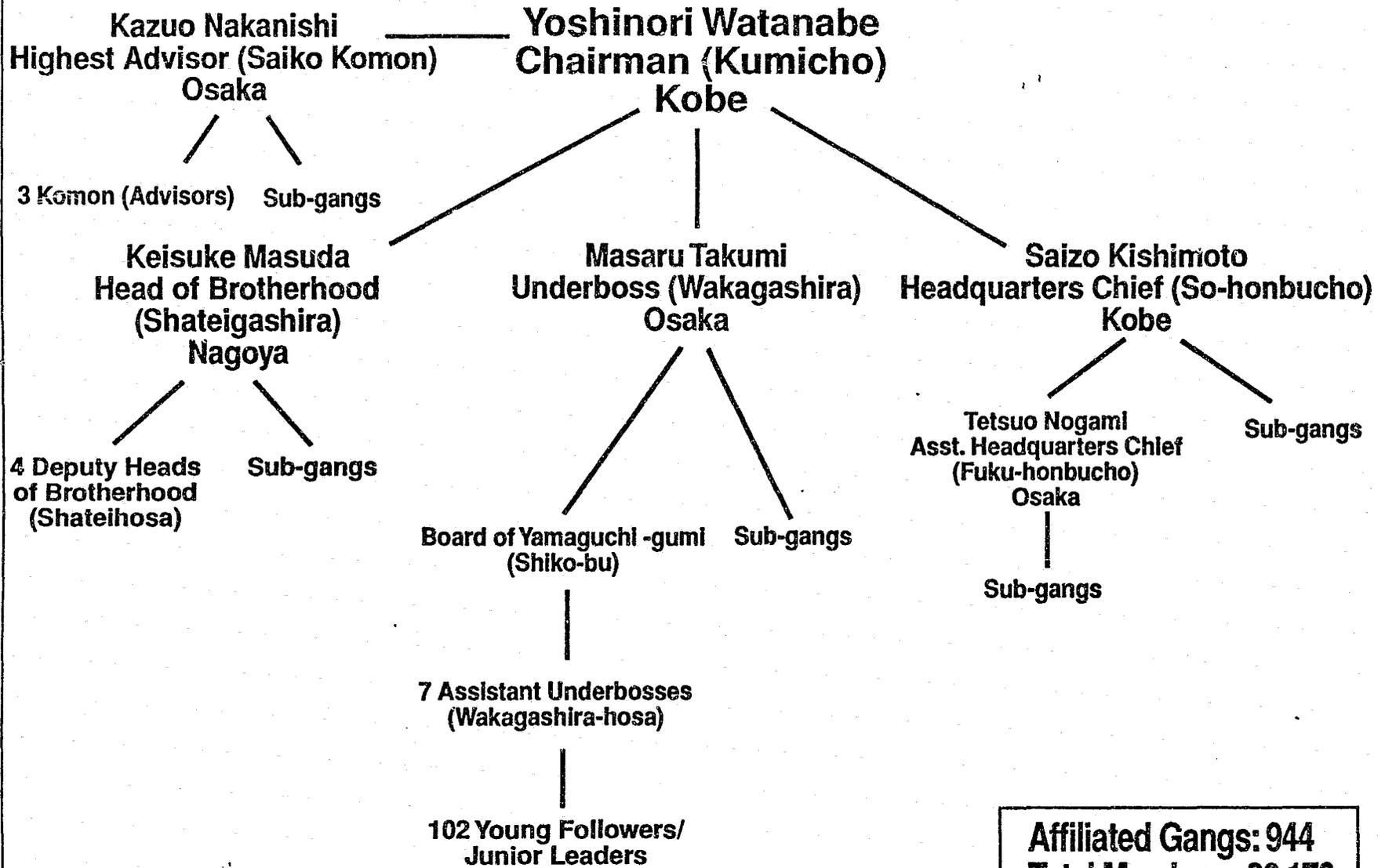
City casinos, which are important venues for Asian shows. Upon closer examination, however, it becomes clear that Chinese gangsters from New York, San Francisco, Los Angeles, Toronto and Hong Kong have played major roles in promoting such performances.

We have identified numerous Asian organized crime figures who either currently or formerly had influence in this area. Most notable are Clifford Wong, the head of the Tung On Tong in New York City, and an associate of the Sun Yee On Triad; Vincent Jew, the former leader of the San Francisco Wah Ching Gang, with ties to the Sun Yee On and 14K Triads in Hong Kong; Danny Mo, who has ties to both the Kung Lok and 14K Triads in Toronto; and Peter Chong, the head of the Wo Hop To Triad in San Francisco. Members and associates of the criminally influenced On Leong Tong in New York's Chinatown are also particularly active in the entertainment industry.

I mentioned earlier the difficulties of obtaining cooperation from the Japanese National Police. Mr. Lord will testify about another similar problem involving Taiwan.

Thank you, Mr. Chairman. I ask that the charts and a number of supporting documents be inserted in the record as exhibits.

YAMAGUCHI-GUMI (Yamaguchi Gang)



Affiliated Gangs: 944
Total Members: 26,170

Other Major Japanese Boryokudan Groups

Inagawa-kai
(Inagawa Society)

Yuko Inagawa
Boss
Tokyo

Est. Membership:
8,682

Sumiyoshi-Kai
(Sumiyoshi Federation)

Shigeo Nishiguchi
Boss
Tokyo

Est. Membership:
7,000

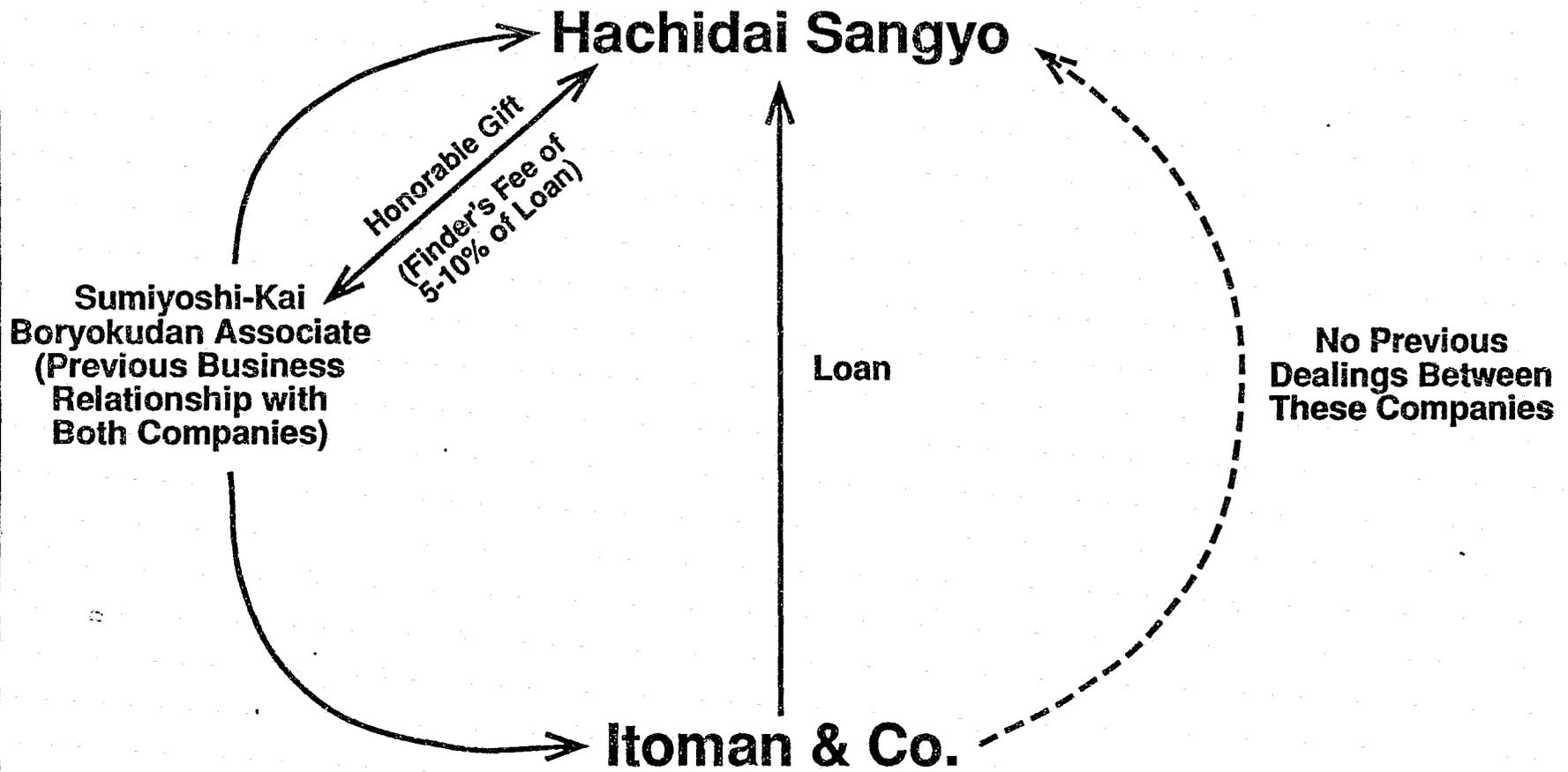
Toa Yuai Jigyo Kumiai
(East Asia Friendship
Enterprises Assoc.)

Morihiro Okita
Boss
Tokyo

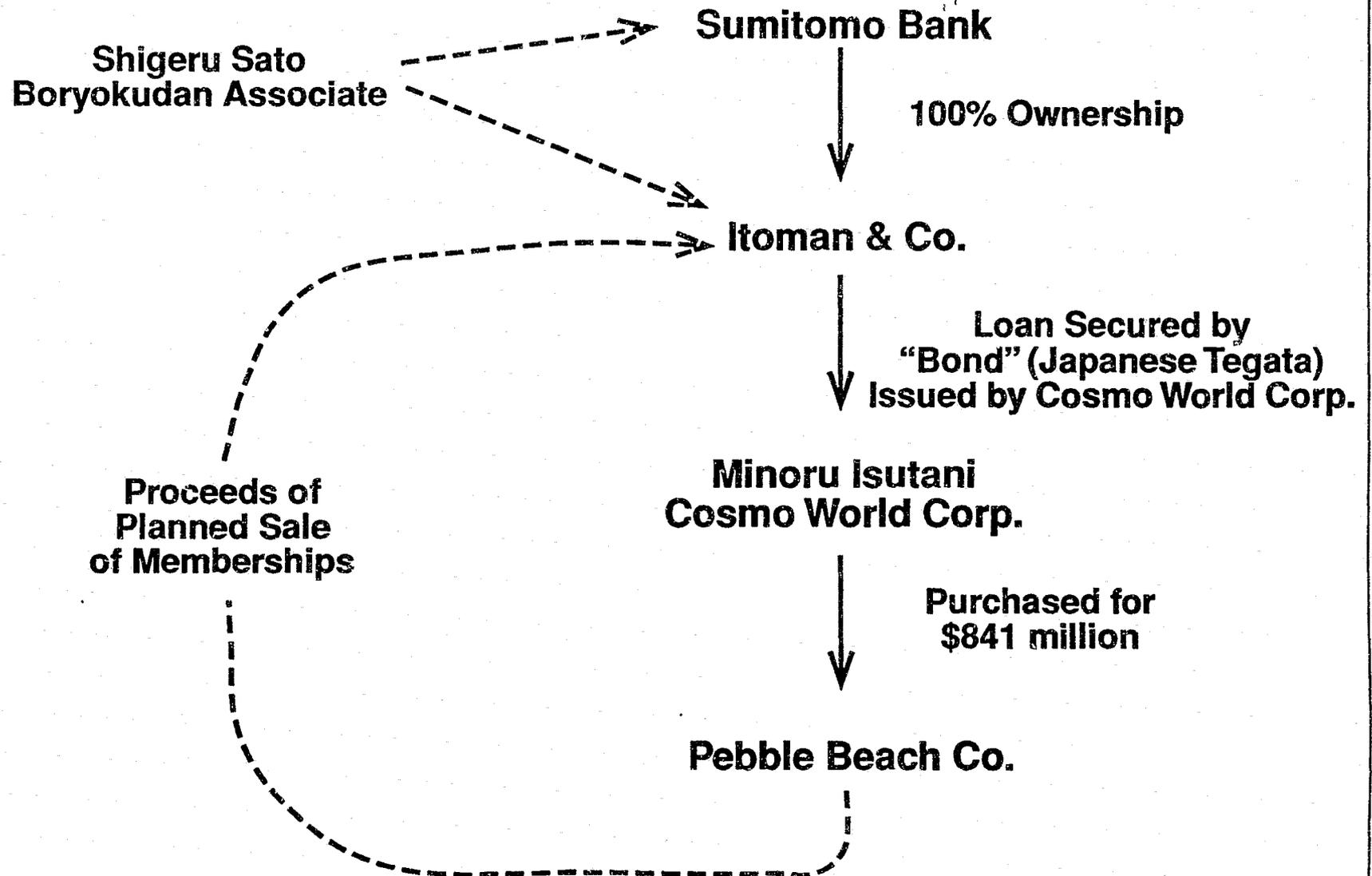
Est. Membership:
886

Total Gangs Under Control: 716

Japanese Boryokudan Link to Hawaiian Real Estate Purchases of Hachidai Sangyo Corporation



Purchase of Pebble Beach Co.



STATEMENT OF LEIGHTON LORD
AUGUST 4, 1992

As Senator Roth indicated in his opening statement, the lack of effective international law enforcement cooperation has, at times, hindered the effort to bring Asian organized crime figures to justice.

One country about which complaints most frequently arose during the course of our investigation was Taiwan. These complaints, from both U.S. and foreign law enforcement, involve two areas. First, the fact that there is no extradition agreements between Taiwan and the United States or between Taiwan and other Asian countries -- a fact most Asian organized crime figures are well aware of -- means that Taiwan has effectively become a haven for the new international criminals of Chinese descent. Second is the frequent unwillingness of Taiwanese officials to share information and evidence with foreign law enforcement agencies.

The Subcommittee has heard testimony on the extradition problem on several occasions. A former member of the New York-based Ghost Shadows gang and On Leong Tong testified that the On Leong, on one occasion, held its annual convention in Taiwan so that its former grand president, Eddie Chan, who was wanted in the United States, could attend. Chan was residing in Taiwan, as well as the Philippines, to avoid extradition to the United States.

A 14-K triad member recently testified that when the Hong Kong police began investigating his heroin operation, he fled to Taiwan from Hong Kong since Taiwan had no extradition agreement with Great Britain or Hong Kong. He testified that while in Taiwan, he became familiar with, and I am quoting, "heroin traffickers and triad members who were wanted by the police in the United States."

When staff members visited Taiwan in February of this year, we presented Taiwanese law enforcement officials with a list of 14 criminal fugitives wanted in the United States who were believed to be residing in Taiwan. The Taiwanese government recently responded with regard to five of these individuals. The Taiwanese government confirmed that three of the five individuals are, in fact, residing in Taiwan. I would like to submit a number of documents for the record including an updated list of 14 fugitives which we have identified as currently likely to be hiding out in Taiwan. This number, however, is far from complete, as no U.S. agency appears to systematically document fugitives believed to be in Taiwan, and the Department of Justice was unwilling to furnish the names of fugitives of which the Department was aware.

It is important to note that the fugitive problem with Taiwan goes both ways. The Taiwanese government has supplied us with a document listing over 80 fugitives from Taiwanese law enforcement who are believed to be residing in the United States. While some of these individuals are wanted for violent crimes, the bulk are wanted for financial crimes. It is apparently not an unusual practice in Taiwan for a businessman who contemplates embezzling a large sum of money to first obtain a visa to the United States, embezzle the money, and then flee.

At the Subcommittee's November 5, 1991 hearing, Detective Howell of the Los Angeles Sheriff's office explained the difficulties of returning one Benson Wang to Taiwan. Mr. Wang was wanted in Taiwan for murdering an entire family. Detective Howell found that, in the absence of an extradition agreement, the only way to send Wang back to Taiwan was to obtain Wang's agreement to voluntary departure by repeatedly arresting Wang for minor violations.

In light of these circumstances, one might ask why there is no extradition agreement between the U.S. and Taiwan. A key is the use of the word "agreement," and not the word "treaty." Since the United States does not recognize Taiwan, a treaty is technically impossible. The United States, however, has many agreements with Taiwan, for example in the trade area. Therefore, the fact that we cannot have an extradition treaty does not mean that we cannot have an extradition agreement which would accomplish precisely the same thing. Previous concern at the U.S. State Department about, among other things, the effect such a step would have on U.S. relations with the Peoples Republic of China seems to have eased. However, the attitude of the U.S. Department of Justice, Office of International Affairs, which is a major player in this area, can only be described as disappointing. The Office of International Affairs apparently does not consider an extradition agreement with Taiwan a priority matter. They asserted to us that they do not know the extent of the problem of U.S. fugitives hiding out in Taiwan, and that there were no plans to make the effort to find out. We believe this view is short sighted. Indeed, this view fails to acknowledge the Justice Department's own testimony before this Subcommittee that Asian organized crime is a growing threat.

A further problem is the Taiwanese position that, even with an extradition agreement, current Taiwanese law would prohibit the extradition of Chinese nationals. Taking into account the fact that Taiwan considers all citizens of the Peoples Republic to be citizens of Taiwan, and in fact all persons of Chinese descent who are residents of any country in the world to be citizens of Taiwan, there are substantial numbers of people who would not be subject to extradition under the current Taiwanese position.

Nevertheless, we believe that the Subcommittee should consider encouraging an extradition agreement with Taiwan as a positive step forward. Legislation modifying the Taiwan Relations Act to make clear that such an agreement is permissible should be considered.

Another complaint of law enforcement agencies involves the difficulty of obtaining evidence and information from Taiwanese law enforcement. For example, Taiwan, it appears, recently decided not to allow certain Taiwanese government officials to be prosecution witnesses in a major heroin trafficking case being tried in the United States. The Taiwan officials are important to the government's case which involves a 1,080 pound heroin shipment seized in Hayward, California which had been shipped through Taiwan. When staff visited Taiwan, we inquired as to whether Taiwanese law enforcement officials would be willing to share intelligence information about the structure, activities and membership of the Triad organizations in Taiwan. We were told this would not be possible.

In closing, it should be noted that the Taiwanese are not entirely to blame for this situation. We have no evidence that our country has ever initiated talks on extradition or law enforcement cooperation with Taiwan. The absence of an U.S. law enforcement liaison permanently stationed in Taiwan may contribute to the apparent lack of cooperation. Stationing of a full time DEA liaison in Taiwan would certainly be helpful. The reality is that Taiwan is a key location for Asian organized crime, and whatever the status of the official relationship between the United States and Taiwan, the fact is that we must take that reality into account.

**PREPARED STATEMENT FOR THE SENATE PERMANENT
SUBCOMMITTEE ON INVESTIGATIONS: SOUTHEAST
ASIA--ORGANIZED CRIME GROUPS INVOLVED IN MOVING
HEROIN TO THE UNITED STATES**

EMBARGOED UNTIL 09:30 AM AUGUST 4 1992

(STATEMENT BY DAVID COHEN, ADDI)

THANK YOU MISTER CHAIRMAN, MEMBERS OF THE COMMITTEE. I APPRECIATE THE OPPORTUNITY TO APPEAR BEFORE THIS COMMITTEE AS IT EXAMINES THE ROLE OF ORGANIZED CRIME GROUPS IN TRAFFICKING SOUTHEAST ASIAN HEROIN TO THE UNITED STATES. TO PLACE THIS ACTIVITY IN CONTEXT, I WILL BEGIN BY DISCUSSING PRODUCTION TRENDS AND THE DYNAMICS OF THE HEROIN TRADE IN SOUTHEAST ASIA. IN DOING SO, I WILL HIGHLIGHT SOME DISTURBING DEVELOPMENTS:

O FIRST, OPIUM PRODUCTION IN SOUTHEAST ASIA IS AT NEAR-RECORD LEVELS AND IS UNLIKELY TO DECLINE IN THE NEAR TERM. THE GOLDEN TRIANGLE OF SOUTHEAST ASIA HAS OVERTAKEN SOUTHWEST ASIA AS THE PREDOMINANT SOURCE OF HEROIN FOR THE US MARKET.

O SECOND, SOUTHEAST ASIAN TRAFFICKERS HAVE ESTABLISHED EXTENSIVE NETWORKS IN ASIA AND ARE ADEPT AT EXPLOITING MANY LEGITIMATE BUSINESS ACTIVITIES AND COMMERCIAL SHIPPING TO MOVE HEROIN TO US MARKETS.

O THIRD, WE CONTINUE TO SEE ETHNIC CHINESE INVOLVEMENT AT EVERY LEVEL OF THE SOUTHEAST ASIAN HEROIN CHAIN.

MEMBERS OF CHINESE SECRET SOCIETIES CALLED "TRIADS", WHICH FORM THE CORE OF CHINESE ORGANIZED CRIME TODAY, HAVE LONGSTANDING INVOLVEMENT IN HEROIN TRAFFICKING BOTH REGIONALLY AND INTERNATIONALLY. WE BELIEVE THESE ASIAN CRIMINAL GANGS FUNCTION LARGELY THROUGH INDIVIDUAL INITIATIVE RATHER THAN AS COORDINATED ENTITIES DIRECTED FROM THE TOP. WHILE THIS COMMITTEE IS FOCUSED ON ASIAN CRIME GROUPS, IT SHOULD BE NOTED THAT OTHER ETHNIC-BASED CRIMINAL GROUPS--INCLUDING NIGERIANS AND THE ITALIAN MAFIA--PARTICIPATE IN SHIPPING SOUTHEAST ASIAN HEROIN TO EUROPE AND THE UNITED STATES.

TRACKING AND TARGETING THE SOUTHEAST ASIAN HEROIN TRADE IS AN EXCEPTIONALLY DIFFICULT LAW ENFORCEMENT AND INTELLIGENCE PROBLEM. UNLIKE THE RELATIVELY CENTRALIZED COCAINE TRADE, IN WHICH COLOMBIAN "CARTELS" CONTROL THE TRADE FROM PRODUCTION TO DISTRIBUTION, SOUTHEAST ASIAN HEROIN PASSES THROUGH A COMPLEX CHAIN OF FLUID CONNECTIONS TO REACH WESTERN MARKETS. ASIAN HEROIN TRAFFICKING NETWORKS ARE DIVERSE AND HAVE THE CAPABILITY OF HIDING DRUG SHIPMENTS IN LEGITIMATE COMMERCIAL CONTAINERIZED CARGO.

THESE VESSELS AND CONTAINERS ARE MUCH MORE DIFFICULT TO IDENTIFY AND TRACK THAN THE ILLICIT SHIPMENTS BY SMALL AIRCRAFT THAT ARE COMMON IN THE COCAINE TRAFFICKING BUSINESS. LITERALLY MILLIONS OF CONTAINERS PASS THROUGH ASIAN PORTS EVERY YEAR.

**(STATEMENT BY MARTIN ROEBER,
COUNTERNARCOTICS CENTER)**

AS THIS GRAPHIC ILLUSTRATES, WORLDWIDE OPIUM PRODUCTION HAS MORE THAN DOUBLED SINCE 1985 AND WE ESTIMATE THAT TWO-THIRDS OF THE TOTAL COMES FROM SOUTHEAST ASIA. ALMOST 60 PERCENT OF THE REFINED HEROIN AVAILABLE IN THE UNITED STATES COMES FROM SOUTHEAST ASIA. TOTAL OPIUM PRODUCTION IN THE GOLDEN TRIANGLE LAST YEAR IS ESTIMATED AT 2,650 METRIC TONS, UP MODESTLY FROM THE PREVIOUS YEAR. BURMA REMAINS THE WORLD'S LARGEST OPIUM PRODUCER, ACCOUNTING FOR SOME 60 PERCENT OF WORLD PRODUCTION, AND 85 PERCENT OF THE OPIUM PRODUCED IN SOUTHEAST ASIA.

OVER THE NEAR TERM, WE BELIEVE OPIUM CULTIVATION IN SOUTHEAST ASIA WILL REMAIN AT OR EXCEED RECORD LEVELS. ONLY POOR WEATHER IN THE GROWING AREAS IS LIKELY TO CAUSE A SIGNIFICANT DECLINE IN PRODUCTION IN COMING YEARS.

OPIUM PRODUCTION IN BURMA AND LAOS WILL REMAIN CONCENTRATED IN REMOTE AREAS WHERE GOVERNMENTS LACK THE WILL AND THE RESOURCES TO CONTROL IT. IN ADDITION, CHINA HAS ONCE AGAIN BECOME AN OPIUM PRODUCER. NUMEROUS CHINESE PRESS PIECES HAVE ACKNOWLEDGED INSTANCES OF ILLICIT OPIUM CULTIVATION IN CHINA, COVERING MORE THAN 15 PROVINCES STRETCHING FROM YUNNAN IN THE SOUTHWEST TO HEILONGJIANG IN THE NORTHEAST. SIMILARLY, OPIUM PRODUCTION HAS REEMERGED IN THE NORTHWESTERN PROVINCES OF VIETNAM. IN JANUARY, A HANOI NEWSPAPER REPORTED OPIUM CULTIVATION IN VIETNAM TOTALED 6,000 HECTARES, WHICH PRODUCED 15 METRIC TONS OF OPIUM.

I WISH TO EMPHASIZE THAT NOT ALL OF THE OPIUM PRODUCED IN SOUTHEAST ASIA IS CONVERTED TO HEROIN FOR THE INTERNATIONAL MARKET. OUR ANALYSIS OF OPIUM AND HEROIN CONSUMPTION IN SOUTHEAST ASIA SUGGESTS THAT MOST OF THE OPIUM PRODUCED IS ACTUALLY CONSUMED IN THE REGION.

I'D LIKE TO TURN TO A BRIEF OVERVIEW OF HOW THE HEROIN TRADE WORKS IN SOUTHEAST ASIA TO GIVE YOU SOME CONTEXT FOR THE COMPLEXITY OF THE CHALLENGE WE FACE.

THE MAIN POINT IS THAT THE SOUTHEAST ASIAN HEROIN TRADE IS HIGHLY SEGMENTED, WITH MANY INDEPENDENT ORGANIZATIONS CONSPIRING TO SUPPLY THE UNITED STATES AND OTHER CONSUMING COUNTRIES. AS HEROIN MOVES THROUGH THE TRAFFICKING CHAIN, CONTROL OF A SHIPMENT IS TRANSFERRED SEVERAL TIMES:

- O IN THE INITIAL PHASE, PRODUCERS AND REFINERS IN BURMA, THAILAND AND LAOS OBTAIN RAW OPIUM FROM FARMERS AND REFINER IT INTO HEROIN. SOME THREE-QUARTERS OF THE REGION'S HEROIN REFINING CAPACITY IS CONCENTRATED JUST INSIDE BURMA.**
- O IN THE SECOND STAGE, INTERNATIONAL BROKERS IN THE REGION ARRANGE THE SALE, CONSOLIDATION, AND MOVEMENT OF LARGE HEROIN SHIPMENTS FROM REFINERIES IN BURMA THROUGH THAILAND TO TRANSSHIPMENT POINTS ELSEWHERE IN ASIA.**
- O NEXT, WHOLESALE BUYERS, IN PLACES LIKE HONG KONG AND SINGAPORE, PURCHASE HEROIN FROM THE BROKERS AND MOVE SHIPMENTS TO THE UNITED STATES FOR RESALE. THE BUYERS ARE FREQUENTLY CONNECTED WITH CHINESE OR OTHER INTERNATIONAL ORGANIZED CRIME GROUPS.**

O FINALLY, RETAIL DISTRIBUTION NETWORKS IN THE US AND WESTERN EUROPE SELL THE PRODUCT ON THE STREETS. THEY OFTEN HAVE BUSINESS CONNECTIONS WITH THE ASIAN ORGANIZED CRIME GROUPS WHO DOMINATE THE WHOLESALE BUSINESS.

WE BELIEVE THAT EACH HEROIN SHIPMENT HAS UNIQUE FEATURES. PROCESSING, FINANCING, AND TRANSPORT OPERATIONS ARE TAILORED ACCORDING TO THE RESOURCES AND REQUIREMENTS OF THE PRODUCERS AND THE WHOLESALE BUYERS. A SINGLE HEROIN SHIPMENT MAY INVOLVE MULTIPLE TRANSACTIONS BETWEEN DIFFERENT BROKERS. UNDER THIS MARKET STRUCTURE, HEROIN REFINERS GENERALLY PLAY A PASSIVE ROLE. THEY FILL ORDERS AS THEY ARE RECEIVED.

HEROIN PRODUCERS MAKE MOST OF THEIR PROFIT BY SELLING TO BROKERS IN NORTHERN THAILAND. REFINERS, HOWEVER, WILL OCCASIONALLY MAINTAIN A SMALL SHARE OF HEROIN SHIPMENTS ALL THE WAY TO THE UNITED STATES. KHUN SA, THE HEAD OF A LARGE HEROIN TRAFFICKING ARMY IN BURMA, IS UNDER A US INDICTMENT ON THE BASIS OF HIS INVESTMENTS IN HEROIN SHIPMENTS SEIZED IN NEW YORK AND ELSEWHERE BETWEEN 1986 AND 1988.

INTERNATIONAL BROKERS, ACTING AS AGENTS FOR WHOLESALE BUYERS, INITIATE SHIPMENTS BY PURCHASING HEROIN FROM THE REFINERS. A BROKER WILL OFTEN HAVE CLOSE CONNECTIONS WITH ONE OF THE PRODUCER ARMIES LOCATED IN BURMA, BUT ALSO WILL DEAL WITH COMPETITORS REPRESENTING RIVAL PRODUCER ARMIES. THEY DO THIS TO ENSURE BUSINESS FLEXIBILITY, AS WELL AS A MEASURE OF SECURITY AGAINST BETRAYAL BY RIVALS AND PENETRATION BY INTELLIGENCE AND LAW ENFORCEMENT AGENCIES.

NEVERTHELESS, LAW ENFORCEMENT AGENCIES HAVE HAD SUCCESS WORKING AGAINST THE BIG INTERNATIONAL BROKERS. SINCE 1989, TWO BANGKOK-BASED BROKERS CLOSELY ASSOCIATED WITH KHUN SA'S SHAN UNITED ARMY HAVE BEEN ARRESTED. MA KUANG TING, THE CHIEF BROKER FOR THE SHAN UNITED ARMY, WAS ARRESTED IN HONG KONG IN 1989 AND EXTRADITED TO THE UNITED STATES. HE IS CURRENTLY SERVING TIME HERE ON HEROIN TRAFFICKING CHARGES. LIN CHIEN PANG, MA'S SUCCESSOR IN BANGKOK, WAS ARRESTED IN MALAYSIA IN MARCH AND IS CURRENTLY AWAITING HEARINGS ON EXTRADITION TO THE UNITED STATES.

BECAUSE LARGE HEROIN SHIPMENTS ARE RISKY AND EXPENSIVE TO ORGANIZE, BROKERS FREQUENTLY BRING IN OTHER INVESTORS TO DEFRAY COSTS.

FOR EXAMPLE, PURCHASING 500 KILOS OF HEROIN FROM A REFINERY CAN COST OVER \$2 MILLION, WHICH IS MORE THAN MOST BROKERS, EVEN THE VERY RICH, ARE ABLE OR WILLING TO PUT UP. BROKERS MAY ALSO SHARE THE RISK BECAUSE THEY REMAIN LIABLE FOR A SHIPMENT UNTIL CUSTOMERS TAKE POSSESSION AND PAY THEM AT A TRANSSHIPMENT POINT OR THE FINAL DESTINATION. RISK SHARING PROBABLY EXPLAINS WHY BOTH THE 433 KILO SHIPMENT SEIZED OFF THE COAST OF THAILAND LAST YEAR AND THE 420 KILOS SEIZED IN HONG KONG IN 1989 WERE JOINTLY OWNED BY AT LEAST HALF A DOZEN INVESTORS. IN HONG KONG, THE HEROIN SEIZED IN EITHER SHIPMENT WOULD HAVE SOLD FOR ABOUT \$5 MILLION, AND IN THE UNITED STATES THEY WOULD HAVE BEEN WORTH CLOSE TO \$50 MILLION WHEN SOLD TO RETAIL DISTRIBUTORS.

MOST SOUTHEAST ASIAN HEROIN INITIALLY TRANSITS THAILAND. THIS WAS THE CASE FOR THE 396 KILOS SEIZED THIS JUNE IN HONG KONG AND FOR THE 494 KILOS PICKED BY US CUSTOMS IN CALIFORNIA LAST YEAR. WHILE TRANSITING OVERLAND IN THAILAND, HEROIN IS NORMALLY MOVED IN RELATIVELY SMALL QUANTITIES AND SO IS VERY DIFFICULT TO DETECT AND INTERCEPT. THESE SMALLER SHIPMENTS ARE USUALLY CONSOLIDATED BEFORE THEY ARE LAUNCHED FOR OVERSEAS MARKETS.

INDEED, SINCE 1988 THAI AUTHORITIES HAVE MADE SEVERAL LARGE SEIZURES, INCLUDING HAULS OF 1,280 KILOS, 680 KILOS, AND 433 KILOS.

ONCE A SHIPMENT HAS BEEN SUCCESSFULLY MOVED TO A PORT-OF-EXIT IN THAILAND, IT MAY BE HIDDEN IN CARGO CONTAINERS FOR TRANSPORT BY LEGITIMATE SHIPPING COMPANIES TO THE UNITED STATES OR EUROPE. ALTERNATIVELY, HEROIN COULD BE MOVED IN FISHING TRAWLERS BOUND FOR HONG KONG OR SINGAPORE, WHERE THE HEROIN IS LOADED IN CONTAINERS FOR ONWARD SHIPPING. BROKERS OFTEN USE SEMI-LEGITIMATE FRONT COMPANIES TO GAIN ACCESS TO TRANSPORT AND STORAGE FACILITIES AND TO PROVIDE HIDING PLACES IN SUCH PRODUCTS AS CANNED SHRIMP OR FRUIT, PLASTIC BAGS, AND BULK RUBBER SHIPMENTS.

CONTROL OF THE SHIPMENT IS USUALLY PASSED TO WHOLESALE BUYERS IN INTERMEDIATE LOCATIONS SUCH AS HONG KONG, SINGAPORE, OR THE PORT OF KAO-HSIUNG IN TAIWAN. THESE ARE THE KEY SECONDARY TRANSIT POINTS FOR HEROIN SHIPMENTS BOUND FOR THE UNITED STATES.

THE USE OF COMMERCIAL CONTAINERS MAKES DETECTION, MONITORING, AND INTERDICTION VIRTUALLY IMPOSSIBLE WITHOUT SPECIFIC TIP INFORMATION, SINCE THOUSANDS PASS THROUGH THESE PORTS EVERY DAY. FOR EXAMPLE, ABOUT 4 MILLION CONTAINERS TRANSIT HONG KONG IN A SINGLE YEAR, AND ABOUT 2 MILLION GO THROUGH SINGAPORE AND KAO-HSIUNG IN A YEAR. IN ADDITION, TRAFFICKERS TRY TO BRIBE FOREIGN CUSTOMS OFFICIALS TO CHANGE THE PAPERWORK ON CONTAINERS TO DISGUISE THEIR PORT OF ORIGIN. THE CONTAINERS IN LAST YEAR'S 494 KILO SEIZURE IN CALIFORNIA WERE MARKED BY FRAUDULENT DOCUMENTS.

IN ADDITION TO THESE ROUTES, WE BELIEVE THAT A GROWING SHARE OF GOLDEN TRIANGLE HEROIN IS MOVING THROUGH CHINA, LAOS, AND VIETNAM TO THE UNITED STATES. INDEED, HEROIN SEIZURES IN CHINA HAVE RISEN DRAMATICALLY OVER THE PAST SEVERAL YEARS, FROM 50 KILOS IN 1987 TO NEARLY 2,000 KILOS LAST YEAR. WHILE SOME OF THE INCREASE IS CERTAINLY ATTRIBUTABLE TO ENHANCED LAW ENFORCEMENT EFFORTS, WE BELIEVE IT IS ALSO INDICATIVE OF A SHIFT IN TRAFFICKING ROUTES. IN 1991, VIETNAMESE AUTHORITIES BROKE UP A MAJOR TRAFFICKING SYNDICATE IN HO CHI MINH CITY THAT WAS MOVING NARCOTICS FROM THAILAND AND CHINA.

SOME ASIAN HEROIN TRAFFICKERS USE AIR TRANSPORT, PARCEL POST PACKAGES, AND COURIERS WHO SWALLOW THE DRUGS, CARRY THEM ON THEIR BODIES, OR CONCEAL DRUGS IN BAGGAGE. SMUGGLING RINGS ARE BECOMING MORE SOPHISTICATED AND ARE TRYING TO MOVE LARGER SHIPMENTS TO THE UNITED STATES.

AS I HAVE INDICATED EARLIER, ETHNIC CHINESE ARE INVOLVED AT EVERY LEVEL OF THE HEROIN MARKETING CHAIN IN SOUTHEAST ASIA, INCLUDING PRODUCTION AND PROCESSING, FINANCE, BROKERING, AND TRANSPORTATION. IN TALKING ABOUT THE ROLE OF CHINESE CRIME GROUPS IN THE HEROIN TRADE, LET ME EMPHASIZE, THAT I AM ADDRESSING ONLY THE ACTIVITY OF A VERY SMALL SEGMENT OF THE ETHNIC ASIAN POPULATION, (WHETHER OVERSEAS OR IN THE UNITED STATES.) AS YOU KNOW, THE VAST MAJORITY OF ETHNIC ASIANS ARE LAW-ABIDING AND HAVE MADE, AND WILL CONTINUE TO MAKE, SUBSTANTIAL CONTRIBUTIONS TO SOCIETY.

AS THE COMMITTEE IS WELL AWARE, THE PROMINENT ROLE OF ETHNIC CHINESE IN THE HEROIN TRADE IS AN OUTGROWTH OF TRADE AND EMIGRATION PATTERNS THAT HAVE LED TO THE CREATION OF CHINESE ENCLAVE COMMUNITIES WORLDWIDE.

WHAT ARE COMMONLY REFERRED TO AS CHINESE ASSOCIATIONS ABROAD ARE IN FACT INCLUSIVE GROUPS OF INDIVIDUALS WHO ARE LINKED BY CULTURAL, LINGUISTIC, AND KINSHIP TIES. MOST OF THESE ASSOCIATIONS ARE ENGAGED IN LEGITIMATE BUSINESS OR CULTURAL ACTIVITIES AND ARE NOT INVOLVED IN CRIMINAL ACTIVITY. TRAFFICKERS WHO ARE MEMBERS OF THESE ASSOCIATIONS HAVE DEVELOPED SOPHISTICATED NETWORKS THAT ARE FREQUENTLY PROTECTED FROM OUTSIDE SCRUTINY.

THE EXTENSIVE BUSINESS INFRASTRUCTURE COMMON TO ETHNIC CHINESE COMMUNITIES PROVIDES HEROIN TRAFFICKERS COVER FOR NARCOTICS AND MONEY-TRANSFER ACTIVITY. BUSINESSES PROVIDE A CREDIBLE PRETEXT FOR FOREIGN TRAVEL, HOSTING OVERSEAS VISITORS, AND LOBBYING GOVERNMENT OFFICIALS.

TRADE AND IMPORT-EXPORT COMPANIES, FOR EXAMPLE, ARE NATURAL FRONTS FOR SHIPPING AND RECEIVING NARCOTICS, CONTACTING CARGO COMPANIES, AND ARRANGING DOCUMENTATION OF SHIPMENTS. HEROIN TRAFFICKERS ALSO USE TOUR AND TRAVEL COMPANIES AS A COVER FOR OBTAINING TRAVEL DOCUMENTATION AND FOR RECRUITING AND EMPLOYING COURIERS.

TRIADS USE HOTELS, RESTAURANTS, AND CASINOS AS SITES FOR NARCOTICS DISTRIBUTION, MONEY LAUNDERING, AND VENUES FOR TRAFFICKER MEETINGS. IN ADDITION, WE BELIEVE TRAFFICKERS ATTAIN LEADERSHIP ROLES IN PROVINCIAL AND CLAN ASSOCIATIONS TO GAIN INFLUENTIAL COMMUNITY POSITIONS THAT DISCOURAGE CLOSE OFFICIAL SCRUTINY OF THEIR ACTIVITIES.

INDIVIDUALS ASSOCIATED WITH CHINESE TRIADS USE THEIR CONTROL OF MANY OF THESE BUSINESS ACTIVITIES TO FACILITATE THE HEROIN TRADE. ALTHOUGH TRIADS ARE HIERARCHICAL IN NATURE, WE DO NOT THINK THAT TRIAD INVOLVEMENT IN THE HEROIN TRADE IS NECESSARILY DIRECTED FROM THE TOP. WE HAVE NO INFORMATION THAT WOULD INDICATE THAT LEADERS OF A GIVEN TRIAD ISSUE ORDERS DOWNWARD THAT A SHIPMENT OF HEROIN BE MOVED, FOR EXAMPLE, FROM HONG KONG TO THE UNITED STATES. LOWER LEVEL TRIAD MEMBERS APPEAR TO BE ABLE TO ENGAGE IN THEIR OWN CRIMINAL ENTERPRISES. THEY OFTEN FORM JOINT VENTURES WITH OUTSIDERS OR MEMBERS FROM OTHER TRIADS OR ASSOCIATIONS TO SHIP HEROIN. NEVERTHELESS, THE TRIAD LEADERSHIP GETS A SHARE OF THE PROFIT BY VIRTUE OF THEIR POSITION, EVEN IF THEY WERE NOT DIRECTLY INVOLVED.

THE PRIMARY TRIADS WE BELIEVE TO BE INVOLVED IN NARCOTICS TRAFFICKING ARE LOCATED IN HONG KONG, TAIWAN, AND THAILAND. MALAYSIA AND SINGAPORE ALSO HAVE TRIAD ORGANIZATIONS, BUT WE HAVE LESS DEFINITIVE EVIDENCE THAT THEY ARE INVOLVED IN THE DRUG TRADE. WE BELIEVE TRIAD CONNECTIONS TO NARCOTICS TRAFFICKING LARGELY STEM FROM THE CONTROL TRIADS HAVE OVER TRANSPORTATION LABOR UNIONS IN THE FAR EAST. UNRESTRICTED ENTRY TO COMMERCIAL TRANSPORTATION FACILITIES GIVES TRIADS EASY ACCESS TO MANIPULATE CARGO SHIPMENTS, RECRUIT MERCHANT SEAMEN, AND TASK LOCAL SHIPS TO MEET BULK CARGO ARRIVING BY OCEAN-GOING FREIGHTER. IN ADDITION, TRIAD CONTROL OF ILLEGAL GAMBLING ESTABLISHMENTS FACILITATES MONEY LAUNDERING AND PROVIDES ACCESS TO A STEADY POOL OF HEROIN COURIERS RECRUITED FROM CUSTOMERS HEAVILY IN DEBT.

ALTHOUGH TRIAD AFFILIATION DOES NOT APPEAR TO BE A PREREQUISITE FOR HEROIN TRAFFICKING, TRIAD MEMBERS ARE PREFERRED BUSINESS PARTNERS BECAUSE THEY GUARANTEE RELIABLE AND SECURE UNDERGROUND CONNECTIONS.

WELL-KNOWN INTERNATIONAL HEROIN BROKERS LIKE LIN CHIEN PANG OF BANGKOK, AND LO HSING HAN BASED IN BURMA, USE TRIAD CONNECTIONS IN ASIA TO FACILITATE THEIR TRAFFICKING BUSINESS.

DOMESTIC DEVELOPMENTS IN HONG KONG HAVE CONTRIBUTED TO THE GROWTH OF TRIAD ACTIVITY OVERSEAS. ANTICORRUPTION INVESTIGATIONS AND A CRACKDOWN ON NARCOTICS TRAFFICKING IN THE MID-TO-LATE 1970S BY THE INDEPENDENT COMMISSION AGAINST CORRUPTION CAUSED DOZENS OF TRAFFICKERS TO FLEE OVERSEAS. MANY SOUGHT AT LEAST TEMPORARY REFUGE IN TAIWAN. ACCORDING TO A VARIETY OF SOURCES, A NUMBER OF THESE INDIVIDUALS THEN EMIGRATED AND REESTABLISHED TRAFFICKING OPERATIONS FROM NEW LOCATIONS, INCLUDING CANADA, MEXICO, AND THE UNITED STATES.

THERE IS NO DOUBT WE FACE A DAUNTING CHALLENGE FROM CRIMINAL ORGANIZATIONS, ASIAN AND OTHERS, THAT ARE TRAFFICKING SOUTHEAST ASIAN HEROIN TO THE UNITED STATES. THE CHALLENGE IS EVEN GREATER WHEN YOU REALIZE THAT THE NATURE OF THE TRADE AS I, AND OTHER WITNESSES HAVE DESCRIBED IT, MAKES IT AN EXTREMELY DIFFICULT TARGET FOR INTELLIGENCE AND LAW ENFORCEMENT AGENCIES. IN CLOSING, LET ME SUMMARIZE WHY THE HEROIN TRADE FROM SOUTHEAST ASIA IS SUCH A THREAT:

O OPIUM PRODUCTION IN THE REGION IS BOOMING AND IS LIKELY TO GROW FURTHER.

O TRAFFICKING NETWORKS ARE DIVERSE AND EXPANDING.

O EACH HEROIN SHIPMENT IS UNIQUE AND COULD INVOLVE DIFFERENT PLAYERS.

O TRAFFICKERS' USE OF SEMI-LEGITIMATE BUSINESSES AND CONTAINERIZED SHIPPING MAKES HEROIN SHIPMENTS EXTREMELY DIFFICULT TO DETECT.

O AND FINALLY, ALTHOUGH THEY ARE BY NO MEANS THE ONLY CRIME GROUPS INVOLVED IN DRUG TRAFFICKING, SECRETIVE CHINESE TRIADS AND OTHER CRIMINAL ASSOCIATIONS WITH WELL-ESTABLISHED LINKS TO THE US MARKET PLAY A MAJOR ROLE IN ORGANIZING HEROIN SHIPMENTS.

MR. CHAIRMAN, I WISH TO THANK YOU AND THE COMMITTEE MEMBERS FOR THIS OPPORTUNITY AND I WILL BE HAPPY TO ANSWER ANY QUESTIONS YOU HAVE AT THIS TIME.

STATEMENT OF JOHNNY KON AKA KON YU-LEUNG
AUGUST 4, 1992

Good Morning, Senators. My name is Johnny Kon. I was born Kon Yu-Leung in China in 1943. I am a convicted heroin smuggler, and I have been jailed in the United States for 52 months. I am currently serving a 27 year sentence for my crimes. I was arrested in March of 1988 as a result of a long term investigation conducted by DEA's Group 41, the Southeast Asian Heroin Task Force in New York. I have been cooperating with United States authorities, and appreciate the opportunity to tell my story today before this Subcommittee.

Between 1984 and 1987 my associates and I were responsible for importing over 1,000 pounds of heroin into the United States. My multi-million dollar heroin proceeds were invested around the world, including investments in New York and San Francisco.

I have served of a leader and member of two Asian criminal organizations. The primary vehicle for my criminal schemes was the Big Circle Gang, and I directed and assembled a major faction of such gangsters into my group known as the "Flaming Eagles". I am also a member of the Wo On Lok Triad, and currently hold the rank of '415', or "White Paper Fan" official in the triad. Many of my followers in the Flaming Eagles were brought into the Wo On Lok after I joined the triad.

Before becoming involved in criminal activity, I was engaged in various legitimate businesses. In 1965 I opened a fur business in Kowloon, Hong Kong. Soon after entering the business, a friend brought me to Saigon, where he had been working at the U.S. military headquarters during the Vietnam War. Through my friend, I was able to secure contracts with the US military, and I was soon running many concessions at the base. I also opened a tour service which would provide services for military personnel travelling from Vietnam to Hong Kong. My business generated \$250,000 in gross revenue per month and was tax-exempt. I was able to maintain my business relationship with the US government until 1975, when I left Saigon on the last plane, three days before the communists took over.

In 1975 I returned to the fur business in Hong Kong, and began marketing my products in Europe and America. Unlike many businesspeople in Hong Kong, I did not have to pay gang members or the police for protection, because I was very well connected. I had friends in the police department, and I knew many triad members from the nightclubs where I had previously brought tourist business during the war. These connections were quite valuable.

In the late 1970's I was also running a tannery, a PX and a catalog business. Much of my income was invested in Hong Kong real estate, and I lost a great deal of money when the United Kingdom agreed to return Hong Kong to China, and the market dropped. I soon fell deep into debt, owing over 30-40 million Hong Kong dollars (\$4-5 million US). As a result, I looked for new business opportunities, and decided to open a trading company in New York's fur district. I was introduced to Charlie Wu, also known as "Charcoal", who was involved in business with John Routollo, a New York Police Sergeant, who was formerly in charge of the Pistol Licensing Division. Routollo had been supplying gun licenses to Chinese organized crime figures in New York through Charcoal Wu. John Routollo later became involved in my heroin business, and handled some of my work in New York. At this time I was travelling back and forth from Hong Kong to New York regularly.

In the early 1980's I began to work with members of the Big Circle Gang in Hong Kong. Many of these gangsters were former Red Guards who had fled from China after the Cultural Revolution when the "Gang of 4" fell from power. They were an elite group, and were very active in violent military-style jewelry store robberies in Hong Kong when I was contacted by some of their leaders. Their leaders came from various parts of China, and the Hong Kong factions of the group included factions who had worked together in various provinces of China, including Canton and Hunan.

I was approached and asked if I was interested in buying stolen goods from the gang. I had a lot of excess cash from my fur business at the time, so I was very interested in buying such goods at a cash discount. I also knew that I could use my overseas contacts to sell the goods. I quickly became a key player in the Big Circle Gang's operations.

Big Circle comprises many different groups. Big Circle members operate around the world. In Hong Kong, most Big Circle members are also members of a triad. Every triad in Hong Kong has Big Circle Gang people as members. Triads often recruit them to be enforcers. Members of the Big Circle get power from "Guan Shi", which is a relationship among people. Through such relationships, Big Circle members can call on triad members or other Big Circle members for help.

My role in the Big Circle grew quickly over time. In 1982 and 1983, I began helping young Big Circle leaders to set up illegal businesses of their own in Hong Kong. I financed their operations, which included prostitution and underground gambling. I would also provide them with guns and pay for lawyers for anyone who got into trouble.

At this time I also decided to get into the drug business. My business selling stolen jewelry was earning a profit margin of 25-30 percent, but I knew drugs could be more profitable. I

recruited some Big Circle members to work with me, and I put them on my fur business payroll to make them look legitimate. Immediately before my first heroin shipment, I decided that it was important to unify my followers.

In the Summer of 1983 I unified various factions of the Big Circle into a gang known as the "Flaming Eagles". Big Circle factions had been coming into some conflict with one another, with different groups sometimes targeting the same jewelry stores. This was a problem. We decided that this was a good time to unify the group, because the Big Circle had plenty of power and money. We hoped to become a higher authority than the triads, and we decided that if any triads gave us trouble, we would use our guns including 45 calibre pistols and AK-47's. Prior to this time, there were very few guns in Hong Kong, even among criminals.

I became the leader of the Flaming Eagles, but acted as a "behind the scenes" advisor. Ah Tung, also known as Chan Tze Tud, who was a cell leader within the Big Circle Gang, became the visible leader of the group. He drew up oaths, which were signed by 10-15 other leaders, and a total of about 100 members. These oaths required absolute loyalty, and were more demanding than typical triad oaths. Ah Tung was a very strict leader.

Our first heroin shipment took place in November of 1983, a few months after the formation of the Flaming Eagles. We expected heroin to be our most profitable business. This first load contained 5 to 7 kilos of Number Four Southeast Asian heroin, which was purchased in Bangkok. The heroin was then shipped to Malaysia, then to Singapore, then carried in a suitcase to Toronto. Yiu Sze Ning, one of my top Big Circle followers, carried the heroin, but was arrested in Toronto under a false name. The plan was for John Routollo to bring the heroin to New York, where a friend who was also a Wo On Lok and Big Circle member would be responsible for selling it wholesale.

Two months later we tried again. I decided to use Ronnie Yin to carry the heroin, because Ronnie had experience smuggling furs and jewelry for me. This shipment was smaller, around 5 units (over 3 kilos), and Ronnie carried the drugs on flights from Thailand to Japan, and from Japan to the United States. He gave the heroin to John Routollo who delivered the heroin to a Big Circle member in New York. My Big Circle Associate would then sell the heroin to black buyers in New York or Pennsylvania. Meanwhile, Ronnie Yin or John Routollo carried the money from the sale back to Hong Kong, and delivered it to me. This method was used on two occasions, until one of my connections in Bangkok, Lau Lau, also known as "Old Man Lau", came up with the idea of shipping heroin packed in vases.

The first shipment using vases contained 10 units (over 6 kilos). Each vase held about 1 kilo. The vases were shipped from Bangkok to Tokyo to Mexico City. From Mexico City the vases

were delivered to the California border, where associates took the heroin out of the Thai vases and hid it in car door compartments. The cars were then driven across the border. The Mexican route was used once, and additional vase shipments were sent directly to New York. Later I learned that an Italian diplomat was arrested with heroin in vases in Bangkok. I determined that the vases had been bought from my source, so I ordered two of my Flaming Eagles followers to kill Old Man Lau. I was later told that they chopped Lau's head off, and threw him into the river outside of Bangkok. Later, I received another report which said that Lau was only beaten badly, so I do not actually know if Lau is dead or alive today.

Two months before I stopped using the vases, in July of 1984, two of my heroin shipments were stolen by John Routollo, the former New York Police Officer who had been involved in the New York leg of my shipments. He claimed that he was robbed, but I believe that he sold the heroin and kept the money for himself.

I decided to use fishing trawlers to bring heroin from Bangkok to Hong Kong. In November of 1984 I sent a boat from Hong Kong to receive a heroin shipment from a boat which had left from Thailand. After the Hong Kong boat picked up the heroin in international waters, and was approaching Hong Kong, the Hong Kong Marine Patrol noticed the boat, and noticed that it was not carrying fish. They searched the boat and found 126 kilos of heroin and a large number of guns, which were also being smuggled. Seven people were arrested including a Big Circle member who was in charge of the load.

I was tipped off about the arrests by a friend in the police department, so I told "Ah Tung" and other key figures in our group about the arrests, and fled to Taiwan. From Taiwan, I called Hong Kong and told everyone involved in the deal to leave Hong Kong. I helped them get out of Hong Kong, and directed them to hiding places. I obtained fake passports on the Bangkok black market, and arranged for boats to take Big Circle members to the United States, South America, Europe and Thailand. I also offered 100,000 Hong Kong Dollars to each person arrested not to mention my name.

Although I had made a great deal of money by this time, my misfortunes forced me to change my methods. I sent different Big Circle cells to New York, to take John Routollo's place in my business. My subordinates Ah Fai and Ah Hoi were sent to New York to set up distribution networks. Another member, Mui Tao, was sent to Los Angeles. My United States team would sell to gangsters working for Johnny Eng, also known as "Onionhead", the leader of the Flying Dragons Gang in New York. They would also sell to associates of the Ghost Shadows Gang in New York's Chinatown.

We held meetings in New York in the Spring of 1985, where we finalized plans to establish businesses in other parts of the world. I sent followers to Brazil, Bolivia, Paraguay, Panama and Argentina. We set up a watch business in Paraguay, and we gave a 10 percent share to a Paraguayan General. This gave us protection for watch shipments from Hong Kong to Paraguay, so that we didn't have to pay duties and taxes on the shipments. We also planned to buy an airline cargo company in Panama, but this never happened. Many other members moved to Japan, which became a main meeting place for the Flaming Eagles. At this time I also moved my real estate business from Hong Kong to New York, and hired Hsu Hwa-Min, a lawyer, to take responsibility for my real estate investments.

I next decided to ship heroin in ice buckets. One unit of heroin (about one and one half pounds) could be hidden in a compartment in each ice bucket. Over five shipments were successfully brought into the US using this method. The ice buckets were usually shipped by plane from Bangkok to Tokyo to Chicago to New York. After several successful shipments through Chicago, my followers made a mistake in booking a flight and were forced to enter in Seattle. The Customs officials in Seattle conducted a thorough search and a shipment of 120 units was seized. This happened in June of 1985.

In January of 1986, I tried to ship heroin to the United States in picture frames. A female who owed money to one of our illegal gambling parlors was recruited to carry heroin packed into picture frames. When she arrived at Kennedy Airport in New York, Customs officials noticed that the frames were very heavy, and they arrested her.

At the Spring of 1985 meeting in New York, before to the ice bucket and picture frame seizures, I announced my intention to retire. I felt that I had made enough money, and I promoted Ah Tung to lead the group in my place. Ah Tung's strict leadership style angered other leaders. Our person in charge of Bangkok operations was Ah Fai. Ah Tung told Ah Fai that he was being moved out of Bangkok, and told him to go to South America. Ah Fai and other leaders were jealous of Ah Tung, and Ah Fai put a contract out for Ah Tung's murder. Ah Tung then placed a contract on Ah Fai in response. I called a settlement meeting in Tokyo in July of 1985, following the ice bucket seizure. Ah Tung refused to come to Tokyo, so this meeting was not successful.

One month later, I heard that Ah Tung was preparing to fight the Flaming Eagles. So I assembled my leaders in Frankfurt, and issued an order demanding that Ah Tung report to the meeting. Ah Tung did not come, so I put one of my leaders, Mui Tao, in charge of having him killed. I sent Mui Tao and two others to Manila to kill Ah Tung. Mui Tao called me from Manila and told me that Ah Tung was "finished". It was now important for me to take back the leadership of the group.

The heroin business continued, and we began using containers filled with T-shirts, furniture and wine boxes to ship my heroin. Heroin would be shipped through various places, including Tokyo, Panama and Miami, on the way to New York. These methods did not work perfectly, however, and I lost 136 kilos in a Bangkok seizure.

Following this seizure, I looked for new businesses, and I tried to get into cocaine smuggling. I used Bolivian connections for this purpose. My associates in South America had made many connections which helped us get into this business. My luck was bad in cocaine, and I lost 40 kilos in a seizure. Meanwhile, my heroin business continued. I was later arrested in New York following a large heroin shipment which went through Miami.

I think it is important for you to know that although we lost half of our heroin shipments to law enforcement or stealing, that did not discourage us from continuing in the drug smuggling business. It only pushed us to smuggle more drugs to make up the losses. My share of profits from heroin smuggling totalled over \$10 million. Much of this was invested in the United States.

I would be happy to answer any questions you might have about any of my activities. Thank you.

STATEMENT OF "BULLY"
JAPANESE YAKUZA ASSOCIATE
AUGUST 4, 1992

I am pleased to have the opportunity to speak before the Subcommittee today on the subject of Japanese organized crime. I am thankful for the ability to testify from behind a screen and under an assumed name. Although I myself am not a member of any organized crime group, I have had many dealings with Japanese organized crime, also known as the Boryokudan, or the "violent ones". I was formerly involved in real estate investment and development. Through my business, I became closely associated with a number of high level Boryokudan figures, including leaders of several Boryokudan groups. My relationships were important to my success in the real estate business in Japan. The Boryokudan played an important role in my business, and I also maintained social relationships with leaders of Boryokudan groups.

The term "Boryokudan" is relatively new in Japan. It came about as Japanese gangs became increasingly violent, particularly towards each other. The traditional, colloquial term for Japanese gangsters was "Yakuza", a slang term derived from a losing hand in the card game hanafuda. Eight nine three, or Ya-Ku-Za in Japanese, is the worst possible hand in the game. Many of today's Japanese gangsters evolved from early gambling gangs known as bakuto. Japanese Yakuza were originally recruited from the poor, disaffected parts of society. The origins of modern gangsters can be traced back to the 17th Century. These Yakuza, including the bakuto and other groups within Japanese society, became sympathetic figures to many people, and some Japanese still admire them as underdog figures in Japan.

The term Yakuza later became the term used to describe Japanese "fraternal brothers" of all types. Today, however, the term is outdated, and Japanese police now refer to the gangs as Boryokudan. Even the gangs are calling themselves something new. They now want to be known as the Chi-no-shudan, which means "those who gathered together the intelligent ones". Today's Yakuza are not all underprivileged. Many are capable, well-educated businessmen. Members are now recruited from good schools. Many of the old Yakuza traditions are now disappearing. These traditions include tattooing and the custom of yubitsume, which is a ritual where the top joint of a Yakuza's little finger is severed as an expression of forgiveness to the group for making a mistake. Although this tradition is fading, many gangsters today are missing parts of their little fingers, which they cut off in atonement for some failure.

The influence of the Boryokudan in Japanese society is widespread, particularly in densely populated urban areas. The

Boryokudan are active in drugs, gambling, prostitution, extortion and murder, but some would argue that their greatest impact is now in more legitimate activities. The Boryokudan have become increasingly sophisticated, and currently play an active role in many Japanese business enterprises. Japanese organized crime figures operate many businesses of their own in Japan. In Japan's cities, gang activity plays a major role in inflating land prices and real estate transaction costs. Additionally, the Boryokudan syndicates are active investors in the stock market, and have been linked to several major financial scandals in recent years. Such scandals have also shown the Boryokudan to have influence in political circles, where certain gang members have cultivated the favor of a small number of politicians.

The Japanese Boryokudan groups are structured with some level of hierarchy. The head of each group is known as the Kumicho or Oyabun, which means the boss. He usually has several top advisors, but the immediate underboss, or Wakagashira, is the second in command. Upon the passing of a leader, the number two man becomes the leader. When he takes over, he selects the replacement underboss, who will become the next leader. On some occasions, certain high level Boryokudan members within a group will oppose the elevation of the underboss to the new leader position. In that case, the wakagashira-hosa, who compose the board of directors of the gang, vote to select the new leader.

Money within a Boryokudan group flows like sap through a tree, but in reverse, and as if the tree were upside down. Rather than flowing from the trunk to the big branches and thence to smaller and smaller branches, money flows in small amounts from the smallest twigs up to larger branches and in ever increasing amounts from the larger branches until it arrives in the largest amounts at the trunk of the tree. The money flows from smaller sub-groups to the larger umbrella groups. In this way, the leader of Japan's largest Boryokudan group, the Yamaguchi-gumi, earns 800 million yen, or \$6 million per year.

The three largest Boryokudan groups in Japan are the Yamaguchi-gumi, the Inagawa-kai and the Sumiyoshi-kai. The Yamaguchi-gumi is the largest group, with over 35,000 bona fide members. The leader of the Yamaguchi-gumi is Yoshinori Watanabe. The Yamaguchi-gumi is headquartered in Western Japan, in Kobe, and is also active in Osaka and many other parts of Japan.

Both the Inagawa-kai and the Sumiyoshi-kai are Tokyo-based gangs. The Inagawa-kai is currently led by Yuko Inagawa, who succeeded Susumu Ishii. Susumu Ishii was the first major Boryokudan figure to exploit modern and sophisticated business techniques to his advantage. In 1989, two of Japan's largest brokerage houses, Nomura Securities and Nikko Securities, made \$277 million worth of loans to Ishii, who used the money to acquire a stake in a major Japanese conglomerate. This was part of a major financial scandal in Japan.

The Sumiyoshi-kai is currently led by Shigeo Nishiguchi. This group has been particularly active in international real estate development, and uses sophisticated methods to take control of property. Such investments are used to launder money. Once property is bought and developed, they allow it to appreciate, then sell out and send the proceeds of their investments back to Japan.

My dealings with the Boryokudan were necessitated by my real estate development business. Boryokudan bosses are often called upon in real estate transactions to intervene on behalf of one or both parties. Japanese renters and lessees are granted many rights by law. As a result, property developers seeking to buy out the interest of various tenants face a difficult task. In an attempt to buy out various interests in a piece of property, there will often be parties who hold out for long periods of time. In big cities, such tenants will often call on the Boryokudan to attempt to ensure a sale at the highest possible price.

Many small businesses have close relationships with the Boryokudan because the Boryokudan controls the supply of many of the goods that such businesses buy. For example, in the case of a coffee house, of which there are many in Japan, Boryokudan will control the supply of coffee, and the goods that accompany coffee service, such as napkins. Boryokudan also control businesses which supply hot hand towels (o-shibori) to restaurants and bars, and rent potted plants and paintings to businesses. Through this supply network, many small businesses have contact with the Boryokudan, and will call upon these contacts to negotiate with developers who want to buy their property rights.

When the Boryokudan is called upon on behalf of a business, the Boryokudan boss will summon the developer to his office. They will negotiate, but typically fail to reach agreement at this stage. The developer will then call on a rival of the Boryokudan boss, and the negotiations will be left entirely to the gangsters. The Boryokudan earn large commissions from such dealings, and this mediation service represents a significant portion of the gangs' yearly income. While such deals are typically free of conflict, Boryokudan have been known to use strong-arm tactics to force deals to their advantage.

The involvement of organized crime does not end when the developer is cleared to develop the property. His Boryokudan contact will introduce him to friends who are in the construction business. At each stage in the development of a piece of land, the Boryokudan will own companies, or be closely affiliated with companies that bid on certain jobs in the project.

If a reputable firm does not want to work with the Boryokudan in such a scenario, it has two options. One option is to make a monetary gift of appreciation to the Boryokudan boss,

allowing the developer to freely use non-Boryokudan companies. The other option is to put another company between the developer's company and the Boryokudan entities. The developer can subcontract to such a company, so that the subcontractor will deal with the Boryokudan on the developer's behalf. It is also common for the Boryokudan to set up a "front" company to insulate the gang from direct contact with development and construction companies. Many of Japan's most well-known companies deal with the Boryokudan indirectly through such fronts.

My many Boryokudan connections were beneficial to my development business, which has undertook projects in many parts of Japan. When I wanted to develop land in a new part of Japan, my Boryokudan contacts would introduce me to the boss in the new area. I associated with different gangs on a case-by-case basis, depending on who controlled a particular region.

To maintain good relationships with the Boryokudan, I would give gifts to the bosses that I dealt with. I gave gifts of all sizes, and on occasion I would give a gift of a Mercedes-Benz to show my gratitude to a Boryokudan boss. I also spent holidays visiting my Boryokudan contacts.

Japanese gangsters earn billions of dollars each year. While the official estimate of all Boryokudan income is around \$10 billion per year, I believe that the income is many times that amount. Although a large percentage of these profits are earned through drug trafficking, gambling, extortion and prostitution, a significant amount of income is generated by semi-legitimate business operations, including real estate development. The Boryokudan pay no taxes on any of their legitimate or illegitimate income.

Over the past decade, Boryokudan profits have been invested around the world. Legitimate Japanese businesses and individuals have invested heavily overseas in recent years, and Japanese gangsters have followed suit. Initially, Boryokudan investments abroad focused on art and Hawaiian real estate. Japanese gangsters have made many purchases of million dollar works of art, including paintings by Van Gogh, Picasso and other masters. Much of this art was bought in the United States.

I have personal knowledge of at least five major properties in Hawaii which were bought with money generated illegally by the Boryokudan. My educated estimate is that there are probably closer to fifty major properties in Hawaii which have been purchased. These properties include resort hotels and golf courses. All such properties are fronts for Boryokudan money laundering.

Most of the Hawaiian investments were made in the early to mid-1980's. Recently, Boryokudan have been forced to respond to changes in the economic situation in Japan, and also to the pressure of U.S. law enforcement. The recent bursting of the

Japanese economic "bubble" creates a question as to whether such investments will continue in the near future. Additionally, the U.S. Immigration authorities have managed to bring visa fraud cases against some Boryokudan members who have criminal records in Japan. The Boryokudan are worried about attracting the attention of US authorities in Hawaii. As a result, many Boryokudan now send front people who have never been convicted of any crimes to Hawaii to transact business for them.

Boryokudan-controlled companies have set up a number of front companies in the United States. Japanese holding companies capitalize the U.S. companies, which then provide the vehicle for investment. The companies attempt to evade U.S. taxes by filing false documents and false reports with the IRS, until the authorities catch on. As soon as the IRS gets suspicious, the Boryokudan will fold up the front company and send the money, which has been laundered, back to Japan.

Although Hawaii was the initial recipient of Boryokudan investment, Japanese gangsters have since invested in California, Nevada and in U.S. territories in the Pacific, including Guam and the Marianas Islands. These investments are made through numerous front companies, making it difficult for U.S. authorities to trace the money to the source.

The Boryokudan are also active in other crimes in the United States, including the sale of crystal methamphetamine in Hawaii and the recruitment of American women into prostitution in Japan.

South America has been another prime recruiting spot for Boryokudan prostitution operations. Other Boryokudan ties in South America exist for the purpose of obtaining cocaine, which currently forms a small part of the Boryokudan drug business.

The Boryokudan are involved in other parts of the world as well, including Korea, Taiwan, Hong Kong, Macao, the Phillipines and other parts of Southeast Asia. The ranks of Japanese gangsters have traditionally included a large number of underprivileged ethnic Koreans in Japan, who have often been discriminated against. A number of connections have evolved from this fact, including the virtual control of Korean gangsters in Korea by Japanese Boryokudan groups.

Japanese crime groups have also worked with Chinese groups in Hong Kong and Taiwan in drug smuggling. Many Boryokudan members own legitimate businesses in Hong Kong and Taiwan. Additionally, Boryokudan are involved in loan sharking and extortion of gamblers in the Macao casinos. In the Phillipines, the Boryokudan use Filipino gangs to obtain drugs and prostitutes.

The Japanese Government has recently implemented a law targeting the Boryokudan. While the police are now cracking down

or the gangsters, the most powerful gangs are confident that they will not be hurt by these efforts. They welcome the new law, because they are convinced that it will simply knock out the weaker competition. The Boryokudan are currently trying to adapt to changing economic conditions. They are restructuring their investments and looking for new members. Due to the increased affluence of Japan, the traditional pool of disadvantaged youth who join Yakuza groups has shrunk dramatically. Nevertheless, these groups continue to be a major force both domestically and internationally.

I will be happy to answer any questions you might have. I request, however, that I not be required to answer questions which could reveal my identity.