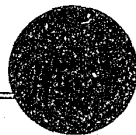


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ASIAN ORGANIZED CRIME: THE NEW
INTERNATIONAL CRIMINAL



HEARINGS
BEFORE THE
PERMANENT
SUBCOMMITTEE ON INVESTIGATIONS
OF THE
COMMITTEE ON
GOVERNMENTAL AFFAIRS
UNITED STATES SENATE
ONE HUNDRED SECOND CONGRESS
SECOND SESSION
JUNE 18 AND AUGUST 4, 1992

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ASIAN ORGANIZED CRIME: THE NEW INTERNATIONAL CRIMINAL

THURSDAY, JUNE 18, 1992

U.S. SENATE,
PERMANENT SUBCOMMITTEE ON INVESTIGATIONS,
OF THE COMMITTEE ON GOVERNMENTAL AFFAIRS,
Washington, D.C.

The Subcommittee met, pursuant to notice, at 9:40 a.m., in room SD-342, Dirksen Senate Office Building, Hon. Sam Nunn, Chairman of the Subcommittee, presiding.

Present: Senators Nunn and Roth.

Staff Present: Eleanore J. Hill, Chief Counsel; Mary D. Robertson, Chief Clerk; Grace McPhearson, Investigator; Cynthia Comstock, Executive Assistant to Chief Counsel; Daniel F. Rinzel, Minority Chief Counsel; Stephen H. Levin, Minority Counsel; Mary E. Michels, Minority Counsel; W. Leighton Lord III, Minority Counsel; Scott Orchard, Minority Investigator; Sallie B. Cribbs, Minority Executive Assistant to the Chief Counsel; Carla J. Martin, Minority Assistant Chief Clerk; Betty Ann Soiefer (Senator Glenn), and Tom Lininger (Senator Stevens).

OPENING STATEMENT OF SENATOR NUNN

Senator NUNN. This morning, the Permanent Subcommittee on Investigations continues its series of hearings concerning Asian Organized Crime. Today's testimony will focus on the international aspects of Asian organized crime and its connections to the United States. These international criminals literally know no boundaries in their unscrupulous dealings, a fact that law enforcement worldwide must come together to address.

The Subcommittee's previous hearings on this issue erased any doubt that Asian criminal groups operate extensively right here in our own country. Today we will expose the international capabilities of these groups and examine how these capabilities threaten us here in America. We will hear of the problems law enforcement faces when international boundaries consistently impede their efforts, while amounting to nothing more than inconveniences, if not aids, for the global criminal.

While a great number of countries throughout the world today have come to recognize Asian organized crime as the frightening, multifaceted entity that it is, not enough progress has been made in establishing formal cooperative relationships among the law enforcement bodies willing to address this problem.

While the rhetoric often is positive, in reality, too often information is not shared, documents are not accessible, and efforts to locate criminals do not receive international assistance. Their international capabilities make these Asian criminals a world problem and one that we must be eager to address together.

Today's witnesses bring to us some unique insights into this international web of crime. We will hear from a powerful Hong Kong triad member who will outline, among other things, his involvement in the 14K triad, his business as a loan shark and proprietor of houses of prostitution, as well as his narcotics importation business that at times reached into as many as nine foreign countries, including the United States. The ease with which he operated this narcotics importation business, fostered by his organized crime connections, is especially revealing and alarming.

We will also hear from two members of the Metropolitan Toronto Police Department who are assigned to the Combined Forces Asian Investigative Unit. Detective Inspector Roy Teeft and Detective Kenneth Yates are with us today to share their thoughts on Canada's experience with Asian crime and to explain how these criminals often use their Canadian presence as a springboard into the United States.

These officers will also highlight the need for greater international cooperation among law enforcement via education and communication. We welcome them today and look forward to the recommendations they may make.

Additionally, Robert Koppe, Marshall Collins and Marshall Heeger of FinCEN, the Financial Crimes Enforcement Network, will outline for us its ongoing Chinese organized crime project. As I understand it, the goal of this project is to assess the extent to which financial crimes, including money laundering, are occurring among the criminal groups in ethnic Chinese communities across America. This includes a concentrated look at both the laundering of proceeds from heroin trafficking and the identifiable, patterned flow of questionable money between the United States and Hong Kong. I am greatly interested in hearing what FinCEN has learned thus far in its study and what it believes the usefulness of the study will be for law enforcement.

VISA International's Donn Sickles, Vice President for Security and Investigations, is also here today to testify regarding the highly sophisticated global credit card counterfeiting operations of Asian criminal groups. The credit card industry, having confronted the extensive use of counterfeit credit cards in the 1980's, redesigned the cards to include enhanced security features. Nevertheless the industry again faces significant counterfeiting in the 1990's. We will hear about electronic counterfeiting, the sophistication that is required of the criminals in this arena, and the networks and schemes that these individuals use to facilitate yet another aspects of their international criminal activity.

Finally, PSI staff investigator Scott Orchard will lead off our witnesses this morning with new charts and descriptions of several Hong Kong based triads that have yet to be publicly disclosed in this degree of detail. Where possible, the charts will identify the international leaders of these triads and the structure of their organizations. As has been the practice of the Subcommittee in the

past, we are acutely aware of our responsibility to insist on the utmost accuracy and fairness in identifying anyone as an organized crime figure and as such, we have insisted that certain criteria be met in this identification process. This criteria was outlined in the first hearing on this series of Asian organized crime and will be detailed again this morning by Mr. Orchard. We are adhering to our time-honored practice of having certain procedures and criteria that must be met before identification is made.

I would again like to thank the ranking minority member of this Subcommittee, Senator Roth, for bringing this issue of Asian organized crime to the forefront and for providing his leadership throughout the investigation and hearings. And Dan, to you and your entire staff, we congratulate you on a job well-done. We have been pleased to work with you and we look forward to the testimony here today.

PREPARED STATEMENT OF SENATOR NUNN

This morning the Permanent Subcommittee on Investigations continues its series of hearings concerning Asian organized crime. Today's testimony will focus on the international aspects of Asian organized crime and its connections to the United States. These international criminals literally know no boundaries in their unscrupulous dealings, a fact that law enforcement worldwide must come together to address.

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While a great number of countries throughout the world have today come to recognize Asian organized crime as the frightening, multifaceted entity that it is, not enough progress has been made in establishing formal cooperative relationships among those law enforcement bodies willing to address this problem. While the rhetoric often is positive, in reality, too often information is not shared, documents are not accessible, and efforts to locate criminals do not receive international assistance. Their international capabilities makes these Asian criminals a world problem and one that we should be eager to address together.

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I would again like to thank the Ranking Minority Leader, Senator Roth, for bringing this issue of Asian organized crime to the forefront and for providing his leadership throughout the investigation and hearings. I look forward to the testimony we will hear today and to continued success in working with you and your staff on this important issue in the coming months.

Senator Roth.

OPENING STATEMENT OF SENATOR ROTH

Senator ROTH. Thank you, Mr. Chairman.

I want to express my great appreciation to you for your continued leadership and support of our Subcommittee's investigation of Asian organized crime.

Last fall, this Subcommittee began hearings on the activities of various Asian crime groups within the United States. While we recognized that the vast majority of Asian Americans are law-abiding, hard-working and extremely productive members of society, we also heard disturbing evidence that Asian organized crime groups have become well-established in the United States and were engaged in a wide variety of criminal activities, including drug trafficking, alien smuggling, money laundering, loan sharking, extortion, illegal gambling, prostitution, home invasions, and other crimes.

We identified a Hong Kong-based triad, a secret criminal group called the Wo Hop To, which had come to control most Asian organized crime activities in the San Francisco Bay area.

At those same fall hearings, FBI Director William Sessions testified before the Subcommittee and promised strong action against Asian organized crime. I am happy to note that he is now delivering on that promise.

In the past few weeks, the FBI has conducted nationwide arrests of important members and associates of the Wo Hop To triad, including some who were publicly identified for the first time at our hearings. [The documents related to this matter, Exhibits 20 and 105, are retained in the files of the Subcommittee.] These arrests are a potential major breakthrough against Asian organized crime in the United States. I commend the men and women of the FBI for their fine work, but there is much more to be done.

In examining the structure and activities of Asian organized crime groups in this country, it has become apparent that such

groups cannot be viewed simply as a domestic problem, but rather must be recognized and confronted as an international problem. Asian criminal groups personify a major new threat confronting law enforcement around the globe.

With the aid of modern technology such as satellite telephones, pagers, and encrypted fax machines, the new international criminals instantaneously communicate with their associates across the globe. Using easily-obtained phony passports and taking advantage of newly-relaxed international travel restrictions, as well as the greatly increased volume of international trade, the new international criminals treat national borders as nothing more than minor inconveniences to their criminal enterprises.

In contrast, law enforcement authorities are confronted with major and often impenetrable barriers in their efforts to pursue international criminals.

Our current situation is analogous to the 1920's when the United States experienced a rash of interstate bank robberies. Bank robbers like the infamous Bonnie and Clyde began using automobiles to rob banks and then quickly crossed State lines, thereby evading State and local law enforcement jurisdiction. While we eventually remedied this problem by creating a Federal bank robbery statute, the solutions to the challenge posed by the new international criminal are not so obvious.

There is no single international law enforcement agency which can assume jurisdiction. While law enforcement agencies around the globe have made substantial progress in establishing formal bilateral cooperative agreements and informal working relationships, we have nevertheless, during the course of our investigation, heard numerous complaints and concerns about the lack of ability of law enforcement agencies to obtain information, locate documents or accomplish service of process. We have heard complaints about countries that effectively serve as sanctuaries for the new international criminals.

We will hear today important testimony from a member of a powerful Hong Kong-based triad who personifies the new international criminal. We will also hear from the Financial Crime Enforcement Center about their ongoing Asian organized crime project. International money laundering is, of course, a key aspect of international organized crime and, in my view, the potential Achilles heel of the new international criminal.

I am also very pleased to join Senator Nunn in welcoming representatives from the Toronto Police who will tell us about the Asian organized crime situation in Canada.

Testimony we will hear today about Asian organized crime involvement in counterfeit credit cards will illustrate the level of sophistication of the new international criminal as well as the tremendous costs imposed on the entire world by such criminals.

I look forward to an informative hearing and thank you for your leadership, Mr. Chairman.

PREPARED STATEMENT OF SENATOR ROTH

I want to commend and thank our Chairman, Senator Nunn, for continued leadership and support of our Subcommittee's investigation of Asian organized crime.

Last fall, this Subcommittee began hearings on the activities of various Asian crime groups within the United States. While we recognized that the vast majority of Asian Americans are law-abiding, hard-working and extremely productive members of society, we also heard disturbing evidence that Asian organized crime groups have become well established in the U.S. and were engaged in a wide variety of criminal activities. Including drug trafficking, alien smuggling, money laundering, loan sharking, extortion, illegal gambling, prostitution, home invasions and other crimes.

We identified a Hong Kong based triad, a secret criminal group called the Wo Hop To, which had come to control most Asian organized crime activities in the San Francisco Bay area.

At those same fall hearings, FBI director William Sessions testified before the Subcommittee and promised strong action against Asian organized crime. I am happy to note that he is now delivering on that promise. In the past few weeks, the FBI has conducted nationwide arrests of important members and associates of the Wo Hop To triad including some who were publicly identified for the first time at our hearings. These arrests are a potential major breakthrough against Asian organized crime in the U.S. I commend the men and women of the FBI for their fine work. But there is much more to be done.

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I look forward to an informative hearing. Thank you Mr. Chairman.

Senator NUNN. Thank you very much, Senator Roth.

Our first witness today is Scott Orchard, staff investigator for the minority, who will introduce charts identifying the major Hong Kong triads.

Mr. Orchard, we swear in all the witnesses before our Subcommittee, as you well know, so I'll ask you to take the oath.

Do you swear the testimony you will give before this Subcommittee will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. ORCHARD. I do.

Senator NUNN. I'll turn it over to you, Mr. Orchard.

TESTIMONY OF SCOTT ORCHARD,¹ STAFF INVESTIGATOR, PERMANENT SUBCOMMITTEE ON INVESTIGATIONS, COMMITTEE ON GOVERNMENTAL AFFAIRS

Mr. ORCHARD. Good morning, Mr. Chairman, Senator Roth.

In the course of our year-long investigation into Asian organized crime, we have identified a number of major Asian criminal groups which operate globally. While not all Asian criminal groups have established structured organizations in the United States, all of the major Asian crime groups have U.S. connections.

The focus of today's hearing is international Asian crime groups of ethnic Chinese origin. At a future date, we will address international Asian criminal groups of other ethnic backgrounds.

In terms of Chinese groups, staff has identified seven major crime groups which have criminal activities reaching the United States. [The document referred to was marked Exhibit 1, and can be found on page 139.] These groups have origin in Hong Kong, China and Taiwan.

Of the Hong Kong-based groups, or triads, as they are commonly referred to, we have identified four major groups. Most of these groups are umbrella groups for various triads which are united only by name. The largest triad is the Sun Yee On triad. Conservative estimates of Sun Yee On membership count over 25,000 members, but many estimates are significantly higher.

Staff has prepared a chart of the Sun Yee On triad and its international leadership. [The document referred to was marked Exhibit 2, and can be found on page 140.] All of the names on this chart, as in previous charts we have introduced, have been independently corroborated by at least two law enforcement sources, and most have been corroborated by other law enforcement and informant sources as well.

The Sun Yee On was founded in the early 1950's in Hong Kong by the late Heung Chin. The group continues to be controlled by his family, through his many sons. His eldest son, Heung Wah Yim, is the current leader, or "dragon head," of the Sun Yee On. Heung Wah Yim was convicted in 1987 in Hong Kong of various crimes related to management of a triad society. Participation in triad activities, or even triad membership, is a criminal violation in Hong Kong. Ten other leaders of the Sun Yee On were also convicted, but all convictions were reversed on appeal. As a result, these individuals continue to promote the Sun Yee On's criminal ventures.

Several of the names on the chart of the Sun Yee On warrant additional discussion. Thomas Heung, also known as Heung Wah

¹ The prepared statement of Mr. Orchard appears on page 99.

Wing, is a Sun Yee On office bearer and one of the brothers of dragon head Heung Wah Yim. Thomas Heung exercises influence in the United States through associates in the Tung On Tong in New York's Chinatown. Clifford Wong, was identified as the leader of this group at the Subcommittee's hearing on November 5 of last year.

Vincent Jew, the former leader of the Wah Ching gang in San Francisco, has also been identified as an associate of the Sun Yee On triad. Vincent Jew fled San Francisco to the Far East in response to law enforcement pressure in 1984 and is now active in the Sun Yee On in Hong Kong. He was identified at last year's hearings along with Tony Young, who has been the leader of the Wah Ching in Los Angeles for several years. Both of these individuals have been linked to the Sun Yee On triad, and have used their ties to the triad to control Asian entertainment brought to the West Coast from Hong Kong.

Other Sun Yee On leaders have also been tied to the United States. Francis Heung, also known as Heung Wah Boor, was convicted of an Atlantic City baccarat scheme in 1989. The scheme involved cheating and generated over \$2.7 million in a 5-month period. Nevertheless, he was only fined, and he returned to Hong Kong, where he is now running various illegal gambling establishments for the Sun Yee On.

The Sun Yee On has a presence in the United States, Canada, Australia, Thailand, Vietnam, and Macao, in addition to Hong Kong. The group has been linked to a vast array of activities, including heroin trafficking and the control of movies and entertainment in Hong Kong.

The second largest group in Hong Kong is the Wo Group. This group includes 10 triads, the largest of which is the Wo Shing Wo triad. No significant Wo Shing Wo presence in the United States has yet been identified. However, in November of 1991, the Subcommittee heard evidence that the Wo Hop To triad, a member of the Wo group, has taken control of Asian criminal activity in the San Francisco area. The Wo Hop To has subsequently been tied to activity in Los Angeles, Honolulu, Portland, Las Vegas, Atlantic City, Boston, and New York, in addition to Australia and Canada.

At the Subcommittee's hearing last year, a chart was presented which detailed the structure of the Wo Hop To triad in the United States. Today we present a chart of the international leadership of the Wo Hop To Triad. [The document referred to was marked Exhibit 4, and can be found on page 141.] As noted last fall, the leader of the Wo Hop To triad in Hong Kong is Chan Tai, also known as "Crazy Tai" or "Solo Tai" in Chinese. Crazy Tai exercises authority through a number of other leaders, including Peter Chong in the United States.

As Senator Roth noted in his statement, several of Peter Chong's Wo Hop To underlings have been arrested by the FBI in recent weeks. Peter Chong was subpoenaed before the Subcommittee last year, but invoked the 5th Amendment in response to questions.

The other leaders of the Wo Hop To in Hong Kong are active in promoting heroin trafficking, illegal gambling, loan sharking, extortion, and alien smuggling. No Tai Wah is the leader of the Wo

Hop To in Australia and is active in promoting Wo Hop To gambling operations in that country.

The 14K triad comprises over 30 subgroups which include an estimated membership of over 20,000. This triad is loose knit in structure, and many of its subgroups do not have firmly established leadership. The Subcommittee will hear testimony today from a 14K office bearer, and Toronto police officials will testify later today about the 14K's activities in Canada.

The 14K engages in a variety of criminal activities including heroin trafficking, alien smuggling, and counterfeit credit card manufacturing, and has connections in the United States for all of these purposes.

The fourth Hong Kong triad that we have identified is the Luen group, which comprises over 8,000 members, broken into four triad subgroups. The subgroup with the most influence in North America is the Kung Lok triad, which has a major base of operations in Toronto. Many Kung Lok members in Toronto have associates in the United States. This group is also active in the control of singers from Hong Kong who come to North America to perform, and the Kung Lok utilizes connections with individuals in New York, Atlantic City, San Francisco, and Los Angeles to control singing tours.

The Big Circle Gang, which is not a traditional triad, is a relatively new phenomenon in North America and a new group relative to other triads. The group was formed by former Red Army Guards who left China for Hong Kong. The Big Circle Gang is particularly violent, specializing in armed robberies of jewelry stores in Hong Kong, as well as in heroin trafficking. Most Big Circle Gang members are also members of a triad. As will be explained by witnesses from Toronto later today, the gang also utilizes connections in the United States and Canada.

Finally, we wish to discuss two Taiwan-based groups which are also of particular importance. The largest of these groups is the United Bamboo Gang, which has an estimated membership of over 20,000. This group was formed by Hong Kong criminals who fled to Taiwan during a law enforcement crackdown in the mid-1950's and now operates internationally in the United States, Canada, and throughout the Far East.

The United Bamboo has been active in the United States for over a decade and is most famous for a 1985 case in which members of the United Bamboo were recruited by the Taiwanese Defense Intelligence Bureau to murder San Francisco journalist Henry Liu. The group is particularly active in Los Angeles, Houston, New York, and Vancouver, British Columbia, and has been linked to murder, kidnapping, alien smuggling, illegal gambling, loan sharking, and a variety of other criminal activities in the United States.

The second Taiwan-based group is the Four Seas Gang, or Sei Hoi, which has an estimated membership of over 5,000. This group, while a traditional rival of the United Bamboo, has recently worked with the United Bamboo in the United States in some ventures. The Four Seas Gang has ties in Los Angeles and New York.

We will hear a great deal more about these groups through the testimony of our various witnesses today.

Thank you very much.

Senator NUNN. Thank you.

Senator Roth, let me just ask a couple of questions and then I will turn it over to you for your questions.

You mentioned that the Sun Yee On leaders have been tied to the United States, specifically New York, San Francisco, and Atlantic City. Is there significant presence elsewhere in the United States?

Mr. ORCHARD. Not that we have identified, but it is important to realize that the leaders of the groups in Los Angeles and New York, that have been tied to the Sun Yee On, have a number of ties throughout the United States and Canada, particularly in regard to these tours of Hong Kong singers who come to the United States.

Also, there is some evidence that the Sun Yee On is directly involved in bringing those singers to the United States and working with certain individuals in control of these tours in all the various cities; and while we have not been able to directly connect some individuals with the Sun Yee On in certain tour cities, the influence is there.

Senator NUNN. You also mentioned that the Sun Yee On triad had control, or has control, of the movie industry and other types of entertainment in Hong Kong. Of what significance is this to the United States?

Mr. ORCHARD. I think it is first important to understand that last winter there was a large protest in Hong Kong where a number of famous actors and actresses came forward to protest triad involvement in the entertainment industry, so it is fairly widely known that triads have quite a bit of control.

Now, the significance to the United States lies in the fact that there are a number of leaders of Asian criminal groups in the United States that are involved in these tours that come to the United States, and these concerts that are put on are often major gatherings—a "Who's Who," so to speak—of Asian criminal groups.

Senator NUNN. How are these groups tied together? You mentioned the Wo triads. Are they tied to the other triads? Are they loosely tied? Do they coordinate with each other?

Mr. ORCHARD. All of the triads in Hong Kong refer to each other in a way as brothers; they are all members of something called the Hung Mun, which is "the Red Gate." They all refer to other triad members as "brothers." But at the same time, for example, the Wo Hop To and other Wo groups are in direct conflict with the Sun Yee On, which is a rival group. So generally, while some triads may work together in different ventures, there is also quite a bit of conflict between the groups. The cooperation that you see is more common among subgroups of one particular overriding triad.

Senator NUNN. We know from history and from trials that have just been concluded that the traditional organized crime groups in this country have, on occasion, worked together and on occasion been at war. How does this pattern with Asian organized crime differ, if it does differ, from traditional organized crime in this country?

Mr. ORCHARD. Well, we are seeing quite a bit of evidence particularly in California of different groups that one would expect to be

fighting with each other working together. For example, a number of Vietnamese gangs in the Bay area have been consolidated under the umbrella of the Wo Hop To triad. Additionally, in the Far East there is quite a bit of cooperation in the heroin trafficking area. It is just not clear at this point whether or not they are starting to cooperate more frequently or whether there is a trend there.

Senator NUNN. Are there many murders between the triads?

Mr. ORCHARD. In San Francisco, there have been more than a handful of murders that have been linked to a struggle between the Wah Ching Gang and the Wo Hop To triad. There were five before our last hearing, and there have been several others that are being investigated as we speak which could also be directly related to that fight between the Wah Ching and the Wo Hop To for power in California.

Senator NUNN. Senator Roth.

Senator ROTH. Going back to the question of entertainment, as I recall, the stars and actors and actresses who have come from Hong Kong to this country have been, at least in some cases, controlled by these triads, and when they came here, there was one situation I believe in San Francisco where the people were more or less forced to buy tickets to support this particular actress or singer, so that it was used both to procure money for the criminal activities and also used as a means of gaining prestige within the community. Is that correct?

Mr. ORCHARD. That is correct.

Peter Chong, the leader of the Wo Hop To in San Francisco, brought a woman named Amy Yip to perform in the Bay area and also up in Reno. For that event, he sent out a number of his underlings to Oakland and other parts of the Bay area to solicit the purchase of tickets, and there were a number of people who went to trial on extortion charges in relation to the selling of those tickets.

Also, he clearly received quite a bit of "face," so to speak, by securing this entertainer to come to the Bay area because previously entertainment had been controlled by the Wah Ching gang, and the fact that he was able to bring the entertainers was just another thing in his favor in the battle with that rival group.

Senator ROTH. You mentioned the size of a number of these triads. Have we been able to obtain any breakdown of the membership by country? I think you said there were 30,000 in one group; are the bulk of them in Hong Kong?

Mr. ORCHARD. The bulk would still be in Hong Kong. It is very difficult to pin down the numbers. There are certainly several hundred individuals who have become associates, for example, of the Wo Hop To in San Francisco, but other groups have been a little more difficult to pin down because their activities in the United States in particular have not been as noticeable; they have just been a little more quiet than the Wo Hop To, so it's not an easy task.

Senator ROTH. What has been the trend? Has membership in these various illegal groups been increasing in the United States and other countries beyond Hong Kong?

Mr. ORCHARD. Well, some of this again is certainly speculation, but the influence of triads in the United States, particularly in

New York and in San Francisco, has expanded. The gangs in New York that are linked to triads have been fairly successful in recruiting, and their activities have expanded. I think the people in New York would tell you that as well; and in San Francisco, it would be the same story with the Wo Hop To which has also been growing.

In Hong Kong, the Sun Yee On triad has increased its power significantly in recent years, as has the Wo Hop To, and there are now much larger membership numbers than those we have presented which may indicate that the membership of those groups has increased substantially.

Senator ROTH. So it appears to be a growing phenomenon. Is that an accurate assumption?

Mr. ORCHARD. That's my impression.

Senator ROTH. Thank you, Mr. Chairman.

Senator NUNN. Thank you, Mr. Orchard.

Senator NUNN. Our next witness will be Mr. "Ma." Mr. Ma, for reasons of personal safety, will be testifying under this assumed name, and from behind a screen in order to protect his identity. I am going to ask that no cameras be allowed to photograph Mr. Ma. It is my understanding that members of the media have already been advised as to those locations in the room where cameras will and will not be allowed.

Prior to clearing the room for Mr. Ma's entrance, I would direct that all cameras be turned either to the rear of the room or the window side of the room, if you all would do that.

I'll ask that the room be cleared except for direct staff, and we'll come back in 5 minutes, at which time we'll have a screen from behind which Mr. Ma will testify.

[Recess.]

Senator NUNN. Mr. Ma, I'm going to ask you without standing to please hold up your right hand and take the oath.

Do you swear that your testimony before this Subcommittee will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. MA [Through Interpreter]. Yes.

Senator NUNN. Mr. Ma, you are here today before this Subcommittee under oath, sworn to tell the truth, the whole truth and nothing but the truth. You have your lawyer with you today, is that correct?

Mr. MA [Through Interpreter]. Yes.

Senator NUNN. And I'll ask the lawyer, perhaps, if you would introduce yourself. Or would you prefer not to?

Counsel. I'd prefer not to, Senator Nunn.

Senator NUNN. All right. Mr. Ma, you will have the right to consult with your lawyer after any questions asked. That is part of your rights before this Subcommittee and we will accord you that right. Your lawyer will have the right to advise you whenever you feel the need.

We are pleased that you are here today, and we welcome your statement.

**TESTIMONY OF MR. "MA,"¹ MEMBER OF A HONG KONG TRIAD
AND CONVICTED SMUGGLER, ACCOMPANIED BY COUNSEL**

Mr. MA [Through Interpreter]. Today I have the opportunity to testify behind a screen, under an assumed name. I am afraid that if my identity becomes known, my family and friends would face serious life danger because I am a triad member.

Triads are secret societies. When I was 14 years old, I joined the triad. Just like the organizations that everybody joins, one must take an oath to sworn secrecy, promising never to reveal anything about the triad organization. We had to take vows of allegiance to the gods of heaven and earth and then prick blood as a commitment.

My joining the triad was a very natural process because when I was 10 years old, I had been hanging out with triad members and played with them. Since I was rather young, not very much was requested of me, but in a few years' time I joined in the street fights in order to protect our turf. We often fought with the Sun Yee On and the Wo Shing Wo triads. Sometimes, it was because of our illegal business. I am a member of the 14K triad, which is one of the larger and more powerful black societies in Hong Kong.

When I was 18, while still a triad member, I took an exam and joined the Royal Hong Kong Police. This may seem strange, but in Hong Kong, part of the Hong Kong Police are also triad members. The policemen took bribes to protect gambling dens, opium dens and prostitution dens. Even if you wanted to be honest, it was almost impossible because bribe money would regularly show up in your desk drawer.

After I had been a police officer for a few years, I quit the police job and started a "call girl center" of my own. On the one hand, I got the approval of my 14K group, but more importantly, we bribed the police in our area to protect us. At the peak of this call girl operation, I was collecting about 50,000 Hong Kong dollars per month, but we had to pay 25,000 Hong Kong dollars for expenses for our employees, and then we paid 4,000 Hong Kong dollars to the police. However, I was not required to pay any of my profits to our 14K leadership.

The rules of the triads are that we do favors for each other, we protect each other, we assist each other and make introductions and engage in criminal activities together.

But triads are not strict discipline organizations like the Italian mafia. For example, a triad member would not necessarily be required to get permission from the dragon head in order to engage in any criminal activities even if this activity involved an outsider or even a member of another triad member. Only on traditional Chinese holidays, for example, Chinese New Year, we traditionally will give "lice" to our "big brothers" and "uncles." A lot of times, I would give up to 5,000 Hong Kong dollars.

Soon afterwards, I was promoted to be an office bearer in the 14K. I recruited my own "little brothers" to consolidate my influence and also assist in my promotion. Originally I was only a rank

¹ The prepared statement of Mr. Ma appears on page 100.

and file member of the triad. Having my own organization and controlling a group of "little brothers" helped my influential power.

At this time, I also became involved in loan sharking. The interest that we collect for the amount of money that we loan out is 20 percent for 20 days. Since I was a member of the triad, it was not necessary for me to use force to collect debts. Sometimes, I would just send my "little brothers" to collect money from the debtor, and tell him if he didn't pay up, then something unlucky could happen to him. That would be enough.

After several years in the call girl and loan sharking business, the Independent Commission Against Corruption, ICAC, was formed in Hong Kong, and then the police officers no longer took bribes. Also, because a lot of corrupt officers were arrested, a good many of them resigned and fled. Plus the new generation of policemen were spending a lot of efforts to do their job, to fight crime. Consequently, I closed down my call girl center, and ever since that commission was established, a lot of illegal businesses were closed down or forced to go underground from open operation.

In the mid-1970's, I became involved in the heroin business. No. 3 Southeast Asian heroin was the most used form of heroin in Hong Kong. People used this No. 3 heroin for "chasing the dragon." Early on, I bought the No. 3 heroin from a 14K brother who imported it from Thailand to Hong Kong and then manufactured the No. 3 heroin in Hong Kong. Then I would have my workers sell it to the addicts. Later on, I transported the heroin directly into Hong Kong, and I learned how to use chemistry to convert the base into heroin. That way, I could import it myself and refine it myself, and I could make more money.

A friend in Thailand who was in the cargo service shipped the heroin, and I used my connections to retail this heroin to the retailers in Hong Kong. I did this for about 7 years, until ICAC began to investigate my partner, which led me to flee to Taiwan. Since there is no extradition treaty between Taiwan and the U.S., a lot of criminal figures went there. Taiwan is a safe place which is not under the control of Hong Kong authorities.

While in Taiwan, I became familiar with some fugitives, some of whom were heroin traffickers and triad members wanted by the United States. I stayed for about 2 years in Taiwan, but I never did any heroin business over there.

Soon, I moved from Taiwan to Thailand to establish my base of operations and started doing the heroin business again. I travelled back and forth between Hong Kong and Thailand. Each month, I imported about 70 pounds of heroin to Hong Kong. I was responsible for selling the heroin in Hong Kong. At the time, I worked with a member of the Wo Shing Yee triad, who bought the heroin base in the Golden Triangle. As I stated earlier, it is rather easy for triad members to join other triad members or outsiders to do criminal activities. The most important factor is who could make the money for you.

Because of my contacts in Thailand, I soon went into the No. 4 heroin business and shipped heroin to the United States and Australia. I set up two partnerships, one of which shipped heroin from Thailand to Hong Kong, and the other shipped from Hong Kong to the United States. Having two different sets of people doing that

spread the risk among different people. One group lived in Northern Thailand in Chiang Mai and was responsible for buying processed No. 4 heroin from the Golden Triangle. Then I would ship the heroin to Hong Kong with another partner. Then, in Hong Kong, my underling would ship it to the United States. This person worked for a shipping company. He put the heroin and clothing into a suitcase and then put the suitcase into a container which was shipped into Kennedy Airport in New York. He would fly with the container and would then use his cargo company's credentials to retrieve the cargo. Then he removed the suitcase from the container. He was also responsible for selling the heroin to the retailers.

Over a short period of time, I imported almost 400 pounds of No. 4 heroin to the United States. The largest single shipment was 68 units. Each unit equals 1.4 pounds. Most of my shipments were for 20 units, and I owned 10 units of them. To buy heroin in Thailand until the retail sale in New York, the markup could be 1,000 percent. For each unit, the price in Thailand would be \$5,000 U.S. dollars. When it was sold to Hong Kong, each unit would be \$11,000. When it arrived in New York and was sold to Chinese agents, each unit would be for \$50,000. When it is sold to a non-Chinese person, each unit would cost \$80,000-\$100,000.

During the course of this operation, I learned that the police started to watch over my partner, who was charging me \$15,000 per unit for transportation. Therefore I started to look for a safer and cheaper way to ship my heroin to the United States.

I began to locate Central American diplomats to carry my heroin. Through a friend, I got to know a Central American diplomat. These people, stationed in Japan at the time, were smuggling diamonds into Japan and Korea. Because of his smuggling scheme, he gave me the idea to bribe these diplomats to bring heroin into the United States. The diplomat was a Nicaraguan diplomat named William Tapia, who was soon extradited to the United States and charged with heroin smuggling. He is still in jail.

These diplomats would carry the heroin for \$10,000 per unit as transportation cost, which would cut down my costs. One of them would go to Bangkok to pick up the merchandise, which was wrapped in carbon paper in order to avoid detection by the Customs people through x-ray. Then they would bring the stuff to locations in Southeast Asia, where it would be given to another diplomat to ship to either the United States or Australia. This method could avoid the suspicions of Customs, since the diplomats had certain status.

These diplomats carried heroin for me on three occasions—twice to the United States and once to Australia. After my arrest, I did not continue to use this method to smuggle.

I am still serving my prison sentence. I have had time to reflect on the harm caused by my past criminal activities, and this is why I am testifying here today, to help you understand how triads and the heroin business operate.

One area that I have experience in is money laundering. My partners and I have successfully wired or transferred more than \$14 million in proceeds from U.S. heroin back to Hong Kong. This \$14 million was brought back through various methods. Two mil-

lion dollars of it was carried back to Hong Kong in suitcases. An additional sum of it was used to buy diamonds in New York, because diamonds are ideal for transport back to Hong Kong because of their small size and high value—and you can buy diamonds with cash, get a discount, and these diamonds can be sold at a higher price in Hong Kong. This way, we could improve the heroin profit because through buying diamonds, we could launder more money; while having somebody bring the money, you have to pay a commission.

The diamond merchants in New York never asked us to fill out any cash transaction reports. Consequently, we could sell these diamonds at very high prices in Hong Kong, and we could derive higher profits from our heroin business because we didn't have to buy these diamonds through any legal procedures. And besides, diamonds are not easily detected by machines at the airport, so it is ideal for money laundering.

When it was necessary to send money back to Hong Kong directly, we used two methods. The first was to wrap the money in carbon paper and put it in suitcases. The second method was more complicated. I used my 14K brothers to open accounts with U.S. branches in Hong Kong, and then in the U.S., money under \$10,000 would be transferred, to avoid filing reports. But I had to pay a 5 percent commission to my U.S. colleagues for their work.

My activities in the underworld have made me very familiar with all sorts of criminals in Hong Kong. At the moment, the Sun Yee On triad is extending its influence in Hong Kong. They are active in many areas. They opened approximately one-third of the gambling places in Hong Kong. Also, they exercise significant control over the entertainment business in Hong Kong because their members control a lot of nightclubs, bars, and movie production companies by owning the shares. Since they have major share control, they can control various aspects of the Hong Kong movie business. Some of them are entirely owned by them.

The Sun Yee On also has influence in New York's Chinatown. Clifford Wong, also known as Wong Chi Fai, is the head of the Tung On Tong in New York. He works on behalf of the Sun Yee On's interests.

I will be pleased to answer any questions as to all the matters above, but I would like to avoid any questions that would reveal my identity in order not to endanger my family and my friends.

Senator NUNN. Thank you, Mr. Ma.

Would you tell us whether you remember or could get the names of the diamond merchants or wholesalers in New York that you dealt with?

Mr. MA [Through Interpreter]. I don't remember.

Senator NUNN. Were there several of them? Were they numerous or were there one or two?

Mr. MA [Through Interpreter]. I only purchased it once myself.

Senator NUNN. Did you have other people making the purchases for you?

Mr. MA [Through Interpreter]. I didn't, but my partner bought it for himself. That was the first time I came to the United States, so I only bought it once.

Senator NUNN. But you don't remember the name of the wholesaler or the retailer you bought the diamonds from?

Mr. MA [Through Interpreter]. He himself came up to the hotel to look for us.

Senator NUNN. And you do not remember the name.

Mr. MA [Through Interpreter]. I do not.

Senator NUNN. Is the organized crime that you were affiliated with growing in the United States?

Mr. MA [Through Interpreter]. I am not so sure.

Senator NUNN. How about overall organized crime that you are familiar with. Are the different groups of Asian organized criminals growing in the United States now, or do you know?

Mr. MA [Through Interpreter]. Since I was arrested one week after I came to the United States for the first time, I am not so familiar with the situation here.

Senator NUNN. You mentioned a ceremony for initiation. Could you describe how you are initiated as a member of a triad?

Mr. MA [Through Interpreter]. Usually in our initiation ceremony, we would have to bow to heaven and earth, and then we would use a pin to draw blood from our fingertips and mix it with wine. It would be split up, and all our friends present would drink it.

Senator NUNN. Have you attended a number of ceremonies in addition to your own?

Mr. MA [Through Interpreter]. Yes.

Senator NUNN. How old were you when you had your ceremony?

Mr. MA [Through Interpreter]. In my own initiation ceremony, I kowtowed to the heaven and earth gods, and then I dropped the blood into a chalice, and then I swore not to reveal the organization of the black society. At the time, this initiation ceremony was conducted by a 415 White Paper Fan official.

Senator NUNN. What is a "415 White Paper Fan official"? Does that represent some hierarchy within the organization?

Mr. MA [Through Interpreter]. He is one of the counselors in our organization. [The document referred to was marked Exhibit 6, and can be found on page 142.]

Senator NUNN. Do you wear any kind of particular ceremonial gowns or robes? What is the dress?

Mr. MA [Through Interpreter]. We have to wear a certain kind of filial uniform, white, and we wear a headband and a waistband.

Senator NUNN. I'll show you a picture. Does that represent a reasonable portrayal of the kind of uniform you wear at the ceremonies? [The document referred to was marked Exhibit 7a., and can be found on page 143.]

Mr. MA [Through Interpreter]. Yes, but the headband looks different, and the hand signal is different, because this hand signal is for 489, Dragon Head.

Senator NUNN. What is the purpose of the ceremony?

Mr. MA [Through Interpreter]. The purpose of the ceremony was to strengthen the membership's loyalty to the organization.

Senator NUNN. Is there any penalty if you break the oath to the organization?

Mr. MA [Through Interpreter]. We would receive an extermination punishment.

Senator NUNN. Do you know of members who have been exterminated for breaking the oath?

Mr. MA [Through Interpreter]. It depends on the crime that he committed.

Senator NUNN. But do you personally know of any people who have been killed by the gang for breaking the oath, or for any other reason?

Mr. MA [Through Interpreter]. I know some of them who were beaten up or slashed, but I don't know anybody who was killed.

Senator NUNN. Do you fear for your life?

Mr. MA [Through Interpreter]. Yes.

Senator NUNN. Senator Roth.

Senator ROTH. Thank you, Mr. Chairman.

How do triad members recognize each other in public?

Mr. MA [Through Interpreter]. When they meet, they shake hands, they lock hands.

Senator ROTH. In other words, you recognize one another through hand signals?

Mr. MA [Through Interpreter]. Correct.

Senator ROTH. Can you see this picture? What does the hand signal here mean? [Photo of person referred to was marked Exhibit 7a., and can be found on page 143.]

Mr. MA [Through Interpreter]. That is the hand signal for 489, the Dragon Head.

Senator ROTH. And the Dragon Head, what is his position in the organization?

Mr. MA [Through Interpreter]. He is the ultimate leader.

Senator ROTH. He is the "top gun"?

Mr. MA [Through Interpreter]. Yes.

Senator ROTH. Can you identify the hand signal in this picture? [Photo of person referred to was marked Exhibit 7b., and can be found on page 144.]

Mr. MA [Through Interpreter]. This is the hand signal for 415, White Paper Fan.

Senator ROTH. And what is his role?

Mr. MA [Through Interpreter]. In the organization, he was like a strategist.

Senator ROTH. One more. Can you identify what this person's rank is within the organization? [Photo of person referred to was marked Exhibit 7d., and can be found on page 146.]

Mr. MA [Through Interpreter]. He is a 432 Straw Sandal.

Senator ROTH. And what is his role?

Mr. MA [Through Interpreter]. He is responsible to relay messages for communication between brothers.

Senator ROTH. Now, what was your own rank as office-holder, and what was your responsibility?

Mr. MA [Through Interpreter]. Right now, I hold the position of 426. [Photo of person referred to was marked Exhibit 7c., and can be found on page 145.]

Senator ROTH. And what is the responsibility of a 426?

Mr. MA [Through Interpreter]. The 426 responsibility is to resolve any matter by force.

Senator ROTH. So you were an enforcer, is that correct, or are an enforcer?

Mr. MA [Through Interpreter]. Yes.

Senator NUNN. Now, you testified that you often called on your 14K "little brothers" to perform tasks for you. Were you ever called by your "big brother" to assist in a criminal venture, and if so, what was the nature of your activity?

Mr. MA [Through Interpreter]. In the past, when I was young, my brothers asked us to go fight on the streets to take over turf; but right now, they haven't done that.

Senator ROTH. How involved were other 14K triad members in your heroin business?

Mr. MA [Through Interpreter]. In my own business, only my "little brothers" helped me out; there were not any other brothers.

Senator ROTH. Isn't it true that when you first became involved in the No. 3 heroin business, your source was a 14K member, but later you moved to other sources?

Mr. MA [Through Interpreter]. Yes.

Senator ROTH. Did the triad profit from your heroin business?

Mr. MA [Through Interpreter]. That was my own personal business, which had nothing to do with the organization.

Senator ROTH. So, as I believe you said in your testimony, you are relatively free to engage in whatever activities you want without approval of the 14K or the triad?

Mr. MA [Through Interpreter]. You can say that.

Senator ROTH. So most of your heroin connections were not members of 14K. How did you become associated with your business partners?

Mr. MA [Through Interpreter]. We were friends who knew each other. Since Hong Kong is a very small place, we got to know each other at restaurants, tea houses and certain consumer hangout places.

Senator ROTH. So it was a rather casual—it did not relate to your membership in the triad or 14K, but was whom you happened to come in contact with through tea houses and other such activities?

Mr. MA [Through Interpreter]. Of course, we had to understand the extent of the other party's influence before we could discuss business.

Senator ROTH. How did you develop that understanding?

Mr. MA [Through Interpreter]. Since we were always hanging out together, we could understand the other party's background, what the person could do.

Senator ROTH. Now, it is my understanding that, for example, the heroin was not controlled, as you say, by a particular triad, but how are heroin loads brokered to spread risk? How many partners will be in a typical heroin load?

Mr. MA [Through Interpreter]. I don't understand.

Senator ROTH. Did you have any partners in your heroin activity, or were you doing it solely on your own?

Mr. MA [Through Interpreter]. I had partners.

Senator ROTH. How did you obtain those partners?

Mr. MA [Through Interpreter]. We usually got to know each other at tea houses, illegal gambling houses, and consumer places.

Senator ROTH. Now, you left Hong Kong at one time for Taiwan. How common is it for criminals to hide in Taiwan? Is this the most popular place to escape the police?

Mr. MA [Through Interpreter]. Since Taiwan doesn't have extradition, and it is relatively safe, that's why they went there.

Senator ROTH. But is this a major hideout for criminals from Hong Kong and other Asian countries?

Mr. MA [Through Interpreter]. Usually they would go there.

Senator ROTH. Now, Mr. Ma, you were able to successfully launder millions of dollars generated by your heroin business. Did you ever have any money lost or seized by law enforcement?

Mr. MA [Through Interpreter]. No. It was never seized.

Senator ROTH. You never lost any money?

Mr. MA [Through Interpreter]. No.

Senator ROTH. You said in your testimony that you bought diamonds one time from a jewelry merchant in New York in order to launder your heroin profits. What was the largest diamond purchase you ever made?

Mr. MA [Through Interpreter]. It was about 60,000.

Senator ROTH. Were you asked to fill out any forms at that time? You paid them in cash, I assume.

Mr. MA [Through Interpreter]. They didn't require us to fill out any form. We only needed to pay them in cash. He didn't ask us what it was for.

Senator ROTH. I am still not clear from your answer to the chairman as to how you got together with the diamond merchant. You said that he came to the hotel. How did the diamond merchant know that you were looking for someone to make such a purchase? How did this meeting come about?

Mr. MA [Through Interpreter]. We'd usually go to the diamond streets in midtown Manhattan to just look. When we would see something we liked, then we'd ask them to come up to the hotel to discuss.

Senator ROTH. What do you think will happen to triads given the situation in 1997 which is approaching?

Mr. MA [Through Interpreter]. Like most ordinary citizens, they would like to get some sort of insurance and to be emigrated somewhere else.

Senator ROTH. You say they want some kind of insurance. I am not quite clear. Does that mean they want the right to go there, or do you see a large exodus, departure, of members of the triad to other countries as we approach 1997?

Mr. MA [Through Interpreter]. It depends on whether they have the money, whether they have the capability, or whether there are friends outside who would take care of them.

Senator ROTH. But if they have the money and the friends, then they would seek to emigrate?

Mr. MA [Through Interpreter]. They would definitely emigrate.

Senator ROTH. And what would be the preferred countries to emigrate to?

Mr. MA [Through Interpreter]. First they would choose places where they have friends.

Senator ROTH. Do you think a large number would like to come to North America, the United States?

Mr. MA [Through Interpreter]. Most of them would choose the United States, Canada, Australia, and other Southeast Asian countries, and Europe.

Senator ROTH. In light of your success in laundering millions of dollars here—you testified earlier that you were familiar with many of the criminal elements in Hong Kong—do you see those criminal elements targeting the United States as an area to expand their activities?

Mr. MA [Through Interpreter]. They would go to different countries, but usually they would like to come to the United States.

Senator ROTH. You talked about money laundering. If you were unable to launder the illegal money you secured, would that stop the illegal activity in any large measure? Is money laundering critically important to the criminal element?

Mr. MA [Through Interpreter]. Yes, you could say that.

Senator ROTH. Is it important to get your money back to Hong Kong?

Mr. MA [Through Interpreter]. Yes.

Senator ROTH. One last question. You talked about the use of Central American diplomats, and I think in your testimony you actually named one. Do you know any other diplomats who are available for such services?

Mr. MA [Through Interpreter]. I do not know.

Senator ROTH. If you don't know specific names, are you aware that nevertheless there are other diplomats available for that purpose?

Mr. MA [Through Interpreter]. If they want to do it, any diplomat can do it.

Senator ROTH. I want to thank you, Mr. Ma, for appearing here and testifying.

That completes the questioning for today, and I would ask that the room be cleared so our witness can depart. We will proceed in 5 minutes.

[Recess.]

Senator ROTH [presiding]. The Subcommittee will please be in order.

It is my pleasure at this time to welcome as our next witness Inspector Roy Teeft and Detective Kenneth Yates of the Toronto Police Department Combined Forces Asian Investigative Unit. They have over 39 years of policing experience between them, most of which has been spent in the fight against Asian organized crime in Toronto. Their unit has developed some new approaches, and I look forward to their insights.

I want to particularly thank Inspector Teeft and Detective Yates for their outstanding cooperation with our Subcommittee during this investigation, as well as for their testimony here today. Again, I appreciate you being here, and as I think you have heard earlier, under the rules of this Subcommittee, all witnesses must be sworn, so will you please stand and raise your right hands?

Do you swear the testimony you will give before this Subcommittee will be the truth, the whole truth and nothing but the truth, so help you God?

Mr. TEEFT. I do.

Mr. YATES. I do.

Senator ROTH. Thank you, gentlemen. Please be seated.

I think Inspector Teeft is beginning the testimony, so please proceed.

**TESTIMONY OF DETECTIVE INSPECTOR ROY TEEFT,¹
METROPOLITAN TORONTO POLICE DEPARTMENT**

Mr. TEEFT. Senator Roth, Mr. Rinzel, it is a great pleasure and honor to be here, and I am speaking both on behalf of myself and Ken Yates.

I have a written statement that I'd like to read, and then maybe I can answer some questions when I am finished.

Senator ROTH. Let me say it is the practice of the Subcommittee that your full statement will, of course, be included in its entirety as part of the record, so if you want to abbreviate, the full statement will nevertheless be in the record.

Mr. TEEFT. Thank you very much, Senator.

I currently hold the rank of Detective Inspector in the Metropolitan Toronto Police Force, and have 24 years of service, most of which has been spent as an investigator or administrator.

I'd like to begin my testimony today by giving some background information about Toronto and its population. Although we are a smaller police force than many of the major cities in the United States, the total population of Metropolitan Toronto is 3 million persons, and of those, approximately 350,000 persons originate from mainland China and Hong Kong. When the suburban areas of the city are taken into account, the number increases to approximately 500,000 persons.

In addition to Hong Kong Chinese, Toronto has approximately 70,000 Vietnamese and 8,000 mainland Chinese refugee claimants.

In the Metropolitan Toronto area, we have a total of 84 persons deployed full-time in the fight against Asian crime. These personnel include four police station Asian crime units which deal primarily with street-level crime, and the combined forces Asian investigative unit, whose mandate is to combat upper echelon Asian organized crime.

Several years ago, I wrote a letter and indicated that we need "organized police to fight organized crime." That is more true today than it ever was.

Two and a half years ago, I was given the responsibility of heading an Asian investigative unit comprised of officers from five major police forces. These agencies included the Royal Canadian Mounted Police, Ontario Provincial Police, York Regional Police, Peel Regional Police, and the Metropolitan Toronto Police Force. These police agencies represent the federal, provincial and municipal police agencies combining their resources to combat crime within the Asian community.

The unit was extremely successful and proved to be a great learning experience. I believe I now have a reasonable recipe to be used in the fight against organized crime. Like baking cookies, you may add to this recipe or take away from it. It is divided into a number of different sections, and they all interact with each other.

Visual surveillance unit: I formed and equipped a dedicated surveillance section to support other members of the unit. This section had no other responsibilities. These officers worked together constantly to become an extremely cohesive unit. They developed a

¹ The prepared statement of Mr. Teeft appears on page 103.

knowledge of vehicles and suspects far beyond that which could have been expected with a surveillance team used only part-time.

The tactical team section: This was a street unit which investigated robberies, frauds, extortions, drugs, firearms, and assisted in the various murder investigations. This unit developed informants through the arrest process and worked on information supplied by other sections of the Asian investigative unit. They also supplied intelligence information to a team of dedicated crime analysts.

The strategic section: No major police investigative unit can be totally effective without information-sharing and communication with other agencies and forces.

Police officers worldwide are territorial and tend due to the nature of their work to be reluctant to share information. Information is power, and the person who has the information has the control.

Unfortunately this philosophy is likely the biggest obstacle to overcome because the winner is always the criminal. To counter this mentality, I planned a part of the new unit to supply as much information as possible to other agencies, locally, nationally and internationally. We also designed it so that officers could gather raw information from our own sources and feed that information internally to our two crime analysts.

To assist my objective, I received provincial government funding from the Criminal Intelligence Service of Ontario which supplied dedicated computer terminals to each police district in the metropolitan Toronto area. These terminals were tied to each police force in Ontario which had an intelligence unit.

I recommended the limitation of restrictions on information we shared except for that obtained from wiretap investigations currently being conducted and intelligence dealing with informants.

This section was also responsible for an Asian hotline which was advertised in the community at-large and functioned in a similar fashion to Crime-Stoppers. Members also sat on a variety of community committees and assisted organizing community projects and lectures. Assisting this unit were two clerks, one who spoke Vietnamese and the other who spoke Mandarin and Cantonese.

The major project section: I wanted to have an electronic surveillance project operative as much as possible. We were successful and usually had one in operation. The officers in this section reacted to information supplied by the other sections and vice versa. This section also relied on other sections to support them in the wiretap projects.

As a consequence of the electronic surveillance projects undertaken, I was able to hire a great many Asian civilians from the community to work in the unit. I found them to be excellent and as involved and committed as any of the serving police officers. In fact, one of my monitors was a senior officer in charge of the Royal Hong Kong Police Criminal Intelligence Bureau.

These civilians added a great deal of depth to the unit and taught our officers much about Asian customs, culture and language. Conversely, their inclusion also introduced at least a few members of the community to the many problems police face in dealing with criminal investigations in the community at-large.

I have told you what the recipe was, but the foundation for all of this is dedicated officers committed to the disruption and eradication of organized crime. Officers who function with compassion, a sense of empathy for the victims and a realization the 99 percent of the community are hardworking, decent people.

The apparent lack of support from the community should not be misconstrued as a lack of concern for law and order. Officers in the Asian community must be educated to some of the cultural differences and fears which these citizens of our country bring with them.

A purely tactical or strategic unit working in an ethnic community will not be successful. There has to be a little of both, coupled with active community input.

There is a saying by Sir Robert Peel which is widely quoted, "The police are the people, and the people are the police." Having gone through the past 2½ years dealing with problems within the Asian community, I cannot think of a more appropriate phrase to describe how the challenging work of policing must be truly realized.

In the context of Metropolitan Toronto, we have responded to the challenge by regularly hosting courses for officers involved in Asian investigations in Toronto and inviting officers from across Canada and the United States to attend. We have also held seminars, lectured across Canada and the U.S. I have been to Hong Kong and spoken at length with officers of the Royal Hong Kong Police, who have given us a great deal of assistance on investigations over the past 2 years.

Officers from my unit have travelled across Canada giving evidence on major cases and supporting other police agencies. They have also given evidence in the United States on a number of occasions and have been declared expert witnesses throughout the United States and Canada.

I have come here today with Detective Ken Yates in the hope that we may in some small way assist this Committee in their quest for answers to a major international problem. Speaking on behalf of the members of the Metropolitan Toronto Police Force and Police Chief William McCormick, we are committed to the fight against organized crime and violence. We will assist all police agencies in any lawful way we can, including giving access to information that may be of assistance to that agency.

Some recommendations. Investigations which overlap jurisdictions and are of concern for several forces and agencies should be investigated by joint force operations. This approach optimizes the use of resources, more effectively combatting organized crime. By combining resources, we also resolve two other major policing stumbling blocks: communication and judicial boundaries.

Due to the number of officers we are able to dedicate to the investigations, combined forces operations enable us to maintain visual surveillance on many known crime groups. No one force or agency could or should have to bear all the expenses.

The same is true for electronic surveillance projects. Major criminal investigations in future years which affect a number of jurisdictions will have to be conducted by joint force operations as it has

proven to be the most effective tool in the fight against organized crime today.

In Canada, we must have stronger immigration laws. If we had been speaking to you several months ago, I would likely have spoken much more harshly than I am now in regard to those laws. Over the past several months, our Federal Government has been working on new laws that will enable us to remove bogus refugee claimants and ship these individuals out of the country.

Over the past few years, our lax immigration laws have affected our American neighbors by allowing criminals into Canada who have been using our country as a springboard into the United States, where they continue their criminal activities.

One of the problems we will have prior to 1997 is the influx of triad members from Hong Kong. At present, intelligence information alone is not sufficient to prevent their entry into Canada. If they do not have criminal convictions, it appears we will have an extremely hard time in preventing their entry.

Heroin smuggling by Asian organized crime syndicates has been going on for quite some time. In the past 2 years, we have had one major case, "Project Dragon," dealing exclusively with heroin smuggling. The market is the United States, and the heroin is springboarded from Canada into that market.

Project Dragon crossed over into another project that was being investigated in New York City. Heroin investigations are time-consuming and very costly due to the required translation necessary for successful court prosecution. They cannot be done by smaller forces unless funding is supplied or a joint force type operation is commenced.

There are very few good informants involved in these kinds of operations for very obvious reasons. It is hard to introduce undercover operators to such a tightly-knit organization. Electronic surveillance is therefore essential for any hope of success to be realized.

Sadly, there is one area where there appears to be communication problems between agencies and forces, and that is in the investigation of international heroin smuggling.

Such inquiries are expensive and dangerous, with limited opportunities to obtain information critical to the successful prosecution of parties involved.

As I have indicated earlier, I believe the answer to organized crime within the Asian community is a shared response by the cooperative efforts of the community with the various levels of policing. Communication and, above all, education is essential.

As 1997 approaches and the British lease to Hong Kong terminates, Canada and the United States must be cognizant of the pending migration of triad members from Hong Kong to our shores.

We know of many office bearers of the various triad groups who are planning to settle in Canada and the United States. The police and community of both our nations share a common desire for a safe and secure home for our families, free from any violence and crime. This dream is only possible by a shared, cooperative effort of all levels of government based on a common desire to assist the community most affected—the Asian community.

I hope Detective Yates and I have helped in some small way to protect and assist the Asian communities most affected by organized crime, the cancer of the Nineties.

Senator ROTH. Thank you very much for your testimony, and we'll now hear from Kenneth Yates.

TESTIMONY OF DETECTIVE KENNETH YATES,¹ COMBINED FORCES ASIAN INVESTIGATIVE UNIT, METROPOLITAN TORONTO POLICE DEPARTMENT

Mr. YATES. Thank you, Senator Roth.

Mr. Chairman, members of the Subcommittee, thank you for allowing me the opportunity to testify regarding Asian organized crime. Asian criminal groups are very active in Toronto. This activity was most evident over a 12-month period between December of 1990 and December of 1991, during which time 18 persons, mostly Vietnamese in origin, were shot in Toronto's downtown Chinatown area, eight of whom died.

In 1992 thus far, there has been a reduction in the number of shootings and related homicides. While this is encouraging, it is thought to be temporary and in part a result of agreements between various Asian crime groups to share the wealth, particularly in relation to lucrative illegal gambling operations.

The Asian criminal scene in Toronto is, like many other locations in North America, in a constant state of flux. During the late 1970's and early 1980's, all criminal activity in Toronto's Asian community was run by triad societies such as the Kung Lok and the Ghost Shadows, who were later to become members of the 14K triad.

With the arrival of many Vietnamese refugees in North America, Chinese triad societies lost power to a number of newly-established Vietnamese criminal groups which quickly demonstrated a ruthless propensity to use violence. The Vietnamese quickly assumed control of criminal activities such as armed robbery, extortion, illegal gambling, and related crimes such as protection rackets and loan sharking.

While the triads have been forced to share power, there is evidence that a vast criminal network stretching across North America remains in place, with many Vietnamese and other newly-emergent groups playing a role.

This criminal network maintains ties stretching from the Far East to Canada and the United States, with activities including heroin trafficking and alien smuggling. Additionally, Asian criminal groups are working together to maintain a monopoly on the control of entertainers from Hong Kong.

In Toronto, a number of triad members are acting in concert with both Vietnamese gangs and criminals known as the Big Circle Boys. In late 1987, a new phenomenon entered into the Asian crime scene in Canada. Big Circle Boys, or Dai Huen Jai, are criminals from the People's Republic of China who utilize alien smuggling rings located in the Far East to facilitate their arrival in Canada.

¹ The prepared statement of Mr. Yates appears on page 107.

The Big Circle Boys are responsible for a tremendous increase in the volume of criminal activity throughout Canada's major urban centers. A great many of them are, in my opinion, criminally brilliant and make Vietnamese and triad members appear amateur in comparison.

The Big Circle Boys and their various cells have numerous connections in the Far East, including credit card and currency counterfeiters, travel document forgers, and more importantly, heroin producers in the Golden Triangle.

In addition, there is abundant intelligence indicating that approximately 4 out of 10 refugee claimants entering Canada from the PRC are subsequently smuggled into the United States. Many of these individuals go to New York and become involved in such activities as heroin importation, alien smuggling, and counterfeit credit card distribution, using Canada as a trans-shipment point for contraband between the Far East and the U.S.

In 1991, the Big Circle Boys were particularly active in credit card fraud and through various criminal syndicates were responsible for a large proportion of the \$50 million loss experienced by Canadian financial institutions in 1991 through such activity.

Other criminal groups also have connections which stretch across the Canadian-U.S. border. A number of the shootings that took place in Toronto during 1991 can be linked to the infamous American-Vietnamese gang known as the "Born to Kill/Canal Street Boys," which is based in New York City. The Born to Kill gang has a number of criminal associates in Toronto, Montreal, Calgary, and Vancouver, and has also been involved in many armed robberies throughout Canada.

The Wo Hop To triad also has some ties to Canada. Tran Asau, who was a leader of a Vietnamese gang in Toronto before his murder in 1991, was known to have a definite connection with a person in Los Angeles who was involved in the Asian entertainment industry and a known associate of Wo Hop To Peter Chong, who has been a leader of the Wo Hop To in San Francisco.

A number of other Asian criminal figures in Toronto maintain U.S. connections to control Asian entertainment brought to North America from Hong Kong.

It is also important to note that the alleged leader of the Wo Hop To in Hong Kong, Chan Ting Hung, has a wife and children living in Toronto. In addition, Chan himself applied for a visitor's visa to Canada to explore a new business venture in 1990. This application was cancelled by the Canadian High Commission in Hong Kong after it was discovered that he had a criminal record.

I wish to call the Subcommittee's attention to three areas of Asian criminal activity which routinely cross the Canadian-U.S. border—heroin smuggling, alien smuggling, and credit card counterfeiting. Canadian law enforcement officials have seen a dramatic increase in the amount of Southeast Asian heroin seized in the past 3 years. Heroin seizures increased 98 percent in 1991 compared to 1990. Much of the heroin is destined for the United States as Canada does not have the addict population to support such large quantities of heroin.

During 1990, a major Big Circle Boy heroin organization was the focus of an 11-month combined forces investigative unit investiga-

tion known as "Project Dragon." This case led to seizures in New York of 24 pounds of No. 4 heroin and utilized the outstanding co-operation and assistance of members of Group 41 of the Drug Enforcement Administration in New York, the U.S. Attorney's Office, and the FBI. Documents seized from arrested persons connected with that investigation showed that they had imported between 800 and 1,200 pounds of heroin between 1988 and 1990 and had realized a profit on the wholesale level of \$72 million, most of which was transferred back to the Far East. All of those persons arrested were illegally in the United States from the People's Republic of China.

The Metropolitan Toronto Police also participated in a joint forces investigation with the Royal Canadian Mounted Police Immigration and Passport Section and U.S. Immigration Service in Buffalo. This investigation, named "Project Overflight," targeted a large-scale alien smuggling organization. This organization had smuggled over 1,200 persons into Canada, including a large number of Big Circle Boys, who upon their arrival in Canada had applied for refugee status.

During the investigation, intercepts showed a direct connection between the smuggling organization in the Far East to a triad member in Toronto and also to the chairman of the Fukienese Society in New York City, who had 500 persons in China waiting to be smuggled to New York.

This organization was neutralized in August 1990, when numerous arrests were made in Hong Kong and Toronto when the leader of the organization was arrested while visiting Canada illegally from Hong Kong.

Counterfeit credit cards continues to be a major worldwide problem. In Canada, counterfeit cards began appearing in the fall of 1990, the source of which was the Far East, whose syndicates supplied Big Circle Boy refugee claimants. Since that time, Big Circle Boys in Canada have expanded and diversified their credit card activities to the point of committing break and enters to steal card embossers and encoding machines.

These machines enable them to emboss cards and program the magnetic strip on the back of the cards with surreptitiously obtained genuine cardholder information, which is obtained by corrupt employees working in hotels, restaurants and stores, or wherever persons use credit cards.

There have been a number of cases in the U.S. which are connected with Canada, including New York City, where Big Circle Boys are known to be distributing cards. Law enforcement agencies have also conducted credit card investigations in Washington, D.C. and Los Angeles, CA, where Big Circle Boys have been involved, and I am sure there are many more.

It is anticipated that in the future counterfeit credit card usage in Canada will increase because of the lack of appropriate legislation and sentencing, but also because of the simplicity in committing the crime. When considering the United States, there is a huge untapped market for Big Circle Boys to sell and distribute these cards. In comparison to Canada's \$50 million loss, if one goes by the rule-of-thumb that the United States is 10 times as large in population as Canada, losses if counterfeit card activity reaches the

same proportions as Canada, mean the United States could see a half a billion dollar a year criminal industry.

Future projections relating to Asian organized crime within Canada indicate further growth in criminal activity the extent of which depends on a number of factors. One major factor to consider is the Federal immigration policy which dictates as to who will enter the country as immigrants/refugees and who are deported after committing serious crimes. I understand that the Canadian Government has this week introduced a new bill in Parliament to address this problem.

Up to the present time, there have been no persons deported to either Vietnam or the People's Republic of China, which at present are considered the source countries of most of the crime problems inherent within the Asian communities of Canada. As such there is no deterrent factor for the perpetrators of serious crimes, as prison is not perceived by them to be a strong deterrent, but the prospect of being deported is.

Second, as 1997 rapidly approaches and immigration from Hong Kong continues, not only can we expect a growth of triad members within Canada if they are not refused entry, but the number of potential victims of crimes will also increase dramatically.

Criminal intelligence shows a number of high-ranking triad members have already applied to emigrate to Canada.

In conclusion, I would like to say that as we approach the year 2000, Asian organized crime presents a formidable challenge to both governments and law enforcement alike, whose responsibilities are to legislate and enforce the law.

We must be decisive, strong, and take a bold stand if we are to protect our nations and the communities who rely upon us to provide a safe and peaceful environment in which to live.

Thank you.

Senator ROTH. Thank you, Detective Yates and Inspector Teeft. Detective Yates, there is a chart here that you prepared labelled "Overflight." I notice there are numerous individuals located in cities around the world on this chart. Could you explain the connection? [The document referred to was marked Exhibit 9, and can be found on page 149.]

Mr. YATES. Yes, Senator. Basically, in the top right-hand corner, we have Yue King Fong in Toronto; we have in the center Tsang Chiu Sing, whose base was in Bangkok, Hong Kong, and Toronto. Tsang would facilitate the smuggling of people from mainland China and Hong Kong through Europe to Yue King Fong in Toronto, who would receive those aliens.

The connection between the top left is a triad member in Toronto who is 426 in the Kung Lok. He was connected to a person in Pittsburgh who was a broker between the chairman of the Fukienese Society and the alien smuggling organization. And that's basically it.

Senator ROTH. So what we are witnessing and what we see charted here is really an international syndicate with individuals scattered throughout the world.

Mr. YATES. Yes, and people were also employed in Europe to assist those aliens to get onto aircraft to come to North America. So it is a worldwide organization, yes.

Senator ROTH. We also have a charged labelled "Dragon 3." Could you please explain that chart? [The document referred to was marked Exhibit 8, and can be found on page 148.]

Mr. YATES. This is the heroin investigation I spoke of earlier, and it shows the scope of the organization through Canada, the Far East, and the United States.

Senator ROTH. Can you identify any of the main actors?

Mr. YATES. Yes. In the center was a Big Circle Boy who operated out of Toronto. He was the overseer of heroin shipments destined for New York to people whom the Drug Enforcement Administration were already working on, and this chap was supplying heroin to them.

Senator ROTH. I was interested—I believe it was you, Inspector Teeft—who mentioned that you had hired some Royal Hong Kong Police officials for your joint task force operation and also hired some Asian civilians. What benefits have resulted?

I am interested in this because I have urged U.S. law enforcement to take similar steps. Based on your experience, would you endorse such a move?

Mr. TEEFT. I would eagerly endorse it. It worked out great for Metropolitan Toronto and the other forces that were working with us. You need language skills, but if you can get language skills plus a knowledge of crime in Hong Kong that is being franchised to North America, you are even better off than you would be solely with the language skills.

One of the officers we hired was an ex-Royal Hong Kong officer who had been ex-superintendent in charge of the intelligence services in Hong Kong. What happened was we were involved in a counterfeit credit card situation earlier, over the last 2 years, and it came from Hong Kong to North America, particularly Toronto because of our immigration problems, but it was perfected in Hong Kong and brought over as a perfected scam. When it arrived in Toronto, we had no knowledge of it, and we gained a lot of knowledge from the ex-Hong Kong police officers who worked for us.

Senator ROTH. In your prepared statement you say among your recommendations that "major criminal investigations in future years which affect a number of jurisdictions will have to be conducted by joint force operations as it has proven to be the most effective tool in the fight against organized crime today."

My question is when you talk about joint force operations, are you talking about the United States and Canada, are you talking about the United States, Canada, and other countries; what exactly do you have in mind?

Mr. TEEFT. I'd like to think it would be both. Right now I'm talking about all three levels of government in Canada, but as you see in our Project Overflight here and also Project Dragon, that was a combined investigation with members at various agencies in the United States and Canada, so it was international in scope. I think probably as the crimes increase and the problems increase, that's the way to go in the future. It would be not only national, but international, and you would be obtaining a better overview of what is happening, you would save a lot of time and effort, and there would be better sharing of information, making us more effective as police agencies in both Canada and the United States.

Senator ROTH. Is this something we should move on immediately, or can we wait?

Mr. TEEFT. I think we have been moving ahead in the last couple of years. Informally we are doing it. On a daily basis, we speak to police forces and agencies right across North America and internationally. That is informally, and we are doing that out of a need because we require the information and they need ours. I think in the future, that could probably be a little bit more formal than what it is now. But we are doing it now because we have to do it, and it has to be recognized by the upper echelon of the various police forces and agencies, it has to come from the top down. They have to be insistent that there be better cooperation between the forces and the sharing of information, or you aren't going to be effective.

Senator ROTH. Now, in your prepared testimony you said that one of the problems we will have prior to 1997 is the influx of triad members from Hong Kong. You also mentioned that it would be very difficult to prevent their entry. Do you have any feeling or thoughts as to how large an influx will occur? Are we talking about a few, or a few hundred or even larger? You have half a million Chinese Canadians who originated from Hong Kong already?

Mr. TEEFT. That's in the Metropolitan Toronto Area, not counting any other areas in Canada, and British Columbia has a large population as well. I mentioned it in my text that I have read here because we had inquiries prior to coming down here about what would be a solution to a problem of triad members applying for immigration to Canada. We had information that there was in excess of 100 already that they knew had actually applied to get into Canada who were members of triads in Hong Kong. So that was based on information and intelligence that we gathered just prior to coming here.

Senator ROTH. My understanding is that you aren't able to keep those out under your current Canadian law.

Mr. TEEFT. That's correct, and that is why we received the inquiries, asking for some ideas as to how they could keep those individuals out because they weren't able to use intelligence information. They had to have criminal convictions, which these people did not have.

Senator ROTH. Because of your willingness to exchange information with other police agencies, I understand that Toronto has become kind of a clearinghouse for Asian organized crime intelligence for some U.S. law enforcement agencies that don't communicate well with each other. Would you care to comment?

Mr. TEEFT. The United States has a lot more agencies and forces than Canada has. They also have a great deal more information. So I guess it was rather selfish on our part, but we try our best to cooperate with everybody we can, because the more we cooperate and the more we give, the more we get back. What has happened is all the various agencies not only in the United States, but in several other countries, call our unit—it is an informal arrangement—they call and give us information, and we exchange it. In some cases we are giving various agencies in the same country information that they won't give each other for whatever reasons, political or, as I indicated earlier, policemen are territorial and sometimes don't

share information. But we are a clearinghouse—that's a good description—and we benefit by that, and I think probably some other units and agencies and police forces might try the same thing, and I believe they would probably be a lot more effective.

Senator ROTH. Which group is most actively involved in credit card counterfeiting in Canada?

Mr. TEEFT. Right now it is the Big Circle Boys who are the most active. The cards are generated through Hong Kong and distributed by Big Circle Boys out of Toronto, and it goes right across Canada. It was indicated by Detective Yates a few minutes ago that embossing machines have been stolen, as well as encoding devices. We went through the whole realm of problems with credit cards starting 2 years ago when they were just straight pick-pocket offenses, and then using the credit cards. They have now escalated into manufacturing very high-quality counterfeit cards, and in most cases you can't tell the difference.

Senator ROTH. How effective has Canada been in controlling its money laundering?

Mr. TEEFT. Not very. We have just recently got legislation in regard to asset seizures, and there is Bill C-61 in regards to laundering. We are just getting into it. We have a current joint forces operation between the Royal Canadian Mounted Police, Ontario Provincial Police, and the Metropolitan Toronto Police ongoing at this very moment. This is one of the first combined forces units efforts in regard to laundering. Our Federal Government has come out and spoken in the last month and a half, and they are going to support it and are trying to get it off the ground, and I'm sure that probably in the next year or 2, we'll get much better.

But you must remember that in Canada, unlike the United States, we don't have sharing of seized assets. A municipal force like Metropolitan Toronto, even though we may have 7,000 people on the force, and we are a major force in Canada, it doesn't really pay us to financially get involved and do a large investigation on money laundering when that money is going to be sent out to the Federal Government, and there is no sharing with the municipal forces. So that is a problem that we are having right now, and it is being dealt with by the various levels of government. Once that is sorted out, I think there will be more effort put toward money laundering by all levels of government and forces.

Senator ROTH. Do you agree that money laundering may well be the Achilles heel of this international criminal activity?

Mr. TEEFT. One hundred percent.

Senator ROTH. How active are your triads in controlling the Asian entertainment industry in North America?

Mr. YATES. Senator Roth, triad society members are highly active in the control of entertainers coming in from Hong Kong, and it is known that they do act in concert with other triad members in the United States, too.

Senator ROTH. Do you have to be an organized crime member to control a tour of a famous Hong Kong singer?

Mr. YATES. Most if not all Hong Kong entertainers are controlled by triad societies, and it is a natural extension when they go overseas that that protection, quote-unquote, is extended by other triad members.

Senator ROTH. Would you please discuss the importance of wiretaps in your investigations? How many wires will you have going on at any one time?

Mr. TEEFT. We try to have an ongoing authorization at all times. At this point right now, we are down a bit, but we try to have one going at all times. One of the sections of our unit is a major project unit, and their responsibility is to have a wire going at all times. Not only do we find that very successful, because it is hard to get informants, it is also hard to get agents into these organizations, but it gives us a lot of intelligence. A lot of what we are saying today is based on evidence that was gleaned through wiretap investigations such as Project Overflight and Project Dragon. Both of those are wiretap investigations. The DEA, Group 41, and the FBI in New York were working Project Dragon a long time before we got involved. What we ended up doing was giving them another part of the investigation whereas we were able to supply wiretap evidence, and they had a great deal of evidence prior to our evidence.

Senator ROTH. Gentlemen, time is running out. I want to thank you for the excellent cooperation and assistance you have given us. We appreciate very much your being here today and look forward to continuing this cooperative effort.

Thank you very much.

Next we have a panel from the Financial Crime Enforcement Network of the Department of Treasury, known as FinCEN. Leading the panel will be Robert Koppe, the Assistant Director of FinCEN, and with him are Marshall Heeger and Marshall Collins, both of whom are senior special agents with the U.S. Customs Service and are currently assigned to FinCEN.

Gentlemen, as you know, anyone who is going to answer any questions must be sworn under the rules of the Subcommittee, so I would ask you to stand and raise your right hands.

Do you swear the testimony you will give before this Subcommittee will be the truth, the whole truth and nothing but the truth, so help you God?

Mr. KOPPE. I do.

Mr. COLLINS. I do.

Mr. HEEGER. I do.

Senator ROTH. Mr. Koppe, I believe you are the one who has a prepared statement. Your full statement will be included as part of the record, and we would ask if you could to summarize, but please proceed.

TESTIMONY OF ROBERT W. KOPPE, JR.,¹ ASSISTANT DIRECTOR, FINANCIAL CRIME ENFORCEMENT NETWORK, U.S. DEPARTMENT OF TREASURY; ACCOMPANIED BY MARSHALL COLLINS AND MARSHALL HEEGER, U.S. CUSTOMS SERVICE

Mr. KOPPE. Thank you, Senator Roth.

Mr. Chairman and members of the Subcommittee, I am pleased to present this testimony before your Subcommittee's hearing on "Asian Organized Crime: The International Criminal."

¹ The prepared statement of Mr. Koppe appears on page 114.

I am Robert W. Koppe, Jr., Assistant Director of the Office of Strategic Analysis, Financial Crimes Enforcement Network.

The Financial Crimes Enforcement Network (FinCEN) was created on April 25, 1990 by order of the Secretary of the Treasury to help combat national and international money laundering operations, primarily those involving the proceeds of narcotics trafficking.

FinCEN provides analytical intelligence support to law enforcement and bank regulatory agencies and monitors the trends and patterns of money laundering that its analyses reveal. It supports ongoing criminal investigations and assists in the coordination of law enforcement anti-money laundering efforts.

Increasing Asian involvement in criminal activity especially in North America has resulted in recent scrutiny of Asian organized crime by law enforcement. Many Asian groups have been identified by law enforcement as engaging in organized criminal activity. Of the groups from Asia engaging in criminal activities, law enforcement sources generally agree that Chinese organized crime groups pose the greatest threat today.

FinCEN has begun to analyze information on the methods and mechanisms used by Chinese organized crime to disguise the nature, origin and beneficial ownership of the proceeds of illicit activity.

Since initiation of FinCEN's study on Chinese organized crime money laundering, FinCEN has conducted numerous interviews of investigators and other experts on Chinese crime group activity. Through our interviews and research, we have identified and studied many Chinese organized crime cases, focusing primarily on the major investigations, currency seizures, and the financial aspects of these investigations. Our study is continuing, and we are compiling the data gleaned from our research to date.

The law enforcement community has only limited information regarding Chinese organized crime money laundering methodology. Law enforcement officials generally agree that it is very difficult to develop concrete knowledge because of a number of factors, such as linguistic and cultural barriers and lack of Asian police officers and Federal enforcement agents to tackle the Chinese organized crime problem.

FinCEN has developed examples and anecdotal information of how law enforcement officers believe Chinese organized crime groups are currently laundering illegal proceeds. The general consensus of law enforcement officials throughout the United States is that the money laundering methods utilized by the Chinese organized crime members bear a striking resemblance to that of other criminal groups with two significant additions—the laundering of illegal proceeds through legal "card clubs" and through the underground banking system. I will discuss these in more detail later in my testimony.

Our preliminary findings reveal that historically, Hong Kong has been used as a laundering site for much of the illicit proceeds generated by Chinese organized crime. Illicit proceeds derived from drugs sales, gambling, theft and extortion are smuggled into Hong Kong to be laundered and subsequently repatriated to the United States.

Hong Kong is one of the most important banking centers in the world. In an average business day, more than \$50 billion U.S. dollars are exchanged through the Hong Kong financial community. Hong Kong has no currency exchange controls and no currency transaction reporting requirements. These factors attract both legitimate and illegitimate businessmen.

The Chinese underground banking system is one of the major problems law enforcement faces because of the difficulty encountered in tracing currency movements. Large amounts of money are moved by Chinese organized crime groups internationally in an underground banking system that operates on tradition and trust. Operated by money changers, gold shops and trading companies according to law enforcement sources, the underground banking system is linked by kinship ties to the Chinese-dominated heroin production business and to an intricate web of other Chinese commercial interests.

Law enforcement sources suspect that gambling is an enormous source of funds, as well as a method of money laundering for Chinese organized crime figures in southern and northern California. In the fall of 1984, several California communities began to license gambling facilities known as "card clubs." There are 302 licensed card clubs in California. These clubs offer a host of approved card games.

Law enforcement officials indicate that the only transaction records maintained by card clubs are player bank records. Regardless of how much money is exchanged at the playing table, there are no records recording the transactions at the table.

FinCEN plans to complete an in-depth analysis of those areas exhibiting unusual currency flows which may indicate money laundering activity on the part of Chinese organized crime groups. This analysis will incorporate case information, currency flow data, and other database information.

FinCEN has examined CMIR data reflecting the reported inbound and outbound currency figures for Hong Kong, China, Taiwan, Thailand, and South Korea with respect to total reported currency transportations for the period 1988-91. Currency figures for China, Taiwan, Thailand and South Korea were, by comparison, negligible. Our emphasis is on Hong Kong as the major Far East repatriator of U.S. currency. We have also compared reported inbound currency transportation from Hong Kong with comparable data on three other primary countries returning U.S. currency—Mexico, Argentina and Panama.

I draw your attention to Chart 1 which shows the total outbound and inbound currency activity reported on CMIRs. [The document referred to was marked Exhibit 109, and can be found on page 217.] In 1991, there was a sharp increase to just over \$20 billion inbound activity. Reported outbound currency activity peaked in 1990 at over \$32 billion. There continues to be a considerable net export of currency from the U.S.

Chart 2 illustrates reported outbound and inbound currency activity to and from Hong Kong for the period 1988-91. [The document referred to was marked Exhibit 110, and can be found on page 218.] Outbound currency figures increased unremarkably during this period. Inbound currency activity, however, exhibited

some significant fluctuations. From 1988-90, inbound currency activity decreased from over \$1.5 billion to under \$700 million, yet at the same time the actual number of inbound CMIR filings increased. In 1991, the number of CMIR filings increased only 16 percent, while the inbound dollar amount increased 540 percent to over \$3.8 billion.

The factors causing the fluctuation in the return of U.S. currency is difficult to determine, but FinCEN is continuing to monitor the situation.

Chart 3 illustrates the amount of currency (as reported on CMIRs) returned to the U.S. by the top four countries returning U.S. currency during 1988-91. [The document referred to was marked Exhibit 111, and can be found on page 219.] Hong Kong is the second largest repatriator of U.S. currency behind Mexico, followed by Argentina and Panama. One explanation, at least in part, for Hong Kong's strong showing is its dominance as a center for banking and finance in the Far East. Much U.S. currency that makes its way to many of the surrounding countries eventually reaches Hong Kong for shipment to the U.S. This fact, combined with the a lack of currency transaction reporting requirements, makes Hong Kong an excellent target area for the laundering of large amounts of U.S. currency.

It is also important to remember and take into consideration the many factors that influence international finance before trying to pinpoint specific causes for currency flows and fluctuations.

FinCEN is continuing to procure financial intelligence on Chinese organized crime money laundering from law enforcement. By so doing, we will be able to analyze this information collectively to gain a better understanding of the specific money laundering methodology used by Chinese organized crime members. Accordingly, we will be better able to identify the location of Chinese organized crime funds, and this will aid law enforcement in making asset seizures. In addition, we will learn more about criminal group patterns and trends, thus enabling law enforcement agencies to better target Chinese organized crime violators and violations.

I thank you, Mr. Chairman, and the other members of this Committee, for the opportunity to share with you the results of FinCEN's efforts to learn more of the techniques and methodologies Chinese organized crime groups use to launder the profits of their illicit activities, both domestically and internationally.

I would be pleased to answer questions concerning FinCEN's activities in the analysis of Chinese organized crime.

Thank you.

Senator ROTH. Thank you, Mr. Koppe.

As I understand your testimony, your survey of law enforcement agencies shows that relatively little enforcement action has been taken against money laundering by Asian organized crime groups. Is that correct?

Mr. KOPPE. That's essentially correct. Law enforcement has not emphasized the financial aspect of Chinese organized crime.

Senator ROTH. That, of course, is disturbing news. Why has there been so little activity?

Mr. KOPPE. We sense in our conversations with law enforcement officers that the primary reasons are linguistic problems and cul-

tural differences as well as the recent heightened importance of the Chinese organized criminal in the United States.

Senator ROTH. It is my understanding that law enforcement agents have identified several banks in the United States which may have been set up primarily for the purpose of laundering Asian crime profits. Have you heard such allegations?

Mr. KOPPE. We have received unsubstantiated reports from some law enforcement officers that certain banks are either engaged in money laundering activities or are being used by Chinese organized crime groups to launder their money through. We are currently checking on this information and analyzing that financial data.

Senator ROTH. In Chart 2, isn't the \$4 billion 1991 inbound surplus from Hong Kong unusual?

Mr. KOPPE. Yes, it is very unusual.

Senator ROTH. And how does it compare to other Asian countries?

Mr. KOPPE. By far, it is much greater. Although all of the other countries with the exception of Taiwan are net exporters of currency to the United States, the amounts are negligible in comparison to Hong Kong activities.

Senator ROTH. Is Hong Kong an attractive place to launder money, and if so, why?

Mr. KOPPE. It is an attractive place to launder money for a number of reasons. It is probably the most important financial and business location in the Far East. It is a bank secrecy country, and it only recently—in 1988, I believe—passed some money laundering legislation which enables law enforcement to access certain bank accounts under certain conditions. But otherwise, there are no currency controls, and there are no currency transaction reporting requirements.

Senator ROTH. In 1988, this Subcommittee held hearings on money laundering in Panama by South American narcotics traffickers, and part of our evidence then was a \$1 billion surplus of inbound currency from Panama; the peak year was 1984. Hong Kong in 1991 had four times that surplus. Does this suggest that Hong Kong might have become the center of money laundering proceeds from Asian narcotics trafficking?

Mr. KOPPE. Yes, that suggests to us that Hong Kong is in fact a major center for money laundering. There could be a host of other reasons for that. One reason that we have been considering recently is the Desert Storm operation. With all of the American troops in the Gulf, the money that was spent there could have ended up in Hong Kong before being repatriated to the United States.

Senator ROTH. You testified that a study of the California so-called "card clubs" came up with evidence that they were serving as centers for Asian organized crime money laundering. Is that correct?

Mr. KOPPE. Our study has not come up with evidence that that is the case. What our study found is that many law enforcement officers believe that the California card clubs are being used as vehicles to launder money. Law enforcement sources have seen many Chinese organized crime members frequent these establishments, and during these observations they have seen large amounts of currency exchanged.

Senator ROTH. The *Wall Street Journal* published a story on June 1, 1992 which stated that the largest of these clubs, the Bicycle Club, located in Bell Gardens was recently assessed a \$4.6 million fine by the IRS for failing to report cash transactions of over \$10,000. In your study did you find any evidence that any of the California card clubs are reporting cash transactions above \$10,000?

Mr. KOPPE. Our study at this time is in the preliminary stages. We have taken a look at some of the card clubs, and what we have found is that our study is inclusive at this time.

What is more important, I believe, is that the full scope of the reporting requirement—that is, whether card clubs are required to file either under the Bank Secrecy Act or under Title 26 of the Internal Revenue Code—is still being considered.

Senator ROTH. Should the law be changed?

Mr. KOPPE. I would suggest that perhaps if the card clubs are not required to file any kind of report presently, then certainly the law should be changed, or some consideration should be given to a change in that area.

Senator ROTH. How did the IRS fine them \$4.6 million if they are not required to do so?

Mr. KOPPE. I can't comment on that specific case because I don't know the details of it, but I would suggest that this was an individual case, and the circumstances may not apply to all of the other card clubs.

Senator ROTH. Those are all the questions we have at the present time. We may want to submit some further questions which we'd appreciate your answering in writing. [The document referred to was marked Exhibit 17, and can be found on page 165.]

Mr. KOPPE. Thank you, Senator Roth.

Senator ROTH. Thank you.

The next witness is Donn Sickles, who is Vice President for Security Investigations for VISA International.

Mr. Sickles, do you swear the testimony you will give before the Subcommittee will be the truth, the whole truth and nothing but the truth, so help you God?

Mr. SICKLES. I do.

Senator ROTH. Thank you. We appreciate you being here. Since the hour is late, we would ask if you could in your statement be as brief as possible, but your full statement will be included as if read.

TESTIMONY OF DONN SICKLES,¹ VICE PRESIDENT, SECURITY AND INVESTIGATIONS, VISA INTERNATIONAL

Mr. SICKLES. Thank you, Senator.

Mr. Roth, members of the Subcommittee, my name is Donn Sickles, and I am the Vice President for Security and Fraud Investigations for VISA International. I am appearing here today on behalf of both VISA and MasterCard International Incorporated.

I would like to thank the Subcommittee for the opportunity to testify on the growing role of Asian organized crime groups in the global problem of credit card fraud. MasterCard would also like to

¹ The prepared statement of Mr. Sickles appears on page 120.

submit a written statement for the record. We also request that the record of this hearing be held open for MasterCard's written statement. [The document referred to was marked Exhibit 16, and can be found on page 156.]

Credit card fraud has been a serious problem since the early 1980's. In 1984, VISA members sustained nearly \$40 million in losses from transactions involving counterfeit VISA cards. At that time, almost 90 percent of the losses occurred in the United States.

The Credit Card Fraud Act of 1984, which made credit card fraud a Federal crime, along with enhanced security features such as the hologram, helped to reduce losses from counterfeit cards in the United States.

As of 1988, the U.S. losses accounted for about 20 percent of the almost \$12 million in losses sustained from VISA counterfeit cards worldwide.

While counterfeiting of VISA cards declined in the late 1980's, it is on the rise again today, due primarily to the criminal activities of extremely sophisticated counterfeit rings operating worldwide.

As the chart on my right shows, the amount of losses from counterfeit cards jumped from the mid-Eighties over 700 percent, to almost \$90 million in 1991. [The document referred to was marked Exhibit 11, and can be found on page 151.]

As this other chart shows, the increase in counterfeiting losses affects all regions around the world. [The document referred to was marked Exhibit 10, and can be found on page 150.] We expect these trends to continue until we are able through technology changes and investigations and prosecutions to bring it back under control.

These groups are professionals at counterfeiting, and electronic counterfeiting in particular. Electronic counterfeiting involves the encoding of fraudulently obtained account information on the magnetic stripe of lost, stolen or counterfeit cards.

Here is how the process works. Valid account numbers are often taken from unsuspecting VISA card holders by criminals working in otherwise legitimate merchant locations such as hotels and restaurants. The card holder may not realize that the number has been compromised until months later. The counterfeiters encode this valid account number onto the magnetic stripe on the back of the credit card and sometimes emboss the corresponding number on the face of the card. Some criminal groups are even able to produce new cards with high-quality holograms as well.

While this threat first emerged in Asia and the Pacific Rim, it has increasingly become a worldwide problem. Electronic counterfeiting may now account for as much as 90 percent of all reported losses from counterfeit VISA cards.

Many of these crime groups are headquartered in Hong Kong, Malaysia, or Taiwan and do the fabricating, embossing and encoding of the cards there. However, because of the easy availability and portability of embossing and encoding equipment, this action can also be done on location in the target city. The crime organizations usually send groups of half a dozen or so young males to cities around the world to purchase goods using the counterfeit cards. These individuals are outfitted to give the impression of affluent travelers and blend in with the clientele of the targeted mer-

chants. They are often aided by criminal elements in the targeted city.

The traveling criminals make purchases until they reach the available credit limits on the cards. They either ship the purchased goods out of the country or sell them locally to a cooperating merchant. The proceeds of the sales are usually deposited in a local bank account and then wire-transferred to a bank account in the crime group's home country.

Recently, these Asian crime groups have penetrated the United States. Let me give you some examples. This past March, two Chinese males were detained in Phoenix, AZ after attempting to buy an expensive watch at a local jewelry store. One of the suspects was in possession of two counterfeit VISA cards. The cards bore the graphics of a U.S. bank, but the numbers on the cards were VISA account numbers issued by a Japanese bank. The same VISA account numbers were also used for purchases in Hong Kong following the incident in Phoenix. Also, the names embossed on the cards previously had been used on counterfeit cards in Guam in January of this year. You can see that the activities of credit card counterfeiters are global in scope.

Since the end of February 1992, over 20 VISA account numbers from one U.S. bank have been compromised at a Chinese merchant location in Seattle, WA. There has been fraudulent activity on these accounts in Toronto and Vancouver, as well as Seattle.

VISA continues to evaluate and use new technology to improve security features of credit cards themselves, and the credit card payment system as a whole in order to prevent as much fraud as possible. We are implementing new card verification techniques, using cryptography, to improve the security of the magnetic stripe. We are sharing security technologies with the other bank card associations.

Our written statement details the kinds of international activities VISA has undertaken with enforcement groups like Interpol. This statement also discusses some of the major VISA programs to educate member financial institutions, consumers, law enforcement officers, and prosecutors about the problem of credit card fraud.

Technology and education, however, cannot do the job alone. Law enforcement must play a central role in combatting credit card fraud. In the United States, credit card fraud competes for resources and enforcement priorities with other serious criminal activities. Investigation of the new types of credit card fraud is complicated and time-consuming. The cases often cross enforcement jurisdictions and national borders. These factors can hamper the investigation and prosecution of credit card crimes. The Secret Service, the FBI, and Postal Inspection Service all cooperate with VISA and MasterCard, but these agencies need more resources to allocate to credit card fraud. More agents need to be trained to understand and deal with the Asian crime groups and then be dedicated to working these cases.

VISA and MasterCard believe that Congress should appropriate or reallocate new funding and resources to combat the international credit card fraud problem and the Asian crime groups in particular. In addition, U.S. law enforcement agencies should expand interagency coordination within the U.S. Government between Fed-

eral and State authorities and internationally in bilateral and multilateral contexts.

Congress also should consider amending the Credit Card Fraud Act to grant State and local prosecutors authority to enforce this statute in the Federal and/or State courts. MasterCard and VISA have worked closely with these law enforcement officers and have found them to be responsive in pursuing credit card fraud under State law. This grant of additional authority would expand the tools available to State and local prosecutors and bring additional enforcement resources to bear on the problem of credit card fraud.

Mr. Roth, I would like to conclude by urging the Subcommittee to become actively involved in the development of a Federal response to the international credit card fraud problem. MasterCard and VISA are already working with the House and Senate Judiciary Committees to strengthen the Credit Card Fraud Act with respect to other types of fraud. We are also working with the appropriations committees to secure additional enforcement resources to combat this fraud.

VISA and MasterCard would be pleased to work with the Subcommittee and its staff in other initiatives to address the international fraud activities under investigation by the Subcommittee.

That concludes my oral testimony, and I would be happy to answer any questions that you may have, sir.

Senator ROTH. Thank you, Mr. Sickles.

Are you familiar with the recent international credit card fraud case involving credit card information obtained in Washington, D.C.?

Mr. SICKLES. Yes, sir.

Senator ROTH. Would you please explain the case?

Mr. SICKLES. This case is similar to a number of cases that we have seen around the world. The case began, I believe, sometime in late 1991, with information through the FBI and Secret Service here in Washington, D.C. where there were certain individuals working at Chinese restaurants who were obtaining valid credit card numbers from customers of these restaurants.

The numbers were then telephonically transmitted, I believe, to Hong Kong, where cards were manufactured. They were fabricated there. There was a manufacturing facility there where the cards were made. They were very good cards. The cards were embossed with fictitious names. They were encoded, however, with the legitimate, valid numbers of card holders in this area.

The cards were then shipped back to the United States after manufacturing and encoding and embossing and were then used here. This culminated in arrests in Hong Kong in around mid-March, where there were a little less than 20 individuals arrested. They served search warrants on a number of locations and found not just counterfeit credit cards being manufactured, but there was counterfeit currency and a number of other counterfeit items such as even counterfeit drugs being manufactured at the locations where they served.

Senator ROTH. Were any Asian organized crime groups involved?

Mr. SICKLES. We were advised that some of the individuals involved in Hong Kong were members of the 14K triad in Hong Kong.

Senator ROTH. Do you know what method of counterfeiting was used?

Mr. SICKLES. They were using the encoded magnetic stripe on the back of the card in order to facilitate their transactions because these were done through the electronic terminals so it was the electronic type of counterfeiting.

Senator ROTH. Are encoding machines difficult to obtain?

Mr. SICKLES. Encoding machines are not difficult to obtain. They are not difficult to come by. You can find them in a great deal of places. Schools use them. Hospitals use them—any place where there is a magnetic stripe that they would encode for—accesses devices, anything like that. They are quite widespread in their use.

Senator ROTH. Is it safe to say that the encoding method is the method being used by Asian organized crime groups?

Mr. SICKLES. Primarily, yes, sir.

Senator ROTH. As I understand it, a great deal of the actual counterfeiting coding and embossing takes place in Asia. Is there one place where most of this activity is taking place? Is there one place that could be called the "capital" of credit card counterfeiting?

Mr. SICKLES. We primarily find it in Taiwan, in Hong Kong, and in Malaysia. Those are the three areas.

Senator ROTH. Are law enforcement agencies in these countries doing anything to combat this activity?

Mr. SICKLES. It is a reasonably new phenomenon for them. Hong Kong has been very aggressive in their pursuit of assisting investigations as well as in prosecuting individuals who have been involved. The Taiwanese investigative agencies and the Malaysians are not quite as sophisticated in their abilities to deal with them, but they are cooperative with our members and with our investigators, yes.

Senator ROTH. Are there security features that VISA International has decided not to use because of the expense or inconvenience?

Mr. SICKLES. There are a number of features that are used in order to try to specifically identify a card. The technology at this point is not reliable enough to be used so that it would not just aggravate the legitimate customer as opposed to preventing the counterfeit. So there are some that are being tested all the time, trying to work through the system. Since we have a worldwide system of approximately 170 countries with different communications and about 9 million merchants, it is difficult to obtain a standard that would work in all of those.

Senator ROTH. Have you considered features such as putting a cardholder's picture on the card, or assigning the cardholder a personal identification number?

Mr. SICKLES. Those methods are being used in specific areas now. The photograph is being tested in an area, but the photograph is as good as the merchant who accepts the card. If he challenges it, that's one thing. But those are being used, and the personal identification numbers are being used in the ATM environment at this point.

Senator ROTH. I apologize for keeping you so late, Mr. Sickles, but we appreciate your being here. We will keep the record open

for additional questions and may very well want to submit a number of them to you for response. I appreciate your testimony.

Mr. SICKLES. Thank you, sir.

Senator ROTH. Mr. Rinzel.

Mr. RINZEL. Mr. Chairman, I'd like to request that 49 exhibits which I have listed here, some of which are sealed, be included in the record at this time.

Senator ROTH. Without objection.

Senator ROTH. This brings this hearing to an end.

The Subcommittee is in recess subject to the call of the Chairman.

[Whereupon, at 12:55 p.m., the Subcommittee adjourned.]

ASIAN ORGANIZED CRIME: THE NEW INTERNATIONAL CRIMINAL

TUESDAY, AUGUST 4, 1992

U.S. SENATE,
PERMANENT SUBCOMMITTEE ON INVESTIGATIONS,
OF THE COMMITTEE ON GOVERNMENTAL AFFAIRS,
Washington, DC.

The Subcommittee met, pursuant to notice, at 9:33 a.m., in room SD-342, Dirksen Senate Office Building, Hon. Sam Nunn, Chairman of the Subcommittee, presiding.

Present: Senators Nunn and Roth.

Staff Present: Eleanore J. Hill, Chief Counsel; Mary D. Robertson, Chief Clerk; Grace McPhearson, Investigator; Mariea Sweeney, Staff Assistant; Daniel F. Rinzel, Minority Chief Counsel; Stephen H. Levin, Minority Counsel; Leighton Lord III, Minority Counsel; Scott Orchard, Minority Investigator; Sallie B. Cribbs, Minority Executive Assistant to the Chief Counsel; Carla J. Martin, Minority Assistant Chief Clerk; Walter S. Rowland, Minority Intern; and Brian P. McCarthy, Minority Intern; Betty Ann Soiefer, Assistant to Senator Glenn; Rosemary Warren, Assistant to Senator Sasser; and Richard Ashooh, Assistant to Senator Rudman.

OPENING STATEMENT OF SENATOR NUNN

Chairman NUNN. The Subcommittee will come to order.

Today, the Permanent Subcommittee on Investigations resumes our hearings on Asian organized crime, a series that began nearly 10 months ago.

The Subcommittee's hearings on Asian organized crime began as a response to a frightening increase in violent crimes at the hands of Asian gangs operating in the United States and those organized criminals who the gangs emulate.

The Subcommittee has confirmed that these gangs have connections to the highest levels of Asian organized crime in the world, connections that law enforcement claim are responsible for the great increase in heroin that is reaching the United States from Southeast Asia.

Moreover, drugs and violence are only part of the growing field of sinister activity that law enforcement has seen Asian criminals orchestrating, both in Asia and the United States. Extortion, gun smuggling, illegal gambling, prostitution, alien smuggling, and money laundering are but a few of the other activities that are not only damaging America's Asian communities, but are also begin-

ning to seriously impact the general population of many major American cities.

In addressing this problem, Asian cultural differences, both in terms of language, as well as lifestyle, have become formidable barriers to U.S. law enforcement. For example, in Chinese organized crime, triads and tongs are the roots of the criminal subculture, but are concepts that are generally unfamiliar to most Americans, including law enforcement.

To complicate matters, Asian criminals also have international capabilities and connections that enhance their every activity, while at the same time creating terrific problems for law enforcement and the police community.

We are fortunate to have before the Subcommittee today David Cohen, Associate Deputy Director for Intelligence of the Central Intelligence Agency. Mr. Cohen will provide further insight regarding the role of organized crime groups in the production and flow of heroin from the Golden Triangle to the United States.

Also here today is a man who is intimately familiar with much of what Mr. Cohen will describe as orchestrated heroin trafficking. Johnny Kon, a native of Shanghai, China, has been sentenced in U.S. courts to 27 years in prison for his role in a grand heroin trafficking scheme that operated throughout the world and, to his misfortune and ours, in the United States.

Finally, the Subcommittee will have its first opportunity to question an associate of the Japanese organized crime world known as Yakuza or Boryokudan. This Japanese businessman, whom we will address as "Bully," will share with us his personal observations as an associate to the Boryokudan, one who has formalized a long-standing relationship without being an actual member.

We have a lot to cover today, but, before we begin, I would like to take a final opportunity, before the hearing starts, to thank Senator Roth, the ranking minority leader of our Subcommittee for initiating and guiding this investigation. His staff has done an outstanding job in preparing for this series of hearings today.

Dan, I would congratulate you and Mr. Lord and Mr. Orchard and all of you who worked so hard on this.

PREPARED STATEMENT OF SENATOR NUNN

Today the Permanent Subcommittee on Investigations resumes its hearings on Asian organized crime, a series that began nearly 10 months ago. The Subcommittee's very detailed look into the Asian criminal world has revealed, by all accounts, very disturbing picture.

The Subcommittee's hearings on Asian organized crime began as a response to a frightening increase in violent crime at the hands of Asian gangs operating in the United States and those organized criminals who the gangs emulate. The Subcommittee has confirmed that these gangs have connections to the highest levels of Asian organized crime in the world, connections that law enforcement claim are responsible for the great increase in heroin that is reaching the U.S. from Southeast Asia.

Moreover, drugs and violence are only part of the growing field of sinister activity that law enforcement has seen Asian criminals orchestrating, both in Asia and the U.S. Extortion, gun smuggling, illegal gambling, prostitution, alien smuggling and money laundering are but a few of the other activities that are not only damaging America's Asian communities, but are also beginning to seriously impact the general population of many major U.S. cities.

In addressing this problem, Asian cultural differences, both in terms of language, as well as lifestyle, have become formidable barriers to U.S. law enforcement. For

example, in Chinese organized crime, triads and tongs are the roots of the criminal subculture but are concepts that are generally unfamiliar to most Americans, including law enforcement. To complicate matters, Asian criminals also have international capabilities and connections that enhance their every activity while at the same time creating terrific problems for police. This issue will be discussed further today by Subcommittee Staff Counsel, Leighton Lord and Staff Investigator, Scott Orchard as they present the Staff testimony.

We are fortunate to have before the Subcommittee today, Jack Devine, Chief of the Counternarcotics Division of the Central Intelligence Agency. Mr. Devine will provide further insight regarding the role of organized crime groups in the production and flow of heroin from the Golden Triangle to the United States. We appreciate Mr. Devine's testimony and look forward to the information that he will provide.

Also here today is a man who is intimately familiar with much of what Mr. Devine will describe as orchestrated heroin trafficking. Johnny Kon, a native of Shanghai, China has been sentenced in U.S. courts to 27 years in prison for his role in a grand heroin trafficking scheme that operated throughout the world, and to his misfortune, in the United States. Mr. Kon will explain in detail both his involvement in the heroin operation as well as his vehicle for conducting the operation, Chinese organized crime. Mr. Kon was the leader of the Flaming Eagles, a consolidation of Big Circle Gang members who had fled China following the Cultural Revolution and was a member of the Wo On Luk Triad in Hong Kong. We will see how Mr. Kon used these associations to his criminal advantage. I look forward to the opportunity to hear Mr. Kon's story.

Finally, the Subcommittee will have its first opportunity to question an associate of the Japanese organized crime world known as Yakuza or the Boryokudan. This Japanese businessman, whom we will address as "Bully," will share with us his personal observations as an associate to the Boryokudan, one who has formalized a long-standing relationship without being an actual member.

"Bully's" information is particularly timely today as U.S. law enforcement becomes increasingly concerned about the Boryokudan for a variety of reasons. First, the Boryokudan is said to control the production and supply of methamphetamines or Ice, a drug posing a very serious threat in several American cities. Also, the Boryokudan is very proficient in its ability to launder money and has made attempts to do so through real estate investments in the U.S. I look forward to "Bully's" testimony in this area as we have yet to get a detailed look at the Japanese criminal underworld.

We have a lot to cover today, but before we begin I would like to take a final opportunity to thank Senator Roth, the Ranking Minority Leader, for initiating and guiding this investigation. His staff has done an outstanding job in preparing for this series of hearings and they, too, should be commended. I look forward to today's testimony.

Senator Roth.

OPENING STATEMENT OF SENATOR ROTH

Senator ROTH. Thank you, Mr. Chairman.

Let me thank you and your staff, Eleanore in particular, for the outstanding support and cooperation we have had during this investigation.

For the past 10 months, we have been holding a series of hearings on the important topic of Asian Organized Crime, and we have learned a great deal about Asian crime groups during these three previous hearings, about their operations, both domestically and internationally.

Testimony from Federal and local law enforcement agencies, combined with first-hand stories of former members of Asian criminal groups, have clearly demonstrated that Asian organized crime presents a unique and growing threat to the U.S. 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 individual, one man who was shot and stabbed 9 times during a robbery, and from 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.

Now, as I have stated at every previous hearing on this topic, but it bears repeating, the vast majority of Asian-Americans are hard-working and they are 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 criminal groups are highly mobile, and 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 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 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 U.S.

We 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 that 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 business worldwide heroin traffic enterprise, with a far-flung network stretching from Hong Kong to South America, Canada, Europe, and the U.S. The CIA 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 LCN active in the U.S.

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 have a combined yearly income of at least \$10 bil-

lion. Others think that is low. Clearly, the Yakuza has prospered, along with the rest of Japanese society.

I believe that the evidence we will hear today will make it 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, new approaches, both domestically and internationally, in the battle against Asian organized crime.

PREPARED STATEMENT OF SENATOR ROTH

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 to 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 9 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 criminal 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 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.

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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 will 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.

Thank you, Mr. Chairman.

Chairman NUNN. Thank you, Senator Roth.

Our first witnesses today will be Staff Counsel, Leighton Lord and Staff Investigator, Scott Orchard. Mr. Orchard, I understand, you will lead off the testimony this morning.

I will ask both of you to stand. We swear in all the witnesses before our Subcommittee: Do you swear that the testimony you will give before this Subcommittee will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. ORCHARD. I do.

Mr. LORD. I do.

Chairman NUNN. Thank you.

Mr. Orchard, I understand you are going to lead off this morning. Thank you.

TESTIMONY OF SCOTT E. ORCHARD,¹ STAFF INVESTIGATOR TO THE MINORITY, SENATE PERMANENT SUBCOMMITTEE ON INVESTIGATIONS; ACCOMPANIED BY W. LEIGHTON LORD, III,² STAFF COUNSEL TO THE MINORITY, SENATE PERMANENT SUBCOMMITTEE ON INVESTIGATIONS

Mr. ORCHARD. 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 to 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 translates roughly 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 1st of this year, and the gangs have publicly demonstrated against the new law.

¹ The prepared statement of Mr. Orchard appears on page 124.

² The prepared statement of Mr. Lord appears on page 127.

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. [The documents referred to were marked Exhibits 59 and 61, and can be found on pages 171 and 172.] As in the past, each name has been independently corroborated by at least two law enforcement agencies and an exhibit identifying these 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 of 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. The five individuals identified, along with the boss of the Yamaguchi-gumi, 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 Yamaguchi-gumi 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 current information tying Kizo Matsumoto to current Boryokudan activity, his brother, Takao, has more recently been 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 Japan.

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 under way by various Yakuza groups to gain

entrance to the fledgling casino business on the island of Tinian, located in the Commonwealth of the Northern Marianas Islands.

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 Yuk Inagawa.

The third largest Boryokudan group is the Sumiyoshi-kai. The Sumiyoshi-kai includes over 7,000 members in hundreds of affiliated gangs. The boss of the Sumiyoshi-kai 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 Tao Yuai Jigyo Kumiai or TYJK. This group has only an estimated 886 members, but many of the group's members and associates have been linked to the United States. 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 United States, including golf courses in Nevada, California and Hawaii.

He also holds the lease to a restaurant in the Tropicana Hotel/Casino in Las Vegas. He 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. He sold over 50,000 memberships to a course which was only supposed to have 2,800 members.

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 is essentially 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 1982 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 & Company. Itoman then put up guarantees worth \$860 million, which was reportedly used to obtain a loan from Mitsubishi Trust & Banking to cover the price. 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 in Osaka 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 Company. Japanese press reports have alleged that Isutani coached the key figure in the scandal, Recruit Company 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, one of the original backers of the first transaction. The involvement of Sumitomo in both transactions raises questions about the new ownership of the country club, but we have to assert that staff has not been able to reach any conclusions about the new ownership.

Independently, Minoru Isutani owns Ben Hogan Company, a golf equipment company, which is well known and 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 agency we spoke with 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 later today from a close associate of several of Japan's largest gangs.

On another subject, which is entirely separate from what I have been speaking about, 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 United States, Canada, and Hong Kong in controlling Chinese entertainers touring North America. [The document referred to was marked Exhibit 63, and can be found on page 173.]

I would also like to 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. [The document referred to was marked Exhibit 65, and can be found on page 174.]

Recent tours we have tracked 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 are either currently or formerly holding 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 a 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.

Chairman NUNN. Without objection, they will be submitted and appropriately numbered.

Chairman NUNN. Mr. Lord.

Mr. LORD. Thank you.

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 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 14K 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 these 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. [The documents referred to were marked Exhibits 66, 67, 73, 74, 76 through 81 can be found in the files of the Subcommittee.]

Chairman NUNN. Let me ask a question at this point. We have had a procedure for years in this Subcommittee as to how we go about making sure that we have gone through every step necessary to assure ourselves that this is accurate information. Would either of you identify now the steps that you have gone through, in keeping with our Subcommittee practice on all organized crime investigations?

Mr. ORCHARD. For the charts that we have put up so far, each of the names on those charts, with the exception of the names in white on the chart regarding Asian entertainment—which are clearly noted as individuals involved in the industry, but not known to be involved in organized crime—have all been corroborated by our usual procedure. That procedure is to have two or more independent law enforcement agencies identify that individual as a member or associate, if identified as an associate, of organized crime.

Additionally, for almost all of the names that we have put up, we have a number of other sources, which are not law enforcement sources, including confidential informants which we list in our sealed exhibit supporting all of these documents.

Chairman NUNN. Now, the two law enforcement agencies, are those any law enforcement agencies in the world, or are they American law enforcement agencies?

Mr. ORCHARD. There is always at least one and generally two United States law enforcement agencies. It is often necessary to have foreign law enforcement agencies just corroborate the current status of that individual, to make sure that it is accurate.

Chairman NUNN. So at least one American law enforcement agency?

Mr. ORCHARD. That is right.

Chairman NUNN. Sometimes two, but not always?

Mr. ORCHARD. Almost always two.

Chairman NUNN. Almost always two. Thank you.

Mr. LORD. As I mentioned, Senators, we would like to submit a document that contains a number 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 because 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 voluntary agreement by repeatedly arresting Wang for minor violations.

In light of these circumstances, one might ask why there is no extradition agreement between the United States 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, especially in the area of trade. 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 concerns at the U.S. State Department about, among other things, the effect such a step would have on U.S. relations with the People's Republic of China seem 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 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 People's Republic of China 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 an extradition agreement 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 Taiwanese officials are important to the government's case, which involves a 1,080-pound heroin shipment seized in Hayward, California, which was 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 a 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 in a key location for Asian organized crime, and whatever the status of the official relationship between the United States and Taiwan, we must take that reality into account.

Thank you.

Chairman NUNN. Thank you, Mr. Orchard and Mr. Lord.

Let me ask a few questions, and then I will defer to Senator Roth. In your statement, you indicate that the Japanese gangs, until very recently, have been allowed to operate rather openly in Japanese society, is that correct?

Mr. ORCHARD. That is correct, Mr. Chairman. They have openly held offices, passed out business cards, and even held press conferences from time to time in Japan.

Chairman NUNN. Is it commonly known that they are engaged in the kind of activities that you have listed here?

Mr. ORCHARD. It is commonly acknowledged that they have been linked to large-scale business transactions, investing in the stock market, investing abroad, as well as all the street-type crimes that are normally associated with an organized crime group.

Chairman NUNN. Well, how often are these top organized crime individuals prosecuted? Is it something that is rare? Is it something that occurs with frequency in Japan?

Mr. ORCHARD. I would have to give a somewhat moderate answer to that, which would be that, in the past, it was certainly less frequent than it appears to be today. However, some people's view is that the police in Japan have done more to harass Japanese organized crime than they really have tried to prosecute them.

Some may argue that they would rather have organized crime than unorganized crime, and many within the police departments in Japan may even feel that the Japanese organized crime members serve a purpose in society, as many members of Japanese society do. The Boryokudan are often turned to resolve traffic accidents and things of that nature in Japan, and because of the historical origin of these groups as sort of the underdogs in society, there is some sympathy there and that definitely has an impact, as well.

Chairman NUNN. Are there certain kinds of crimes that are not viewed as real crimes in Japan? Are they just sort of accepted by society? Are there clear lines drawn?

Mr. ORCHARD. Well, one of the problems with that is that many of the crimes, things that we would consider a crime in the United States are perpetrated in a very subtle fashion in Japan. For example, the use of the business card in the past by a Japanese organized crime member would be a very subtle way to extort someone, simply by saying you know I am a member of this group. There is no verbal statement made about any kind of extortion, and at the same time those groups were not illegal, so that was a major hole in allowing them to operate.

Chairman NUNN. Well, certainly the common impression in this country is that there is not the kind of street crime in Japan that there is in the United States. Is that true?

Mr. ORCHARD. That is absolutely true, and the Boryokudan may have been viewed by the police and other parts of Japanese society as partially accountable for that. However, in recent years, the Japanese groups have been known to fight with each other and it is the violence that has resulted from those conflicts that has been largely responsible for generating some public sentiment against the gangs in Japan. Such violence may also be responsible for the change in the generally accepted name of the groups from Yakuza, which was more of a sympathetic term used for kind of a Robin Hood figure, to the Boryokudan, which means "the violent ones," which is now the term used by the National police agency. This change, by itself, shows some change in attitude.

Chairman NUNN. Well, is Yakuza illegal in Japan, or is that organization accepted as legitimate?

Mr. ORCHARD. The law that was passed in March of this year specifically allows the Japanese government to designate certain Japanese organized crime groups as Boryokudan groups. Once that is done, they can be prosecuted for holding offices openly, particularly in times of conflict with other gangs, and also for the type of extortion which was really widespread at times in the past and which was done in the subtle methods that I mentioned.

Chairman NUNN. Is there anything similar to our RICO laws?

Mr. ORCHARD. It has some very modest similarities, but it really does not have any elements of conspiracy behind it which are integral to the RICO law. Additionally, the Japanese just recently passed another law which will attempt to prosecute individuals for money laundering and will also allow the police to seize assets related to that sort of criminal activity. But a problem with that is that law was specifically only targeted at drugs and will not allow for forfeiture of assets related to any of the other types of criminal activity that these groups have been involved in.

Chairman NUNN. Are illegal narcotics activities looked on as very serious crimes in Japan?

Mr. ORCHARD. That is absolutely correct. The Japanese society has traditionally not had much of a problem with narcotics. Over the past decade, there have been some societal trends which I am not really an expert to comment on, but there have been some increases in trafficking of both cocaine and also I believe of methamphetamine into Japan in recent years.

Chairman NUNN. Well, what type of crime is not viewed as a serious crime in Japan? You mentioned extortion?

Mr. ORCHARD. Extortion was something that was specifically added into Japanese law in the most recent proposal that was passed that went into effect in March of this year.

Chairman NUNN. Are there crimes that are not viewed seriously in Japan now that we view seriously in the United States? If so, what are they?

Mr. ORCHARD. Money laundering was not illegal until recently, but, again, the new law only focuses on drug money laundering. Primarily, I would have to say that it is the extortion.

Chairman NUNN. How about Taiwan, now? In Taiwan, are the officials in the government, the law enforcement bodies that you talked to, responsive to the frustration about the lack of extradition? Are they concerned because there are criminals that flee their jurisdiction and are not able to be brought back?

Mr. LORD. Yes, Senator, I would think so. They published this book listing about 160 individuals that have fled their country after committing major crimes, and I think they would very much like to get a lot of these individuals back. As I mentioned, 80 of these individuals are thought to be in this country.

Chairman NUNN. Do they have anything like the kind of structured organized crime activities that there are in Japan with so-called organizations being treated almost as legitimate?

Mr. LORD. There are triad organizations in Taiwan, several that are acknowledged by the government. I would not say they are treated as legitimate on the same level as with the Japanese groups.

Chairman NUNN. I gather from your statement that you think Japanese society is now changing in this respect?

Mr. ORCHARD. That is correct. It is important to note that these groups have a very, very long history in Japan and I think most people would recognize that the Japanese government is making some steps in the right direction. It is not as if these groups escape law enforcement attention entirely. However, they do play an important role in many of the day-to-day operations of daily life in Japanese society and they have also managed to get involved in

politics, in business, in large-scale corporate activity and have used that sort of influence to maintain their position in Japan.

Chairman NUNN. Well, since that law was passed in March of 1992, do you have any information that would indicate that people who formerly would conceal their membership in organized crime, what we would call organized crime families, are now concealing that membership, or is there an effort to disassociate?

Mr. ORCHARD. It is my understanding that the groups are essentially now operating underground. For example, they used to give a membership list every year to the National Police Agency and that is no longer the case. The Japanese police have made a number of raids on some of the biggest groups' offices, but at the same time I have not seen any dramatic reports of major inroads in bringing prosecutions against the leaders of these organizations. Some of them have been hit with some very sort of minor charges that may or may not even carry any sort of prison term. There are a number of laws on the books in Japan which are not enforced or do not actually carry a sentence that could be applied if people tried to use those laws properly.

Chairman NUNN. Two other questions, and one on Japanese organized crime. Does your evidence indicate there is a direct tie between Japanese organized crime families in Japan and Japanese crime in this country?

Mr. ORCHARD. Well, we do not see coming into the United States, except on very rare occasions, people who are members of Japanese organized crime groups, in other words, those whose names would have been on the list submitted to the Japanese National Police. However, again, it is difficult to get that information, so we are not certain about that.

What we do see are very rich, wealthy businessmen from Japan who have traditionally used close associations with Japanese organized crime to operate through their investments, both in Japan and in the United States, and they will come to the United States for gambling or come to the United States for investment purposes.

In the past, they came to the United States to obtain guns to bring back to Japan, which may still be happening. And they have also come to the United States to recruit American women at times into prostitution in Japan. This activity is a difficult nut to crack, because you need to decide whether or not that individual went on her own free will and accord or not.

Those are the activities they have been involved in and there are direct links between Japanese gangs and close associates in the United States. But again, it is very difficult to get your hands around this situation, because of the intelligence sharing problems we face.

Chairman NUNN. What about direct criminal activities such as heroin trafficking, like extortion, murder, gambling, and street crime-like activities? Do you find evidence linking Japanese organized crime from Japan to the United States in that kind of criminal activity?

Mr. ORCHARD. Absolutely. I previously failed to mention the fact that Japanese organized crime, according to most law enforcement agencies, is behind the financing of most of crystal methamphetamine, also known as "ice," which is the drug of choice in Hawaii

and has now over the past decade also reached parts of Seattle, San Francisco, Los Angeles, Denver and some other communities on a lesser scale. So that would be one clear example of what they are involved in. This drug is really having a devastating impact in Hawaii.

Aside from that, there have been some reports of extortion related to supply businesses, getting Japanese restaurants to buy certain goods, also involvement in the tourist industry has been cited on occasion, where they may subtly try to encourage tour groups into going to certain hotels and restaurants in which they may have influence. And then there is the prostitution and the gun smuggling that I cited earlier. Those would be other things that come up fairly often.

Chairman NUNN. The same question with Taiwan, Mr. Lord. Do you find evidence that there are direct ties between criminals located in Taiwan and those on the streets here carrying out criminal activity?

Mr. LORD. There have in the past, yes, there have been direct ties with crimes committed in this country that have originated in Taiwan. At this time, the most important role that Taiwan seems to be playing is as a major transshipment point for heroin coming into this country. I mentioned the Hayward, California case, where a 1,080-pound load went from Southeast Asia through Taiwan and on to California. Taiwan has several major ports, which are enormous ports that are very hard to monitor for.

The United Bamboo and the Four Seas, two gangs that are Taiwan-based groups, are also known to be based in this country and active in this country, so I would say yes.

Chairman NUNN. Thank you both.

Senator Roth.

Senator ROTH. Thank you, Mr. Chairman.

As I understand Japanese organized crime, first of all, in respect to its operations within Japan, which are very considerable, there is something like over 80,000 members?

Mr. ORCHARD. That is correct.

Senator ROTH. You have the traditional kind of activity, you find organized crime involved in many areas, prostitution, pornography, gambling, drugs. Are they involved in drugs in Japan?

Mr. ORCHARD. That is right, they are largely in control of the trafficking in methamphetamine, which is the dominant drug in Japan.

Senator ROTH. Is there widespread use of that in Japan?

Mr. ORCHARD. It is difficult to make a comparison, but it is definitely the most prevalent drug. It is widespread in certain parts of the community. It has been popular at times with young people who need to work very hard and use it for its stimulant capabilities, and that is something that may or may not in some people's view go along with the work ethic and what-not that we have seen in Japanese society in recent times.

Senator ROTH. Notwithstanding these illegal activities, traditionally, even though the situation is somewhat changing now, traditionally, the Yakuza has been quite public. I mean their place of business, even their memberships, the fact they would chop off part

of the little finger, was almost looked upon as a matter of courage and pride, is that correct?

Mr. ORCHARD. That is correct. Again, the current groups can be traced back to a number of different groups in earlier Japanese society, including dishonest peddlers, different gambling gangs, other parts of the Japanese underclass, including a number of Samurai who became unemployed back in, I believe it was, the 18th Century.

Senator ROTH. Historically, membership also came from those groups that were discriminated against, the so-called "unclean class" that dealt with leather, Koreans and so forth?

Mr. ORCHARD. That is correct.

Senator ROTH. At the same time, they openly were involved in a number of activities, so-called legitimate activities. I think you mentioned that in the case of auto accidents, the Yakuza were often the ones that resolved those disputes in lieu of lawyers. I do not know whether that speaks highly about lawyers or not. But it is a fact that the Yakuza was the element that brought the parties together and resolved them in many cases, disputes in auto accidents. Is that correct?

Mr. ORCHARD. That is absolutely correct.

Senator ROTH. It is also true that they were very much involved in real estate, that the Yakuza were used as means of forcing people, for example, to sell their property, to reach agreement between different contracting parties who were interested in developing land. So this was rather an open practice, is that correct?

Mr. ORCHARD. That is also correct. In fact, the witness who will close out the hearing today, who is an associate of a number of Japanese organized crime groups, will be able to speak in detail about that process, the process of their involvement in real estate development and other real estate activities, which accounts for a very significant percentage of the annual income of these groups.

Senator ROTH. The Yakuza probably has fallen in disrepute with the public at large, partly because of the political scandals in which they have purportedly been involved, is that right?

Mr. ORCHARD. That is correct, as well.

Senator ROTH. Now, why should we here in PSI and the United States be concerned about these illegal activities? What is the problem, as far as we here in the United States are concerned, with the Yakuza?

Mr. ORCHARD. The first problem, and I think what is on the tip of every law enforcement officer's tongue who deals with these organizations, is money laundering, and this is admittedly a very, very difficult type of crime to prosecute in the United States, and there has been very little success against Japanese crime groups on that front here. But what is very clear is that there are a number of individuals who have cultivated very, very close ties, who are known as associates of the Yakuza, and who have invested hundreds of millions of dollars in the United States.

Now, what is most disturbing about this is the fact that the United States authorities are not able to get the kind of information out of Japan which would be necessary to bring some sort of case against these individuals, because if any illegal activities were

involved with generating that money, they probably took place in Japan.

Japan has very strict privacy laws and that is a main reason, in their view, why they cannot give us any information which can be used for bringing cases. In other words, they will give us information on an unofficial basis for intelligence gathering purposes, but as far as actually bringing someone over here and testifying or giving us some documents that could be used as evidence, that really has not taken place to any significant extent.

So the money laundering is the first problem. The second problem would be some of the other street-level-type crime that I have mentioned earlier, including ice smuggling. I really have to put some emphasis on the fact that it is a major problem in Hawaii and they are really feeling the impact of that there, and the Yakuza are directly involved in that.

Senator ROTH. Is it not true that the Yakuza is primarily active in Hawaii, California and—in what other areas?

Mr. ORCHARD. Hawaii and also other parts of the Pacific, where—

Senator ROTH. The territories?

Mr. ORCHARD. That is right, the territories such as Guam and the Northern Marianas Islands. They started focusing on those areas after law enforcement in Hawaii started gaining a lot of intelligence on them. They wanted to go through other ports and also look for other areas where they can invest, and Guam and other parts of the Pacific have been prominent targets.

Again, as I mentioned in my statement, there are individuals who have been investing in large golf course developments and other types of properties in California and Nevada.

Senator ROTH. Is it clear under U.S. law that the investment of money illegally gained in another country, it is illegal to invest it here, or is the law unclear on that point?

Mr. ORCHARD. It is my understanding that the law is very unclear on that point, and a number of prosecutors and other prominent individuals who deal with this problem have decided there is a hole in the law in that respect and they cannot bring a case against someone. A case could be made, under current law, if the money was generated from illegal drug business, but many have claimed that this would also be difficult. Again, it is my understanding they cannot bring a case against someone, if the money was illegally generated in Japan and invested in the United States, except perhaps in the case of drug money laundering.

Senator ROTH. Mr. Lord, you indicated a principal problem in the case of Taiwan, is that we have no extradition treaty, is that right?

Mr. LORD. That is correct, Senator.

Senator ROTH. With what other Asian countries do we have such extradition agreements.

Mr. LORD. Well, we actually have extradition treaties with several Asian countries, most notably, Hong Kong, Malaysia, Singapore, and Thailand.

Senator ROTH. Have we had any success in extraditing fugitives from any of these countries?

Mr. LORD. Yes, Senator, the United States has had a great deal of success, most notably from Hong Kong and recently Thailand. I

believe we have also extradited people from Singapore and Malaysia.

Senator ROTH. How about Japan?

Mr. LORD. We have an extradition agreement with Japan and, as I understand it, the agreement works and we have extradited people back and forth.

Senator ROTH. One of the concerns expressed by you in your prepared testimony is that, even if you have an extradition agreement, that it would not cover nationals which, under Taiwanese law, almost any Chinese anywhere, is recognized as a national.

Mr. LORD. Right.

Senator ROTH. Now, those countries which we have such agreements, does it cover their nationals?

Mr. LORD. Well, the way our law works is that all extradition agreements and treaties are unique, and if another country excludes extradition of their nationals from their treaty, we do the same thing in our country, so it is a reciprocal agreement relationship.

Senator ROTH. Is that a wise practice? Does that not severely limit the effectiveness of these agreements?

Mr. LORD. Yes, it severely limits such agreements. And in the case of Taiwan, we think it would almost decimate such an agreement, because of their wide definition of a national.

Senator ROTH. Is not one of the key problems of the new situation the fact that criminals can very easily flee from country to country, and that one of the major concerns is how are we able to successfully prosecute them?

Mr. LORD. Exactly, Senator. The criminals who we have been dealing with in the past series of hearings are definitely international criminals. They can get on a plane and go anywhere in the world. Yet, the law enforcement agencies that are chasing them down are for from international. Their jurisdiction and their mentality stops at the border.

Senator ROTH. What is going to happen to our extradition agreement with Hong Kong in 1997, when they revert to China?

Mr. LORD. Well, we have no extradition with the People's Republic of China, and if that agreement expires in 1997, we will have none and that will be a big problem. Currently, there are negotiations under way to negotiate a separate treaty with Hong Kong which will be based on the one-country/two systems principle, we will have an extradition agreement with the area of Hong Kong, but still not with the People's Republic of China.

Senator ROTH. Are there other countries used as havens? You mentioned Taiwan. What other countries?

Mr. LORD. Senator, we have received anecdotal evidence that the Philippines and Burma are sometimes used as havens, but nowhere as popular as Taiwan. Taiwan is a modern country in Asia and it is a very attractive place for criminals, especially of Chinese descent.

Senator ROTH. Does Taiwan have currently any extradition agreements with other countries?

Mr. LORD. They have very few, because they have diplomatic relations with very few countries. They have an agreement with Costa Rica, Swaziland, and Paraguay, I know of for sure.

Senator ROTH. But those agreements exempt nationals, so-called nationals?

Mr. LORD. Those agreements do exempt nationals.

Senator ROTH. Thank you, gentlemen for your testimony.

Thank you, Mr. Chairman.

Chairman NUNN. Thank you, Senator Roth.

When you talk about exempting nationals and certain groups, who is left, once all the exemptions are placed?

Mr. LORD. Well, I suppose what will be left is a national from another country uninvolved with the two that are trying to extradite someone. For instance, if someone from South America was in Taiwan, had committed a crime there and then came over here, we would extradite that individual, because they were from South America and they are not a national of ours.

Chairman NUNN. Did you say we did have extradition treaties with Malaysia and Singapore?

Mr. LORD. Yes, we have an extradition agreement with Hong Kong, Thailand, Malaysia, and Singapore for sure. The extradition agreements with Malaysia and Singapore are remnants of when they were colonies and they are currently trying to renegotiate the treaties that would be totally with that country as an independent country. But Malaysia and Singapore in the past have abided by the former colonial treaties.

Chairman NUNN. Thank you both.

Our next panel of witnesses is from the Central Intelligence Agency. The CIA has played an increasingly important role in the gathering and analysis of strategic intelligence relating to international narcotics trafficking. I understand this is the first public testimony delivered by representatives of the CIA's Counter Narcotics Center.

We welcome David Cohen, Associate Deputy Director for Intelligence, as well as Brian Soderholm and Martin Roeber, of the Counter Narcotics Center.

Is it Mr. Roper or Mr. Roeber?

Mr. ROEBER. Roeber.

Chairman NUNN. Thank you.

Mr. Cohen and Mr. Roeber, we swear in all witnesses before our Subcommittee, so will you please rise and take the oath? Do you swear that the testimony you will give before the Subcommittee will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. COHEN. I do.

Mr. ROEBER. I do.

Chairman NUNN. Thank you.

TESTIMONY OF DAVID COHEN,¹ ASSOCIATE DEPUTY DIRECTOR
FOR INTELLIGENCE, CENTRAL INTELLIGENCE AGENCY; AC-
COMPANIED BY BRIAN SODERHOLM, ASSESSMENTS GROUP,
COUNTER NARCOTICS CENTER; AND MARTIN ROEBER,²
DEPUTY DIRECTOR, COUNTER NARCOTICS CENTER

Mr. COHEN. Thank you, Mr. Chairman and 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. In presenting this testimony, it is important to remember that the agency is not involved in any way in the enforcement issues regarding international drug trafficking. Rather, that is the work of other organizations, as you know, such as DEA, the FBI and the Justice Department.

Again, as you know, agency analysis on the issue of international drug trade and trafficking is solely limited to the international aspects of it, and in no way do we work on the domestic arena.

To place this drug activity in context, we will begin by discussing production trends and the dynamics of the heroin trade in Southeast Asia. In doing so, we will highlight some disturbing developments:

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 U.S. market.

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 U.S. markets.

Third, we continue to see ethnic Chinese involvement at every level of the Southeast Asian heroin chain. Members of Chinese triads have long-standing involvement in heroin trafficking, both regionally and internationally. These Asian criminal gangs seem to function largely through individual initiatives, rather than as coordinated entities directed from the top.

Tracking and slowing the Southeast Asian heroin trade is an exceptionally difficult 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.

We have a graphic here on worldwide production of opium that is worth your attention. [The document referred to was marked Exhibit 107, and can be found on page 215.] As you can see, opium production globally has more than doubled since 1985, and we esti-

¹ The prepared statement of Mr. Cohen appears on page 128.

² The prepared statement of Mr. Roeber appears on page 129.

mate that two-thirds of the total now 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, but something like a five-fold increase from the early to mid-1980's. Burma remains the world's largest opium producer, accounting for some 60 percent of total world production and 85 percent of the opium produced in Southeast Asia.

Over the near term, the next year or two, 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 totalled 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 indicates that most of the opium produced is actually consumed inside the region itself.

I would 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 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 the shipment is transferred several times:

In the initial phase, producers and refiners in Burma, Thailand, and Laos obtain raw opium from farmers and refine it into heroin. Some three-quarters of the region's heroin refining capacity is concentrated just inside Burma.

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.

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.

Finally, retail distribution networks in the United States 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 U.S. 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 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. One, 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. His 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. [A document related to this matter was marked Exhibit 108, and can be found on page 216.] This was the case for the 396 kilos seized this June in Hong Kong and for the 494 kilos picked by U.S. 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 point 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 very specific information since thousands pass through these ports every day. For example, about 4 million containers transit Hong Kong in a single year, and about one 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, for example, were marked by fraudulent documents.

In addition to these routes, we believe 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 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 Chin 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.

Chairman NUNN. Mr. Cohen, could I ask a question right there?

Mr. COHEN. Yes, sir.

Chairman NUNN. You mentioned that there was a big shipment broken up in China and also one broken up in Vietnam.

Mr. COHEN. Yes.

Chairman NUNN. Does that mean that the mainland Chinese and the Vietnamese are both rather vigorous in law enforcement, or was this a happenstance? Was this part of a pattern?

Mr. ROEBER. I would say that the mainland Chinese have substantially increased their efforts over the last several years in recognition of what is a growing problem for them. We, for example, do not have a firm estimate of the current extent of the growing area, but the likelihood is that we are probably talking about hundreds of tons of opium. And what worries the Chinese, as well as worries us, is that if you look at historical precedent, if you go back to the 1950's or the 1920's, in the 1920's, Yunnan Province, by itself, produced more opium than the entire global production today. So, if left unfettered, that could easily dwarf what is coming out of Southeast Asia today, and the Chinese are moving with some alacrity.

They have passed new laws, they have imposed the death penalty for those who smuggle in more than 50 grams, they have instituted public executions on national drug day and, as Mr. Cohen noted, their seizure statistics are way up from a meager 50 kilos to over 2 metric tons in the last year, so they are clearly moving in the right direction.

There are resource constraints, like everyone faces, and the question of to what extent the Chinese want to come fully to grips with the extent of the current problem. But when you look at Southeast Asia overall, the Chinese are doing a reasonable job.

Mr. COHEN. Let me continue on for a moment, discussing for a moment the issue of ethnic Chinese involvement in the Southeast Asian trafficking business.

As I 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. 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 extensive business structure available to the triads provides them with cover for narcotics and money transfer activities. Businesses provide a credible pretext for foreign travel, hosting overseas visitors and lobbying government officials. Trade and export-import companies, for example, are natural fronts for shipping and receiving narcotics, contacting the cargo companies and arranging documentation of shipments. Heroin traffickers have also used tour and travel companies as cover for obtaining travel documentation and for recruiting and employing couriers. The triads use hotels, restaurants and casinos as sites for narcotics distribution, money laundering and venues for trafficker meetings. In addition, traffickers can use 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, triad involvement in 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 that are apparently 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 in Bangkok and 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. Anti-corruption investigations and a crackdown on narcotics trafficking in the mid-to-late 1970's by the independent Commission Against Corruption caused dozens of traffickers to flee overseas. Many sought at least temporary refuge in Taiwan. And 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 that we face a daunting challenge from criminal organizations involved in trafficking in Southeast Asian heroin to the United States. Let me, once again, though, summarize why the heroin trade from Southeast Asia is such a daunting threat.

First, opium production in the region is booming and is likely to grow further. Trafficking networks are diverse and expanding. Each heroin shipment is unique and could involve different players.

Traffickers' use of semi-legitimate businesses and containerized shipping makes heroin shipments extremely difficult to detect. And finally, although they by no means are the only crime groups in drug trafficking, the Chinese triads and other criminal associations play a major role in organizing heroin shipments.

Mr. Chairman, I would like to thank you and the Committee for hearing me out. I would like to make myself and Mr. Roeber available for questions that we can handle.

Chairman NUNN. Thank you, Mr. Cohen.

I will make my comments brief this morning. We appreciate you being here. Mr. Roeber, we appreciate you being here.

You mentioned that opium production was booming. You mentioned that you expected the Southeast Asian opium production to remain or exceed record levels for the near term. What are the factors going into that increased production in Southeast Asia?

Mr. COHEN. Well, one problem, sir, is the lack of control over the production areas by any central government. The resources that it would take it bring it under control would be enormous and require substantial will on the part of the specific governments.

Chairman NUNN. Is that primarily Burma?

Mr. ROEBER. As you dissect it, it becomes ever more complicated. It is a resource problem for an awful lot of the governments. There is the profit motive—domestic consumption is expanding and more and more of these traffickers are drawn to the most lucrative

market in the world, which is in the United States and where our market appears to be expanding. The long and short of it is that, when you look out over the next 1 to 3 years, absent adverse weather conditions, there is no likelihood that production will go down.

Mr. COHEN. I would add, Mr. Chairman, another point that is sometimes missed. There is a very large consumption domestically in these countries that almost underpins a base level of production and demand, and it complicates the problem, because it provides a production safety net, in effect.

Chairman NUNN. You mentioned, I believe, back in the 1920's, that in one province in China, there was more opium grown than is grown all over the world today. Did I hear you correctly?

Mr. COHEN. I believe that to be correct.

Chairman NUNN. Which was the province?

Mr. ROEBER. Yunnan Province, according to the Chinese' own statistics, produced some 7,000 metric tons of opium, with less than half of that accounting for global production, as we estimate it today. I should note that our initial chart that was up is global production but absent a certain number of countries which we do not presently include for, frankly, lack of our own resources. That is to say, there are emerging growing areas in the former Soviet Union and several other countries, and we will be incorporating them over the next year in our estimates. The comparison still stands in terms of bulk magnitudes.

Chairman NUNN. With a much smaller world population, then, and more opium production, where was most of that consumption taking place? Was that in China itself?

Mr. COHEN. Most of it was in China, I believe.

Mr. ROEBER. In the 1920's, as today, the bulk of the consumption takes place usually in the individual producing country. In the 1920's, China was obviously able to supply the whole world market pretty much on its own. Even when you look at Burma—well, not in Burma per se, but at least within the geographic region, the bulk of the production is consumed there.

Chairman NUNN. When did the consumption levels in China itself go down? They have gone down dramatically over the years. When did that occur?

Mr. ROEBER. In the immediate post-war period, the post World War II period, a very severe crackdown on consumption and trafficking was made.

Chairman NUNN. Was that after the Communists took over?

Mr. ROEBER. Yes.

Chairman NUNN. Senator Roth.

Senator ROTH. Thank you, Mr. Chairman.

You indicated that both China and Vietnam have cracked down and have had some success, at the same time they both have become opium producers. Is that because the central government is unable to control it, or why has there been this increase in production?

Mr. COHEN. That would certainly be an important factor, sir, as well as the high profitability of the traffic itself. The combination of those two make it extremely difficult to control in the primary growing regions.

Mr. ROEBER. I would differentiate, if I might, Senator, between Vietnam and China. Our information on Vietnam is much more sketchy. Frankly, you would need an expert on Vietnam here to testify. While there was a significant intercept of a shipment, given the meager resources available to the government, I suspect it is going to be very difficult for them to put a concerted campaign together.

What we find—whether we are talking about China or Vietnam or wherever—is that governments are always well behind the power curve. The consumption patterns and the growth patterns are expanding geometrically, and it requires a geometric input of resources in order to keep pace.

Senator ROTH. Mr. Cohen, you discuss the role of Asian organized crime groups in Southeast Asia heroin trafficking. Yet, you indicated that while the triad played a role, it does not control. Is it a waste of effort to concentrate on identifying the structure and membership of the triad?

Mr. COHEN. No, sir, we do not think it is a waste of time, because, as we indicated, it is a highly segmented structure, the trafficking trade. Any insight and knowledge we get with respect to that structure I think would add to the capacity of enforcement agencies to take appropriate action.

As I indicated, while we do not believe, despite the hierarchical nature of the triads, that their activities with respect to the trafficking business is controlled from the top, their involvement at each stage of that marketing chain means we need to understand it as well as we can.

Senator ROTH. Is it not also a fact that, in addition to the role at least its members play in drug trafficking, that they are also involved in other criminal activities that have international implications?

Mr. COHEN. I believe that to be the case.

Senator ROTH. What is the government in Burma doing about the fact that two-thirds of the heroin in Southeast Asia is produced there?

Mr. COHEN. Well, as of the late 1980's, they were making what some might consider a best effort. Their overall program has lost quite a bit of momentum in recent years, because of the change in the political situation in Burma. The military government there has shifted its priorities away from issues associated with drug production, trafficking and trade. That is why, when I gave my testimony, we referred both to the ability and the will of governments to take action.

Even under the best of circumstances, however, production is occurring in areas that are far removed from the core of the country. Vast areas under control by the Shan armies and others, and the government has been slow to take on those resources in any kind of a challenge.

You might ask Mr. Roeber here if he has anything to add to that.

Senator ROTH. Mr. Roeber.

Mr. ROEBER. I suppose if one were going to be generous, one would characterize the efforts of the government as inadequate. If one were going to be less generous, you would characterize them as probably easier to do business with the traffickers than to try to

put them out of business, and I think that would be a reasonably apt encapsulization.

There is the difficulty that Mr. Cohen mentioned, because these groups operate in the border areas, and they are sizable. We are talking about four different trafficker armies here, which range up to 10,000 and 12,000 men strong, and so it would be a very substantial undertaking. The government has lapsed into a pattern essentially of playing one group off of the other, and as long as they do not represent any imminent threat to government stability, Burma follows essentially what is a live-and-let-live policy among the various groups, sometimes favoring one and sometimes favoring the other.

Senator ROTH. Would you recall and tell us about the Khun Sa and the Shan United Army? How big are these armies? Is there evidence that Khun Sa has associates in the U.S. to cut out international brokers and other middlemen?

Mr. COHEN. I think Mr. Roeber could answer that. He has worked on that issue recently and is in a better position to provide a response.

Mr. ROEBER. As I started to mention, we are talking essentially about four armies, but Khun Sa's United Army is the largest, and that runs to 10,000 to 12,000 men. It is followed in rough descending order by the United Wa State Army, which is 8,000 to 10,000, by the Kokang, which is 3,000 to 5,000, and then, finally, by the Kachin Independence Army, which is probably the closest to an actual rebellious movement, and which still has certain political objectives, as opposed to having transformed itself largely into what is a trafficking and a producing army.

Khun Sa's SUA controls the border region with Thailand. They have the bulk of their refineries there, and Khun Sa himself boasts that, in addition to controlling 60 to 80 percent of the total production coming out of the country, he is responsible for about 40 percent of the Southeast Asian heroin coming into the United States. Frankly, we would not quibble with any of those figures.

Senator ROTH. Gentlemen, I appreciate this precedent-breaking appearance of both of you. Your testimony has been most helpful. I may have some additional questions, but will submit those in writing.

Thank you very much.

Mr. ROEBER. Thank you, sir.

Senator ROTH [presiding]. Our next witness is Johnny Kon.

Mr. Kon is presently serving a 27-year prison sentence, after pleading guilty for importation of large quantities of heroin from Southeast Asia to the United States. Mr. Kon's arrest and guilty plea were the results of a lengthy investigation conducted by DEA's Group 41 task force in New York City, which concentrates on Southeast Asian heroin cases.

In addition to his narcotics trafficking activity, Mr. Kon was also a triad member, a former leader of the Big Circle Gang. We look forward to his testimony.

Mr. Kon, if you would please rise. All witnesses are sworn, and raise your right hand: Do you swear that the testimony you will give before this Subcommittee will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. KON. I do.

Senator ROTH. Thank you, Mr. Kon.

TESTIMONY OF JOHNNY KON,¹ A/K/A KON YU-LEUNG, CONVICTED HEROIN SMUGGLER, FORMER LEADER, FLAMING EAGLES GANG/BIG CIRCLE GANG, MEMBER, WO ON LOK TRIAD

Senator ROTH. It is my understanding, Mr. Kon, that you are going to testify in English?

Mr. KON. Yes.

Senator ROTH. But if you have any difficulty, there is an interpreter here who will translate.

Mr. KON. Yes.

Senator ROTH. Please proceed, Mr. Kon.

Mr. KON. 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 as 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 U.S. 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 U.S. Government until 1975, when I left Saigon on the last plane, 3 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 business people in Hong Kong, I did not have to pay gang members or the police for protection, because I was very well connected. I had

¹ The prepared statement of Mr. Kon appears on page 131.

friends in the police department, and I knew many triad members from the night clubs 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 to 40 million Hong Kong dollars (\$4-\$5 million U.S.). As a result, I looked for new business opportunities and I 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 traveling 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 of 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 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 to 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 caliber 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" adviser. 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 to 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. [The document containing a translation of the oath referred to was marked Exhibit 68, and can be found on page 186.]

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 No. 4 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 Routollo to bring the heroin to New York, where a friend who was also a Wo On Lok and a 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 five units, 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. 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 vast 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.

Senator ROTH. Is the reason you ordered his killing because it became clear that these vases were being sold outside of your organization?

Mr. KON. Yes.

Senator ROTH. Please proceed.

Mr. KON. 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 the 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 misfortune 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 did not

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 1½ pounds) could be hidden in a compartment in each ice bucket. Over five shipments were successfully brought into the U.S. 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 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. I called a settlement meeting in Tokyo in July of 1985, followed 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 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.

Senator ROTH. Mr. Kon, you make the very interesting statement that, despite the fact you lost half of your heroin shipments, it was so profitable that it only encouraged you to continue to smuggle more drugs. You say your total profit was \$10 million and was invested in the United States. Do you still maintain those investments here in the United States?

Mr. KON. No, because the people I appointed to hold the investments after my arrest, they sold all my properties and went back to Taiwan.

Senator ROTH. Who got the money?

Mr. KON. The real estate agency, Jimmy Chan, and my lawyer, Mr. Hsu.

Senator ROTH. The lawyer is a U.S. lawyer?

Mr. KON. Is a U.S. lawyer.

Senator ROTH. Is he in Taiwan now?

Mr. KON. Yes.

Senator ROTH. What happened to the Flying Eagles after your imprisonment? Do they continue to function?

Mr. KONG. I think somebody still continues the operation, but I think that they are all in a small group, because they are not centralized.

Senator ROTH. Do you have any contact with any members of the Flying Eagles?

Mr. KON. No.

Senator ROTH. Why did you decide to plead guilty and cooperate with authorities?

Mr. KON. Because I have a co-defendant, John Routollo. We were almost arrested the same time, so we were in together in the MCC New York. He told me to try to make a kill to my judge and also my prosecutor in my case and some agents, so I decided it would have to stop somehow, so I told my lawyer to tell Ms. Palmer, my prosecutor, what is the plan.

Senator ROTH. But he recommended to you that Kathy Palmer and the Federal District Judge be killed?

Mr. KON. That is right, and the agent, too, the DEA agent.

Senator ROTH. Had that ever occurred before? Had any Americans been killed by your organization?

Mr. KON. Yes.

Senator ROTH. Who were they?

Mr. KON. Charcoal.

Senator ROTH. Anyone else?

Mr. KONG. No.

Senator ROTH. You mentioned that your organization had an oath—

Mr. KON. Yes.

Senator ROTH [continuing]. That was even more difficult, tougher than the typical triad oath. Now, it is my understanding that many of the triads, when you were inducted into the organization, you undertook an oath and that if you violated the oath, you were subject to being killed. How did the oath of your organization vary? [A document containing a translation of the oath referred to was marked Exhibit 68, and can be found on page 186.]

Mr. KON. The oath in my organization is very strict, so we have to have 100 percent loyalty, and whatever orders through my command, they have to listen and to obey the orders. If they violate the orders, they have to get killed. Also, I think that they would be concentrating all the big sales of cocaine in a more unified and more centralized command, so it was also very effective.

Senator ROTH. Now, under your oath, it was a written oath, as I understand it.

Mr. KON. Yes.

Senator ROTH. A person was identified and a picture of the individual was part of the written oath?

Mr. KON. Yes, that is right.

Senator ROTH. Was that typical of other triads?

Mr. KON. Yes.

Senator ROTH. Now, Mr. Kon, following the seizure of your heroin on the fishing trawler in 1984, you fled to Taiwan. Why did you go to Taiwan?

Mr. KON. I went to Taiwan, because they have no extradition agreement between Taiwan and Hong Kong, and I think that is very safe for me to stay.

Senator ROTH. Now, were you involved in the heroin business while you were in Taiwan?

Mr. KON. No, but I continued my jewelry business.

Senator ROTH. Jewelry fencing?

Mr. KON. Yes, fencing business.

Senator ROTH. In Taiwan?

Mr. KON. In Taiwan, yes.

Senator ROTH. Now, you began sending your subordinates around the world in 1984. Why did you send them out of Hong Kong?

Mr. KON. Because the boat was carrying a big amount of guns and heroin together, so it is a very, very big case in Hong Kong, because I think at that time it was the first big shipment of guns arriving in Hong Kong, so I think the police were after us, so then I decided to send the leaders out of Hong Kong, so I could protect them.

Senator ROTH. Some of your followers went to South America. Why were South American countries chosen?

Mr. KON. Because a lot of Big Circle people come to Hong Kong as illegal residents, so I send them to South America, because I have got some connections which I can pay money to make them a legal stay, so that is why I decided to send a lot of people there.

Senator ROTH. You testified that you also tried a cocaine shipment. How did you get into this business?

Mr. KON. Because I have a friend in Bolivia, Juan Carlos. He told me he can supply a big amount of cocaine, so I was never in the cocaine business, so I listened to him and I think maybe he can give me a good supply and we can try to establish the cocaine.

Senator ROTH. Why was the cocaine seized?

Mr. KON. Because one of his employees had stolen one kilo of cocaine and sold it in the market and the worker was arrested, so the local police force asked him where the cocaine came from, so he told the Paraguay police he worked in a factory, so then they followed a channel to find the cargo container to Panama, so the cocaine was seized.

Senator ROTH. And what happened following the seizure of the cocaine?

Mr. KON. I think a few people were arrested, two of my employees in Paraguay in charge of the factory. One is the factory manager and one is my chief accountant, so they were arrested by the local police.

Senator ROTH. Mr. Kon, you mentioned the Chinese concept of Guan Shi. What is this? How is it important to Chinese criminal groups?

Mr. KON. Guan Shi is based on the friendship between long-time friendship and just our Chinese customs. Once you got a Guan Shi, you have faces, and I am very powerful, so I have a lot of Guan Shi's. That means I have different connections and a friendship to a lot of people, so I use these connections to make a very strong business over there.

Senator ROTH. I will ask one more question, and then I will yield. I will proceed, then. You referred earlier to the murder of Charcoal Wu. As I understand it, Mr. Wu was actually killed by John Routollo, not by you and not on your orders. Is that correct?

Mr. KON. Yes.

Senator ROTH. How do you know that?

Mr. KON. Because I went with John Routollo that day, so after the murder happened, he told me.

Senator ROTH. Mr. Kon, I understand you had a number of sources for your heroin in Thailand.

Mr. KON. Yes.

Senator ROTH. Who was your first source of heroin?

Mr. KON. The first source of heroin I got from Mr. Wong. He stayed in Chiang Mai, Thailand, so then he got the heroin from the area controlled by Gen. Lee.

Senator ROTH. And who was Gen. Lee?

Mr. KON. I think he is a former general from Chiang Mai Army.

Senator ROTH. And who did you go to, when you wanted to make larger shipments?

Mr. KON. Later we got a supply from Lau. Old Man Lau is my second supplier.

Senator ROTH. What happened to Old Man Lau?

Mr. KON. He could supply me a larger supply of heroin and he gave me the method of the vases, so I used him to supply the heroin and using his method until we found out he sold a few of the heroin vases to some people outside of our group, so I can't trust him, so we stopped him.

Senator ROTH. So that is when you ordered him killed, is that right?

Mr. KON. That is right.

Senator ROTH. Now, who did you use after Old Man Lau?

Mr. KON. Who was after him?

Senator ROTH. Yes.

Mr. KON. After him, I used Mr. Suchin and his son-in-law, Pipot. They got a supply from the area that was controlled by Khun Sa, from the Golden Triangle area.

Senator ROTH. Where are Suchin and Pipot now?

Mr. KON. Suchin and Pipot were the two biggest heroin smugglers in the world and DEA know them very well for many, many years, so they needed evidence to get after them. After I decided to cooperate, DEA already knows the physical evidence, so DEA lured him to Singapore from Bangkok and then extradited them to the United States, and they were the first people ever extradited from Singapore to the United States.

Senator ROTH. Mr. Kon, the Wa National Army is a group in the Golden Triangle which competes with Khun Sa. You were approached by the Wa National Army to enter into a heroin deal, is that correct?

Mr. KON. Yes. Wa wanted me to set up a joint venture with a refinery to compete with Khun Sa. He controlled the refinery in the Golden Triangle. They asked me and my supply people to join them in a joint venture, so then Pipot will work in the refinery and I work with them to handle the distribution, so they planned to use this money from heroin sales to buy guns which could be used against Khun Sa.

Senator ROTH. Are there any people from your group who are still at large?

Mr. KON. Yes, they are not arrested.

Senator ROTH. Who are they?

Mr. KON. I think they have some people like Ah Hoi, Ah Dung, and Li Yin. They are still outside, and also some people in Bangkok.

Senator ROTH. Thank you, Mr. Chairman.

Chairman NUNN [presiding]. Mr. Kon, I was not here for your oral presentation, but I have read your statement. You indicate in your statement that approximately one-half of the heroin you tried to bring into the United States was seized, is that correct?

Mr. KON. Yes.

Chairman NUNN. Is that not a very high percentage, or is that the normal risk for heroin traffickers?

Mr. KON. This is not a normal situation. Normally, maybe the percentage is less percentage than my problems, but the profit margin was very high. Even if you lost half of the heroin, you still can make good money.

Chairman NUNN. Did you know other heroin dealers? Did you have conversations with them?

Mr. KON. Because for me, I did not deal directly, I was too high, so my guys followed the instructions to deal directly with the people they buy from, and they buy from us.

Chairman NUNN. What percentage would be normal to lose in your attempts to import heroin into the United States?

Mr. KON. I suppose maybe like 10 percent.

Chairman NUNN. Ten percent?

Mr. KON. The lowest, should be a fair figure.

Chairman NUNN. Do you feel like you were just unlucky?

Mr. KON. That is right, unlucky.

Chairman NUNN. What kind of method is the safest? What is believed to be by heroin dealers the safest way to get heroin into the United States?

Mr. KON. I think every method is to take a risk. I don't think they have a safe way to make 100 percent safety to ship from the Golden Triangle to the United States.

Chairman NUNN. What about containers? You said in your statement that you started using containers.

Mr. KON. Yes.

Chairman NUNN. Cargo containers on boats?

Mr. KON. Yes, that is right, we shipped the cargo containers on a boat.

Chairman NUNN. Was that also seized, some of those shipments?

Mr. KON. Yes, they found about one shipment in Bangkok, which we put in the T-shirts together, so we lost that shipment, but the rest of the other shipments we got through.

Chairman NUNN. How many shipments were you engaged in?

Mr. KON. I think two other shipments got through.

Chairman NUNN. Are container shipments deemed to be less risky than others, in terms of seizure?

Mr. KON. I think so.

Chairman NUNN. What are the disadvantages to you, as a dealer, on shipping through containers. What is the down side? What is the risk?

Mr. KON. Maybe about 10 percent.

Chairman NUNN. So that is probably the safest method? Is there another method that is safe?

Mr. KON. Yes, I think that is the safe method.

Chairman NUNN. Did you have any difficulty getting your cash out of the United States?

Mr. KON. No trouble to get money out of the United States.

Chairman NUNN. How did you go about doing that?

Mr. KON. Before we shipped out the cash, it is put in boxes and suitcases to carry outside to Hong Kong.

Chairman NUNN. Mainly through suitcases?

Mr. KON. Yes, through suitcases.

Chairman NUNN. Through air travel or—

Mr. KON. Air travel.

Chairman NUNN. You were not worried about searches of the suitcases revealing the cash?

Mr. KON. Not in the early days, they had no search. Now they start to search the suitcases.

Chairman NUNN. If you were in the heroin business now, how would you get your heroin into the United States?

Mr. KON. I would maybe use containers.

Chairman NUNN. How would you get your cash out?

Mr. KON. The cash would get out using the same way, so we can ship out by container, also.

Chairman NUNN. Ship your cash out by container?

Mr. KON. Yes.

Chairman NUNN. If you were in law enforcement or advising them, how would you go about trying to stop that?

Mr. KON. I think that the law enforcement could get tips from the people.

Chairman NUNN. Inside information?

Mr. KON. Yes, inside information. That is the best way.

Chairman NUNN. Otherwise, it is very difficult to search containers?

Mr. KON. There are too many, you cannot handle that. You cannot watch for everybody, so I think that is very important.

Chairman NUNN. Mr. Cohen, of the CIA, today testified that poppies are being grown in significant numbers in China and that heroin traffic routes are changing to include China. Do you know anything about this?

Mr. KON. Yes.

Chairman NUNN. What are your observations?

Mr. KON. I do not know exactly that they have grew up the poppy opium in China, but I know they have a lot of shipments that pass through from the border from China and back to Hong Kong, that recently they are using a lot of these methods to Hong Kong. Also, I got information that the China government was very strict for this kind of situation. They have executed hundreds of traffickers in China to try to stop the trafficking.

Chairman NUNN. Which country, based on your own experience, is most difficult in getting shipments to or through?

Mr. KON. I think—you mean most difficult—I think the United States is most difficult.

Chairman NUNN. The United States?

Mr. KON. That is right, because the law enforcement is very, very good.

Chairman NUNN. How important were bribes to law enforcement or to governmental officials in your operation? Was this a big part of your operation, to bribe people to turn the other way?

Mr. KON. Yes, we paid a lot of money to some special people, we have to use them, to try to get them to help, but that is very important, also. It is very important to pay some money for that.

Chairman NUNN. Is that a big part of the transactions?

Mr. KON. Not a big part of the transaction, but it is just a part of expenses we have to pay.

Chairman NUNN. Thank you.

Senator ROTH. Could I ask one question there? When you talk about payoffs, who were they? What type of people were they?

Mr. KON. I think that in Hong Kong, maybe drug enforcement and people in the police department, you know, they expect this. Right now, they have the ICAC, that this situation was going down a lot, but I think they still have some, you know, bad police that take money.

Chairman NUNN. What about in the United States?

Mr. KON. Yes, my co-defendant from the New York Police Department, he took money from me and he is very tough. You know, before I cooperated, he proposed to me a big plan to make a judge get killed and my prosecutor get killed, because he has quite a connection in the United States.

Chairman NUNN. And you decided then to start cooperating?

Mr. KON. That is right. I think that would be more trouble for me, and also I know that is so serious, because I do not think I want to go against the government officials, because we may kill the people on the street, but not for the government.

Chairman NUNN. So that is where you drew the line and that is when you decided to start cooperating?

Mr. KON. That is right.

Senator ROTH. One additional question: What about Customs inspectors or Customs officials of the U.S.?

Mr. KON. I think we got a lot of shipments from airports, through Customs search, but I think too many people were traveling. Even they try their best, but I do not think they can stop this. Maybe they have a new machine, you know, to x-ray the drugs, then maybe they can stop most of them.

Senator ROTH. Did you ever try to bribe any of them?

Mr. KON. No.

Senator ROTH. Do they have a reputation of being—

Mr. KON. Yes.

Senator ROTH [continuing]. Difficult?

Mr. KON. Because I think I got no connections in this part.

Chairman NUNN. Thank you, Mr. Kon.

Mr. KON. Thank you.

Senator ROTH [presiding]. Our next witness, who is known as "Bully" for reasons of personal safety, will be testifying under his assumed name and from behind a screen, in order to protect his identity. No cameras will be allowed to photograph the witness.

It is my understanding that members of the media have already been advised as to those locations in the room where cameras will and will not be allowed during the testimony, in order to maintain security.

Prior to clearing the room for entrance of the witness, I direct that all cameras be turned either to the rear of the room or the window side of the room. Your cameras will have to be to the rear of the room. That one still needs to be turned.

Have all the cameras been redirected? I now direct that the room be cleared of all individuals other than Senators and direct staff involved in the investigation, so that the witness can be brought in for testimony. We will be back in approximately 5 minutes for the appearance of this witness.

[Recess.]

Senator ROTH. The Subcommittee will be in order.

Under our rules, it is necessary to swear every witness. We will not ask the witness to stand, if he would stay seated and raise his right hand: Do you swear that the testimony that you will give before the Subcommittee will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. BULLY. Yes.

Senator ROTH. As I mentioned earlier, we are very pleased to welcome a confidential informant who we will call Mr. "Bully." He has first-hand information about the workings of the Japanese organized crime groups. And while he is not a Yakuza member, he has had frequent association and dealings with the various Yakuza gangs.

Mr. Bully, if you would please proceed with your prepared testimony.

TESTIMONY OF "BULLY,"¹ JAPANESE YAKUZA ASSOCIATE

[Interpreted from Japanese.]

Mr. BULLY. I am pleased to have the opportunity to speak before the Subcommittee today on the subject of Japanese organized crime. I am also 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 this game of hanafuda.

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, as I had mentioned, 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 Chi-No-Shudan, which means "those who gather together the intelligent ones."

Today's Yakuza are not all underprivileged. Many are capable, well-educated businessmen. Members are now recruited from good universities, as well. Many of the old Yakuza traditions are now disappearing. And these traditions that I speak of 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, and, therefore, this is an expression of apology.

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. In fact, at the present time, the Boryokudan have become increasingly sophisticated, and currently play an active role in many Japanese business enterprises.

¹ The prepared statement of "Bully" appears on page 135.

Japanese organized crime figures operate many legitimate 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 at the same time 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 gang 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 then 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 then 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 largest 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 1.2 billion yen or 8 million U.S. dollars 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 20 billion yen 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 personal 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 interest in a piece of property, there will often be parties who hold out for long periods of time. Especially 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, called 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 they will fail to reach agreement at this stage. The developer will then call on a rival of the Boryokudan boss with whom he has had past associations, 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 advance, if things do not go their way.

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. That is to say, 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. So in this way, 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 all kinds, and, in my case, on occasions 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. However, I believe that the income is so many times that amount. Of course, 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. One of those is real estate development. The Boryokudan pay no taxes on any of their legitimate or illegitimate income.

Over the past few decades, Boryokudan profits have been invested all over 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. A good deal of this art was bought in the United States.

I myself have knowledge of at least five major properties in Hawaii which were bought with money generated illegally by the Boryokudan, and I know that personally. From my own experience, my educated estimate is that there are probably closer to 50 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. At the same time, 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 U.S. 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.

The Boryokudan-controlled companies have set up a number of front companies in the United States. These Japanese holding companies capitalize the U.S. companies, which then provide the vehicle for further 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 just 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 Philippines, 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 Philippines, 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 on 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.

Thank you.

Senator ROTH. Thank you, Mr. Bully.

I have a number of questions. We will ask, if any of them raise a question of identity, please advise us and we will consider that problem.

You mentioned that the Yakuza is not, at least the more powerful organizations are not fearful of the new laws, that they think that the new laws will primarily hurt their weaker competitors. Why is that? Is it that the law is inadequate? Is it because the police and law enforcement authorities are afraid to take on the more powerful organizations? Why do you come to that conclusion?

Mr. BULLY. With regard to this new law that has taken effect, I would like to briefly explain. Up until—well, if we take the Yamaguchi-gumi as an example, there were 35,000 members, but once

this law took effect, the bona fide members, about 10,000 of them became lower echelon.

For example, there are potted plants and art work and o-shibori and these were delivered by the Boryokudan, and this became their income. With regard to the money that comes in to the Boryokudan, the amount has in fact decreased, and so there has been a disintegration, a breaking up of the sub-groups, in fact, and the Boryokudan is, in fact, dissolving in scale. And there is the Yamaguchi-gumi and Sumiyoshi-kai and Inagawa-kai and seven other groups, and there are 10 groups altogether, and these are designated as the first groups and the second groups.

According to this, if I give you one concrete example, there is a construction company that is building a condominium and they are causing a lot of noise while they are building this, and a lot of the neighbors feel very inconvenienced. Up until recently, the Boryokudan would be the people who would come in and would ask for compensation. With regard to construction companies, if it is a small amount of money, we do not want to cause any problems, so we will pay you this amount, they would say to the Boryokudan.

However, according to this law, if a Boryokudan member or group asks for this compensation, then they can be arrested immediately.

Senator ROTH. And would the contractor or builder be arrested, as well, the so-called legitimate developer?

Mr. BULLY. Normally, the police have gone to the bosses of each region. The construction company officials have gone to their bosses and have gotten permission in advance, so to speak. These days, since these underground transactions have existed very widespread, they have been very widespread in the construction business, between the Yakuza construction business, the police or the Ministry of Construction officials would consider that to be a crime, if it were discovered.

Senator ROTH. I am not quite clear. Would it be a crime not only in respect to the Yakuza who were paid the fee, but would it be considered a crime by the member of the construction industry?

Mr. BULLY. Well, yes, those who send the official person to such a deal and those who receive such a deal would be those who are taking money and receiving money, would be considered to be committing a crime.

Senator ROTH. Those who are paying money, that would be a crime?

Mr. BULLY. Of course.

Senator ROTH. You mentioned in your testimony that you considered the figure \$10 billion annual income by organized crime as being low, that it was in your judgment many times higher. Have you any estimate as to how high it actually is and what has happened in this recent bubble burst?

Mr. BULLY. As I have said earlier, if you take the Yamaguchi-gumi as an example, this is something that was in a weekly magazine in Japan. If you look at Yamaguchi-gumi as a whole, you can see it is from \$80 billion to \$100 billion a year. Of course, in this is included legitimate income, as well, not just illegitimate income.

Up until recently, there were the members going into the sub-groups. However, the income was pretty big. After this new law

has been put into effect, there have been difficulties that have arisen as a result, and it is very difficult for some of these group leaders to continue operating their activities, because of financial difficulties and, therefore, I have a feeling that the overall amount of income will, in effect, be decreasing as a result of these difficulties.

Senator ROTH. Can you estimate what percentage of their income is from so-called illegal activities and what percentage from so-called legitimate operations?

Mr. BULLY. Yes. If you look at—there is \$100 billion, let us say, and 70 percent of that would be from illegitimate activities. As for 30 percent you cannot always say that it is completely legitimate. However, what can be said is that this 30 percent will not be caught in that legal web, shall we say. Therefore, if you look at the overall income, it is the kind of income that does not need to be reported to the domestic IRS. In fact, most of the income is illegitimate.

Senator ROTH. My staff prepared this chart on Yamaguchi-gumi. Would you say that chart is accurate? [The document referred to was marked Exhibit 59, and can be found on page 171.]

Mr. BULLY. Yes, it is accurate.

Senator ROTH. In your testimony—wait a minute, before I ask that question. You mentioned that organized crime is involved in drugs, including the sale of methamphetamines in Hawaii. What percentage of their income from drugs is involved in internal Japan? Is there wide usage in Japan itself?

Mr. BULLY. This, of course, would just be based on my suspicion. There are various types of drugs that are out there. There is heroin, there is cocaine, there is methamphetamines which we were talking about. However, recently, what is very controversial in Japan right now is students or housewives are starting to use these drugs. Out of the illegitimate income that they receive, I have a feeling between 40 to 50 percent of it is from the sale of drugs.

Senator ROTH. Now, you talk about how the money flows up through a Yakuza group. Do lower echelon members all pay tribute to their bosses?

Mr. BULLY. Yes. Of course, it differs according to the organization. However, if you take Yamaguchi-gumi, for example, there are 121 groups within the Yamaguchi-gumi, and there are 19 groups that are in the board of the Yamaguchi-gumi, and per month they would pay about 1.2 million yen, and this will become the money that will be used for operations of the headquarters.

Senator ROTH. When you use the figure 80 to 100 billion, you are talking about yen, is that correct? What would that be in dollars, roughly?

Mr. BULLY. \$650 million.

Senator ROTH. What methods are used by Japanese crime groups to evade taxes through U.S. investments?

Mr. BULLY. In the case that it is invested in the United States, how do they evade taxes? Well, there are many ways of going about this, I am sure. One way perhaps might be to find the groups that have nothing to do with the Boryokudan. These are legitimate

front companies and these will be established in the United States, and the head of the Boryokudan will be investing in this company.

On the face of it, you cannot guess that this would be a Boryokudan backed company, so Hawaii, California, Nevada or New York would be some of the States where real estate would be bought in the big cities. After a few years, after it has appreciated, they would then sell that and then send the profit back to Japan. Therefore, this would not require any payment of taxes.

Senator ROTH. What methods are used by the Yakuza to launder money?

Mr. BULLY. For example, if you take California as an example, there is one condominium and there are 100 condominiums and they buy all of that and 50 percent of that is backed by Yakuza investment. After a few years, the real estate then appreciates and it becomes twice as much in value, and as for the 50 percent that was invested by the Boryokudan, they would take double the amount of what they invested. So if it is a \$100 million condominium, if they sell it for \$200 million, they have a \$100 million profit, so a certain percentage of that goes to the Boryokudan, and the U.S. corporations are those that are acting in the front, so there is no need to pay tax or to issue a receipt.

Senator ROTH. Now, you say that the Yakuza pays 50 percent. Who invests the other 50 percent, and is that done jointly or is it a deal worked out between the Yakuza and legitimate business?

Mr. BULLY. There are cases where they, in fact, provide 100 percent of the investment, and then there are other cases where a proper legitimate real estate company may say, well, we do not have enough money, so could you also invest with us, and there is that other situation, therefore, to borrow money from the Boryokudan and to invest in real estate. These kinds of companies within Japan are not the first rate companies. That is to say it proves that they do have a relationship with the Boryokudan.

Senator ROTH. In your statement, you cited personal knowledge of at least five properties in Hawaii that had been bought with Yakuza money. Can you specifically identify those properties?

Mr. BULLY. With regard to this, there is the Hachidai Sangyo Company in Japan, and this is a development company in the real estate area, and they, in fact, got financing from Itoman and they purchased undeveloped real estate on the east side of Oahu, or they might buy a smaller island, and they may, in fact, buy churches.

Senator ROTH. Is this a chart of how that operation was put into effect? [The document referred to was marked Exhibit 69, and can be found on page 189.]

Mr. BULLY. Yes, it is.

Senator ROTH. And what role did the Boryokudan play in this operation?

Mr. BULLY. For example, if you look at this chart, you can see that the Hachidai Sangyo Corporation here does not have any direct relationship with Itoman & Company. Therefore, to receive the loan from Itoman, they at Hachidai Sangyo talked to an influential person at Itoman, to have him help for the loan. And as is written on the chart, they would then give the gift to the Boryokudan associate and, therefore, they would receive a finder's fee of 5 to 10 percent of the loan.

Senator ROTH. Would you please discuss the alleged Yakuza link to the financing used by Isutani to purchase the Pebble Beach Country Club? [Chart related to this matter was marked Exhibit 70, and can be found on page 190.]

Mr. BULLY. Yes. With regard to the Pebble Beach sale, it was quite an issue among the Japanese public. It was the subject of magazine articles in Japan. In Japan, there is a man called Shigeru Sato. He has associations with members of almost all of the main Yakuza groups, and sometimes he serves as an intermediary among these individuals. Sato also uses Yakuza members as bodyguards.

The Sumitomo Bank wanted to buy a bank called the Sumitomo Bank, which is 35 percent owned by Mr. Sato. He agreed to sell and, therefore, very high-ranking people at Sumitomo felt an obligation to Mr. Sato. It is a matter of face for them.

Mr. Sato, in turn, owed favors to certain Yakuza associates. Mr. Sato approached Sumitomo officials to obtain employment for some Yakuza associates. These people were placed with Itoman, which is a subsidiary of Sumitomo. For example, the person in charge of real estate development at Itoman became one of these Yakuza associates. The Boryokudan, therefore, have substantial influence on Itoman, in part, because they were aware of the deeds of Itoman. Itoman loaned to Isutani money, which enabled him to purchase the Pebble Beach Golf Course.

So Itoman financed Mr. Isutani's deal, and Mr. Isutani was able to buy the golf course. Itoman is actually a trading company and does not normally make loans to outside parties. However, Itoman would have the right to sell memberships to Pebble Beach Golf Course in lieu of payment, the principal and interest payments by Isutani.

Itoman and Isutani have been involved in similar golf course transactions in Japan previously. In those cases, for example, many more memberships were sold than advertised. For example, they sold memberships at 2 to 3 million each. Where they were supposed to sell 1,800 members, they actually sold 20,000. Of course, with that many members, most members would hardly ever be able to play on the golf course.

I believe a similar scheme was planned for Pebble Beach, but the California Legislature and the former Pebble Beach company membership were opposed to such a planned sale of memberships. They wanted to sell memberships for 100,000 each, which in Japan would be considered a bargain, for a total of one billion worth of memberships. That was definitely their plan, but this plan was not successful at all from the very beginning.

Senator ROTH. Now, when you say 100,000, is it \$100,000 or 100,000 yen?

Mr. BULLY. \$100,000.

Senator ROTH. So a membership would cost \$100,000 to join. Let me make sure I understand what happened here. Itoman loaned the money to Isutani, even though normally it would not do so, is that correct?

Mr. BULLY. Exactly, yes.

Senator ROTH. And rather than Isutani paying back the loan, Itoman had the right to sell memberships in the club and that was the payoff?

Mr. BULLY. They had the right to exclusively sell these memberships and also, in order to get the return, the right side shows in Japan, we call them tigata, Japanese tigata, was also the bond, was also issued.

Senator ROTH. They guaranteed the loan, is that correct?

Mr. BULLY. That is right.

Senator ROTH. What ultimately happened to this deal? What is the status now of Pebble Beach?

Mr. BULLY. Mr. Isutani manages a company called Cosmo World, USA. It was not able to repay Itoman. Itoman also, as I said before, was not able to make sales of memberships. They were not able to get a return on their investment. As a result, Itoman was loaned money from Sumitomo Bank to give money to Isutani, so they were forced by Sumitomo Bank to give up the venture-

But Sumitomo and Itoman have a parent company relationship. Itoman's burden, therefore, became Sumitomo's burden, the financial burden, so Itoman does not carry that debt, since it is a subsidiary and so now the ownership of Pebble Beach has been transferred to a company called Sumitomo Credit. Probably, in a few years, with the Japanese bubble economy having recovered, Sumitomo Credit will try to sell golf club memberships to Japanese. That is my prediction.

Senator ROTH. Do you have knowledge of Boryokudan involvement in other countries?

Mr. BULLY. Well, it is hard to say directly which country does it have a lot of involvement, but looking at news sources and the countries that are nearest to Japan, such as Korea, Taiwan, the Philippines, Thailand, Indonesia, these places are where the Japanese Yakuza have quite extensive involvement. I know this myself.

The Japanese lounge dancers, waitresses, hostesses in Japan are often brought in from these countries at a very cheap rate and they can make good money as waitresses, bouncers and so forth, and I know this also as a fact.

Southeast Asia, for example, you find Yakuza in countries like Burma in some sort of way in some kind of activity, that is definitely true.

Senator ROTH. Is there any connection between the Chinese criminal groups and the Yakuza, as far as drugs are concerned?

Mr. BULLY. The Chinese criminal groups means, I think, the mainland, as well as Thailand, Singapore gangs. I mean there are many different sorts of Chinese gangs. One example, the drug trafficking trade in Japan is very much dependent on mainland Chinese gangs for getting into Japan. That is where the drugs come from, is mainland China. There is Wuhan City, Peking, Shanghai, and also Taiwan. This is where drugs are brought in from, so these organizations operating in these cities cooperate with the Yakuza to form the triangle with the Southeast Asian gangs to bring in drugs, with the help of the gangs in the Golden Triangle area, so they aim at young people, young housewives and so forth.

Senator ROTH. What portion of Yakuza income is generated by the drug business?

Mr. BULLY. I think I had mentioned before, about 45 to 50 percent is my opinion.

Senator ROTH. What percentage of that would be involved in Hawaii and the United States?

Mr. BULLY. I can only guess. On the other hand, rather than thinking of what goes from the U.S. to Japan, but what goes from Japan, using Japan as a conduit into Hawaii and the U.S., that is probably a better way to think of it. The Japanese domestic drug trade level is one of the highest in the world. It sounds strange, but Japan is the easiest market for them, so they use Japan as much as they can to sell as much as they can.

Senator ROTH. Do you know other businessmen who had dealings in the United States and are closely associated with the Yakuza? Can you tell us anything about them? For example, Ken Mizuno, Kizo Matsumoto, or Morihiro Okita?

Mr. BULLY. Right now, the names that you mentioned are within Japan and are branded as Yakuza members. For example, in Las Vegas, in the past, Yasuda Ginji, Mr. Asahi or Ken Mizuno. Kizo Matsumoto has been involved as the head of a company called Asahi Juken. Mr. Morishita in Japan is the manager of a big financial company in Japan. Also, he owns the Ojami Gallery, which is an art gallery in Tokyo. This person is also involved in some aspect of golf course development and he has been a sponsor of such developments.

Senator ROTH. Does Japanese organized crime have any investment or dealings with gambling in Atlantic City?

Mr. BULLY. Atlantic City, as far as I know—well, I really cannot answer that. I do not know. But with Las Vegas, there are some Japanese operators there. There are two Japanese operating businesses in Las Vegas.

Senator ROTH. Can you identify who they are?

Mr. BULLY. Yes.

Senator ROTH. Who are they?

Mr. BULLY. In Las Vegas, the Ramada Casino, Izumi, Mr. Izumi, he owns a hotel in Osaka, also in Guam, in my view he is quite a businessman. But the other individual, Nangaku, he is actually of Korean descent. He also has some sort of connection, gang connection, but I cannot say what sort of connection that is.

Senator ROTH. When you say they are involved in Las Vegas, do they own or have an interest? What is the nature of their involvement?

Mr. BULLY. Mr. Nangaku and Mr. Izumi both have a casino license and are owners of the hotel casino.

Senator ROTH. Finally, why are you testifying here today? What do you hope to accomplish?

Mr. BULLY. With regard to my attendance here in this hearing today, there is nothing that will be to my advantage or disadvantage in showing up today. However, I do have an interest in the United States and, as a person who does conduct business, although small scale it may be, in the United States, that there are Japanese people coming in, many Japanese people coming in trying to, in fact, harm the national interest of the United States is something that really infuriates me, and so I came here today and that is the only reason why I am here today, really.

Senator ROTH. This is the end of my questioning. I want to express my appreciation for your being here today. I think the testimony you have given us is of great interest, and we look forward to working with you in the future.

Mr. BULLY. Thank you very much.

Senator ROTH. Thank you.

We have an exhibit list that we would like incorporated as part of the record, if there is no objection.

Senator ROTH. We will keep the record open for 30 days for any further contributions.

Now, we would ask the witness to stay seated where he is, and we would like to clear the room of all spectators and members of the press.

[Whereupon, at 1:24 p.m., the Subcommittee adjourned.]

APPENDIX

THURSDAY, JUNE 18, 1992

PREPARED STATEMENT OF MR. ORCHARD

Mr. Chairman and Senator Roth, in the course of our year long investigation into Asian organized crime, we have identified a number of major Asian criminal groups which operate globally. While not all Asian criminal groups have established structured organizations in the United States, all of the major Asian crime groups have U.S. connections. The focus of today's hearing is international Asian crime groups of ethnic Chinese origin. At a future date, we will address international Asian criminal groups of other ethnic backgrounds. In terms of Chinese groups, staff has identified seven major crime groups which have criminal activities reaching the United States. These groups have origin in Hong Kong, China and Taiwan.

Of the Hong Kong-based groups, or "triads," we have identified four major groups. Most of these groups are umbrella groups for various triads which are united only by name. The largest triad is the Sun Yee On Triad. Conservative estimates of Sun Yee On membership count over 25,000 members, but many estimates are significantly higher.

Staff has prepared a chart of the Sun Yee On Triad and its' international leadership. All of the names on this chart, as in previous charts we have introduced, have been independently corroborated by at least two law enforcement sources, and most have been corroborated by other law enforcement and informant sources as well.

The Sun Yee On was founded in the early 1950's in Hong Kong by the late Heung Chin. The group continues to be controlled by his family, through his many sons. His eldest son, Heung Wah Yim, is the current leader, or Dragon Head, of the Sun Yee On. Heung Wah Yim was convicted in 1987 in Hong Kong of various crimes related to management of a triad society. Participation in triad activities, or even triad membership, is a criminal violation in Hong Kong. Ten other leaders of the Sun Yee On were also convicted, but all convictions were reversed on appeal. As a result, these individuals continue to promote the Sun Yee On's criminal ventures.

Several of the names on the chart of the Sun Yee On warrant additional discussion. Thomas Heung, also known as Heung Wah Wing, a Sun Yee On office bearer and one of the brothers of Dragon Head Heung Wah Yim. Thomas Heung exercises influence in the United States through associates in the Tung On Tong in New York's Chinatown. Clifford Won was identified as the leader of this group at the Subcommittee's hearing on November 5th of last year.

Vincent Jew, the former leader of the Wah Ching Gang in San Francisco, has also been identified as an associate of the Sun Yee On Triad. Vincent Jew fled San Francisco to the Far East in response to law enforcement pressure in 1984, and is now active in the Sun Yee On. He was identified at last year's hearings, along with Tony Young, who has been the leader of the Wah Ching in Los Angeles for several years. Both individuals have been linked to the Sun Yee On Triad, and have used their ties to the triad to control Asian entertainment brought to the West Coast from Hong Kong.

Other Sun Yee On leaders have also been tied to the United States. Francis Heung, also known as Heung Wah Boor, was convicted of an Atlantic City Baccarat scheme in 1989. The scheme involved cheating, and generated over \$2.7 million in a 5-month period. Francis Heung received a fine, and is now in Hong Kong running various illegal gambling establishments for the Sun Yee On.

The Sun Yee On has a presence in the United States, Canada, Australia, Thailand, Vietnam and Macao in addition to Hong Kong. The group has been linked to a wide variety of activities, including heroin trafficking and the control of movies and entertainment in Hong Kong.

The second largest group in Hong Kong is the Wo Group. This group includes ten triads, the largest of which is the Wo Shing Wo. No significant Wo Shing Wo presence in the United States has yet been identified. However, in November of 1991, the Subcommittee heard evidence that the Wo Hop To Triad, a member of the Wo Group, has taken control of Asian criminal activity in the San Francisco area. The Wo Hop To has subsequently been tied to activity in Los Angeles, Honolulu, Portland, Las Vegas, Atlantic City, Boston and New York, in addition to Australia and Canada.

At the Subcommittee's hearings last year, a chart was presented which detailed the structure of the Wo Hop To Triad in the United States. Today we present a chart of the international leadership of the Wo Hop To Triad. As noted last fall, the leader of the Wo Hop To Triad in Hong Kong is Chan Tai, also known as "Crazy Tai." Crazy Tai exercises authority through a number of other leaders, including Peter Chong in the United States. As Senator Roth noted in his statement, several of Peter Chong's Wo Hop To underlings have been arrested by the FBI in recent weeks. Peter Chong was subpoenaed before the Subcommittee last year, but invoked the Fifth Amendment in response to questions. The other leaders of the Wo Hop To in Hong Kong are active in promoting heroin trafficking, illegal gambling, loan-sharking, extortion and alien smuggling. No Tai Wah is the leader of the Wo Hop To in Australia, and is active in promoting Wo Hop To gambling operations in that country.

The 14K Triad comprises over thirty subgroups which include an estimated membership of over 20,000. This triad is loose knit in structure, and many of its subgroups do not have firmly established leadership. The Subcommittee will hear testimony today from a 14K office bearer, and Toronto Police officials will testify later today about the 14K's activities in Canada. The 14K engages in a variety of criminal activities, including heroin trafficking, alien smuggling, and counterfeit credit card manufacturing and has connections in the United States for all of these purposes.

The Luen Group comprises over 8,000 members in four subgroups. The subgroup with the most influence in North America is the Kung Lok Triad, which has a major base of operations in Toronto. Many Kung Lok members in Toronto have associates in the U.S. This group is also active in the control of singers from Hong Kong who come to North America to perform, and utilizes connections with individuals in New York, Atlantic City, San Francisco and Los Angeles to control singing tours.

The Big Circle Gang, which is not a traditional triad, is a relatively new group. The group consists primarily of former Red Army Guards who left China for Hong Kong. The Big Circle Gang is particularly violent, specializing in armed robberies of jewelry stores in Hong Kong as well as in heroin trafficking. Most Big Circle Gang members are also members of a triad. As will be explained by witnesses from Toronto later today, the gang also utilizes connections in the United States and Canada.

Two Taiwan-based groups also of particular importance. The largest of these groups is the United Bamboo Gang, which has an estimated membership of over 20,000. This group was formed by Hong Kong criminals who fled to Taiwan during a law enforcement crackdown in the mid-1950's and now operates internationally in the United States, Canada and throughout the Far East. The United Bamboo has been active in the U.S. for over a decade, and is most famous for a 1985 case in which members of the United Bamboo were recruited by the Taiwanese Defense Intelligence Bureau to murder San Francisco journalist Henry Liu. The group is particularly active in Los Angeles, Houston, New York and Vancouver, British Columbia, and has been linked to murder, kidnapping, alien smuggling, illegal gambling, loan sharking, and a variety of other criminal activities in the United States.

The second Taiwan-based group is the Four Seas Gang, which has an estimated membership of over 5,000. This group, while a traditional rival of the United Bamboo, has recently worked with the United Bamboo in the United States in some ventures. The Four Seas Gang has ties in Los Angeles and New York.

We will hear a great deal more about these groups through the testimony of our various witnesses today.

PREPARED STATEMENT OF MR. MA

I appreciate the opportunity to testify here today under an assumed name and behind a screen. I fear that if my identity became known, my family and friends could be placed in grave danger. That is because I am a triad member. Triads are secret criminal societies. When anyone joins a triad, as I did in Hong Kong when I was only 14 years old, you must take numerous oaths of secrecy, promising never to

reveal anything about the triad organization. We also took vows of allegiance to the gods and the triad, and blood was drawn from my finger.

My admission to membership in the triad was simply a natural progression, as I had been hanging out with triad members since I was 10 years old. Initially very little was required of me, because of my age. But within a few years, I often became involved in street fights, both to protect turf against rival triads, such as the Sun Yee On and the Wo Shing Wo and sometimes on behalf of the illegal business of my triad, which was the 14K Triad, one of the larger and more powerful black societies, as they are called in Hong Kong.

At the age of 18, while still a triad member, I took an exam and joined the Royal Hong Kong Police Department. This may seem strange to you, but at the time, a large number of all the police officers were triad members. Some corrupt units of the police were paid to protect gambling dens, opium dens and houses of prostitution. Even if you wanted to be honest, it was almost impossible because bribe money would show up regularly in your desk drawer.

After several years as a police officer, I quit the police department and opened a "call girl center" of my own. While the approval of my 14K group was necessary, it was most important to pay the police in my area for protection. This I accomplished by arranging to make monthly payments to the police. At the peak of this call girl operation, I was collecting about 50,000 Hong Kong dollars per month. This was before paying 25,000 Hong Kong dollars per month to employees, and before paying 4,000 Hong Kong dollars per month to the police.

On the other hand, I was not required to pay any percentage of my profits to the 14K leadership. Triads do not work that way. Triad members do favors for each other, protect each other, provide introductions and assistance to each other, and engage in criminal schemes with one another, but triads generally do not have the kind of strictly disciplined organizational structure that some other criminal groups like the Italian mafia have. For example, a triad member would not necessarily be required to get permission from the dragonhead (which is the name sometimes used to refer to the head of a triad) of his particular triad in order to engage in a particular criminal undertaking—even if this particular deal involved an outsider or even a member of another triad. On the other hand, on the occasion of traditional Chinese holidays such as Chinese New Year, triad members traditionally give gifts to their "big brothers" or "uncles" who are often office bearers in the triads. These gifts are in the form of money, referred to as "lucky money" or giving "red envelopes." I, myself, sometimes gave amounts of up to 5,000 Hong Kong dollars on such occasions.

After a time, I was promoted within the 14K Triad to the status of office bearer. I had recruited many followers, which gave me power of my own. This was partly responsible for my promotion. I was previously just a rank and file member, a "soldier" the triad. Running my own operations and controlling a group of "little brothers" helped assure my promotion.

At this time I also became involved in loan sharking. I lent money at extremely high rates of interest. It was never necessary to use force against any of my debtors, because they knew I was a triad member. I would sometimes send some little brothers to tell a debtor to pay up or he might get unlucky. That was usually enough.

After several years in the call girl and loan sharking business, the Independent Commission Against Corruption (ICAC) was formed in Hong Kong, and suddenly the police would no longer take bribes. As a result of the establishment of the ICAC, corruption in the Hong Kong Police Department was successfully eliminated and many corrupt policemen resigned and fled. The new policemen have been doing a good job. As a result, my call girl center was closed. Many illegal businesses that had been operating in the open were closed or forced underground by the creation of the ICAC.

In the mid 1970's I became involved in heroin trafficking. At that time Southeast Asian No. 3 heroin was the favorite form of heroin used in Hong Kong. This type of heroin is smoked, which is known as "chasing the dragon". Early on, I would buy No. 3 heroin from a 14K associate, who was importing heroin base from Thailand to Hong Kong, and converting it to No. 3 heroin in his lab in Hong Kong. I would then have people who worked for me sell the No. 3 heroin to addicts. I later made connections which allowed me to import the heroin base to Hong Kong myself, and I taught myself how to use chemistry to convert the base to processed heroin. I was now able to make more money by importing the base myself and by running my own heroin laboratory. A friend in Thailand who worked for a cargo service would ship the heroin base to me in Hong Kong. I sold the heroin wholesale to my connection in Hong Kong who would handle the retail sales in Hong Kong. I continued in

this business for seven years, until the ICAC began to investigate one of my partners, which led me to flee to Taiwan.

I decided to go to Taiwan, as many other criminal figures have, because Taiwan does not have an extradition treaty with Great Britain. Taiwan was a safe place where I could avoid Hong Kong authorities. While I was in Taiwan I became familiar with a number of other fugitives, including several heroin traffickers and triad members who were wanted by police in the United States. I spent two years in Taiwan, but stayed out of the heroin business while there.

I travelled from Taiwan to Thailand, and established a base of operations in Bangkok. I again became involved in heroin, and I would travel back and forth to Hong Kong for business. My operation was involved in importing No. 3 heroin to Hong Kong for local consumption. I was responsible for selling the heroin wholesale in Hong Kong. I worked with a member of the Wo Shing Yee Triad, who bought heroin base in the Golden Triangle. As I have stated previously, it is relatively easy for triad members to form criminal associations with members of other triads or with outsiders. The controlling factor is who will make the most money for you.

Based on the contacts I made in Thailand, I soon entered the No. 4 heroin business, and became involved in deals to ship heroin to the United States and Australia. I set up two partnerships, one of which shipped the heroin from Thailand to Hong Kong, and the other shipped from Hong Kong to the U.S. Having different partners spread the risk among several people. One of my partners lived in Chiang Mai in Northern Thailand, and was responsible for buying processed No. 4 heroin from sources in the Golden Triangle. The two of us would then ship the heroin to Hong Kong. A Hong Kong associate of mine shipped the heroin to the United States. This associate worked for a shipping company. He would pack packages of heroin and clothing into a suitcase, and put the suitcase into a container, which was flown to New York's Kennedy Airport. He would fly with the load, and use his cargo company credentials to approach the plane and remove the suitcase from the container. He was then responsible for delivering the heroin to a retail connection.

Over a short period of time, we imported nearly 400 pounds of No. 4 "China White" heroin to the United States. Our largest single shipment was 68 units. Each unit equals 1.4 pounds. Most of our shipments were about 20 units (or 28 pounds), one half of which was mine. The markup between the initial purchase of No. 4 heroin in Thailand, and the sale to a Chinese wholesaler in New York was 1,000 percent. This heroin would initially be bought by my Thailand partners for \$5,000 U.S. per unit. It was then sold to my Hong Kong partnership for \$11,000 per unit. The drugs were then shipped to New York and sold to a Chinese connection for \$50,000 per unit. When the drugs were sold to a non-Chinese person for retail sale, the cost would be \$80,000-\$100,000 per unit.

During the course of these operations, I learned that one of my partners was being watched by the police. He was also charging \$15,000 per unit for transportation, so I began looking for a safer and cheaper way to ship my heroin. That was when I began to use Central American diplomats to carry my heroin.

I developed the diplomatic connection through a friend who was using Central American diplomats stationed in Japan to smuggle diamonds into Japan and Korea. He told me about this venture, which gave me the idea to pay the diplomats to carry heroin. The diplomats were controlled by a Nicaraguan diplomat named William Tapia, who was eventually extradited to the United States and convicted of heroin smuggling. He is still in prison. The diplomats agreed to carry heroin for \$10,000 per unit, which cut my costs. One of them would go to Bangkok to pick up the heroin, which was wrapped in carbon paper to avoid airport x-ray detection. The diplomat would then carry the wrapped heroin in a suitcase to another Southeast Asian country, where he would give it to a different diplomat. The heroin was then flown to the United States or Australia. This method had the great advantage of avoiding Customs entirely, due to the couriers diplomatic status.

The diplomats carried heroin for me on three occasions, twice to the United States, and once to Australia. All three loads were successfully delivered. However, I was soon unable to continue to use this or any other method of smuggling, because I was arrested. I am still serving my prison sentence, and I have had time to reflect on the harm caused by my criminal activity. That, in part, is why I am testifying here today, to help you understand how triads and the heroin business operate.

One area I have direct experience in is money laundering. My partners and I were able to successfully transfer more than \$14 million in proceeds from U.S. heroin sales back to Hong Kong. The \$14 million was brought back through various methods. Over \$2 million in cash was carried back to Hong Kong in suitcases. Additionally, some monies were laundered by buying diamonds in New York's diamond district. Diamonds are ideal for transport back to Hong Kong because of their small

size and high value. When you buy diamonds with cash, you get a discount, and the diamonds can be sold at a higher price in Hong Kong. This allowed us to launder the heroin profits and make an additional profit on our diamond purchases. In contrast, you would have to pay a fee to have someone transport cash for you. Of course, the diamond merchants in New York never asked us to fill out any cash transaction reports, which I understand the law requires them to do. Diamonds are also perfect for such money laundering because they cannot be detected by airport metal detectors.

When it was necessary to send money to Hong Kong directly, two methods were used. The first was to wrap money in carbon paper and have it carried back in a suitcase. The second method was more complicated. I would use my associates in the 14K Triad to open accounts with Hong Kong branches of major US banks. In the U.S., associates would wire the heroin money to the Hong Kong accounts after opening accounts in the U.S. banks with less than \$10,000 deposits to avoid filing reports. I would pay a 5 percent commission to my U.S. connections for the money transfers.

My activities in the underworld have made me familiar with most of the organized criminal groups in Hong Kong. The Sun Yee On is currently the biggest and most powerful Triad in Hong Kong. They are active in many areas, including the control of over one third of all illegal gambling in Hong Kong. They also exercise significant control over the entertainment industry in Hong Kong. Sun Yee On members own shares in many nightclubs, bars and movie production companies. They control various aspects of the Hong Kong movie business through shares in such companies, including some companies which are owned entirely by Sun Yee On members.

The Sun Yee On also has influence in New York's Chinatown. Clifford Wong, also known as Wong Chi Fai, is the head of the Tung On Tong in New York, and represents the Sun Yee On's interests.

I will be pleased to answer any questions you might have about any of these matters. I hope, however, to avoid answering questions which would reveal my identity and thus endanger myself or my family.

PREPARED STATEMENT OF MR. TEEFT

I currently hold the rank of Detective Inspector in the Metropolitan Toronto Police Force, Ontario, Canada, and have twenty four years service, most of which has been spent as an investigator or administrator. During this time, I have been assigned to the following Investigative Units:

1. Morality Bureau (Vice)
2. Drug Squad
3. Major Crime
4. Intelligence Services (Tactical Unit)
5. Homicide Squad
6. Officer in Charge of Police Station Detective Office
7. Officer in Charge of the Combined Forces Asian Investigative Unit.

I would like to begin my testimony by giving some background information about Toronto and its population.

The total population of Metropolitan Toronto is three million persons. Of those, approximately three hundred and fifty thousand persons originate from Mainland China and Hong Kong. When the suburban areas of the city are taken into account, the number increases to approximately five hundred thousand persons.

In addition to Hong Kong Chinese, Toronto has approximately seventy thousand Vietnamese and eight thousand mainland Chinese refugee claimants.

The Metropolitan Toronto Police have a strength of approximately five thousand four hundred officers plus two thousand civilian support staff. A total of eighty four persons are deployed full time in the fight against Asian crime.

These personnel include four police station Asian Crime Units which deal primarily with street level crime and the Combined Forces Asian Investigative Unit whose mandate is to combat upper echelon organized crime figures.

Several years ago I wrote a letter and indicated that we need, "organized police to fight organized crime." It is more true today than it ever was.

Although I had investigated several murders and a major Asian heroin case, until two and a half years ago, I had very little investigative experience dealing with crime within the Asian community. I was then given the responsibility of heading an Asian Investigative Unit comprised of officers from five major Police Forces.

These Agencies include the Royal Canadian Mounted Police, Ontario Provincial Police, York Regional Police, Peel Regional Police and the Metropolitan Toronto Police Force. These police agencies represent the federal, Provincial and municipal police agencies combining their resources to combat crime within the Asian community.

The unit was extremely successful and proved to be a great learning experience. I believe I now have a reasonable recipe to be used in the fight against organized crime. Like baking cookies you may add to this recipe or take away from it.

I started with approximately forty men and the realization that to succeed we had to have the ability to cover four main policing functions.

1. *Visual Surveillance*

I formed and equipped a dedicated surveillance section to support other members of the unit. This section had no other responsibilities. It was comprised of experienced officers who were investigators and familiar with the types of evidence required to tie major cases together.

The section also had the responsibility for being the cover team for undercover operators.

These officers worked together constantly to become an extremely cohesive unit. They developed a knowledge of vehicles and suspects far beyond that which could have been expected of a surveillance team used only part time.

2. *A Tactical Team*

This section was a street unit which investigated robberies, frauds, extortion, drugs, firearms and assisted in the various murder investigations. This section also worked with, and supported, four other Asian street units within Metropolitan Toronto and other Forces in Ontario. This unit developed informants through the arrest process and worked on information supplied by other sections of the Asian Investigative Unit. They also supplied intelligence information to a team of dedicated crime analysts. As the unit became more widely known, there was so much information flowing in that another responsibility became finding other units from one of the five member police forces which formed the Combined Forces project to actively work on the information.

3. *The Strategic Section*

No major police investigative unit can be totally effective without information sharing and communication with other Agencies and Forces. Police officers worldwide are territorial and tend, due to the nature of their work, to be reluctant to share information. Information is power and "The person who has the information has the control." Unfortunately this philosophy is likely the biggest obstacle to overcome because the winner is always the criminal. To counter this mentality, I planned a part of the new unit to supply as much information as possible to other agencies, locally, nationally and internationally.

I also designed it so that officers could gather raw information from our own sources and feed that information internally to our two crime analysts.

To assist my objective I received Provincial Government funding from The Criminal Intelligence Service of Ontario which supplied dedicated computer terminals to each police district in Metropolitan Toronto. These terminals were tied to each Police Force in Ontario which had an Intelligence unit.

Our information was fed initially into this computer system to be shared.

I recommended the limitation of restrictions on information we shared except for that obtained from wiretap investigations currently being conducted, and intelligence dealing with informants.

This section was also responsible for an Asian "Hot Line" which was advertised in the community at large and functioned in a similar fashion to Crime Stoppers. Members also sat on a variety of community committees and assisted organizing community projects and lectures.

Assisting this unit were two clerks. One who spoke Vietnamese and the other, Mandarin and Cantonese.

4. *The Major Project Section*

I wanted to have an electronic surveillance project operative as much as possible.

The funding for this was again provided by the Provincial Government through C.I.S.O. The primary benchmark was the requirement that projects were to deal primarily with organized crime.

The officers in this sub-unit reacted to information supplied by the other sections and vice versa. This section also relied on other sections to support them in the wiretap projects.

From the very beginning, I was cognizant that I would be questioned closely about the number of Asian officers I would have in my unit. I had only three officers of Asian descent and was unable to obtain others due to the pressing demand for them by other units.

As a consequence of the electronic surveillance projects undertaken, I was able to hire a great many Asian civilians from the community to work in the unit. I found them to be excellent and as involved and committed as any of the serving police officers.

In fact, one of my monitors was the retired senior officer in charge of the Royal Hong Kong police Criminal Intelligence Bureau.

These civilians added a great deal of depth to the unit and taught our officers much about Asian customs, culture and language. Conversely their inclusion also introduced at least a few members of the community to the many problems police face in dealing with criminal investigations in the community at large.

Well, I've told you what the recipe was, but the foundation for all of this is dedicated officers committed to the disruption and eradication of Organized Crime. Officers who function with compassion, a sense of empathy for the victims and a realization that 99% of the community are hard working decent people.

The apparent lack of support from the community should not be misconstrued as a lack of concern for law and order. Officers in the Asian community must be educated to some of the cultural differences and fears which these citizens of our country bring with them.

A purely tactical or strategic unit working in an ethnic community will not be successful. There has to be a little of both coupled with active community input.

There is a saying by Sir Robert Peel which is widely quoted, "The police are the people and the people are the police."

Having gone through the past two and a half years dealing with problems within the Asian community, I can not think of a more appropriate phrase to describe how the challenging work of policing must be truly realized.

Earlier in my talk, I alluded to the importance of communication and the real problem existing internally between law enforcement agencies in this regard.

I should have completed the equation . . . communication between the Police and the community. Allow the community to explain their problems. When you are successful in resolving them, the community feels a part of the success. They will be more supportive and less apt to criticize when we make mistakes. Even members of the Metropolitan Toronto Police make mistakes . . . albeit small ones.

In concert with improved channels of communication is that other buzz word of our era—education. Rest assured the contemporary criminal investigator requires constant upgrading in not only technological, but also cultural, skills, to stay abreast of changes in our society so that he or she may better serve the community.

In the context of Metropolitan Toronto we've responded to this challenge by regularly hosting courses for officers involved in Asian investigations in Toronto and inviting officers from across Canada and the United States to attend.

We've also held seminars, and lectured across Canada and the U.S.A. I've been to Hong Kong and spoken at length with officers of the Royal Hong Kong Police who've given us a great deal of assistance on investigations over the past few years.

Officers from my unit have travelled across Canada giving evidence on major cases and supporting other Police Agencies. They've also given evidence in the U.S.A. on a number of occasions.

I've come here today with Detective Ken Yates in the hope that we may, in some small way, assist this Committee in their quest for answers to a major international problem. Speaking on behalf of the members of the Metropolitan Toronto Police Force, we are committed to the fight against organized crime and violence. We will assist all Police Agencies in any lawful way we can, including giving access to information that may be of assistance to that Agency.

Our Force has already demonstrated its fervent commitment to this fight by giving evidence in many cases in the U.S.A. where electronic surveillance evidence gathered in Metropolitan Toronto was presented to your courts.

Our Force commitment to the fight against organized crime is supported by the citizens of our community who are all too well aware of its increase and, in particular, the increase of violent gang style crime.

Organized crime is a shared problem which knows no judicial boundaries. It can only be combatted by a unified cooperative effort by law Enforcement Agencies on an international level.

Criminal networks exist and are successful because they communicate and help each other. Police agencies cannot succeed unless they learn very quickly to do the

same. To do otherwise would jeopardize the peace and order of our democratic society.

RECOMMENDATIONS

Law Enforcement Agencies in both the U.S.A. and Canada currently have serious problems with budgets. Hard economic times affect government services as much as they harm the private sector. Accordingly, we must scrutinize the costs of each and every investigation.

Investigations which overlap jurisdictions and are of concern for several Forces and Agencies should be investigated by Joint Force Operations. This approach optimizes the use of resources, more effectively combatting organized crime.

By combining resources we also resolve two other major policing stumbling blocks; (a) communication and (b) judicial boundaries.

Due to the number of officers we are able to dedicate to the investigations, Combined Forces operations enable us to maintain visual surveillance on many known crime groups. No one Force or Agency could or should have to bear all the expenses.

The same is true for electronic surveillance projects. There is a great deal of cost involved in translations and monitoring. Using a Combined Forces approach in Ontario allows us to apply for government funding for such things as translators and the cost of renting phone lines.

Major criminal investigations in future years which affect a number of jurisdictions will have to be conducted by Joint Force Operations as it has proven to be the most effective tool in the fight against organized crime today.

Some of the areas which must be improved in Canadian Law Enforcement are:

(A) Better education of investigators dealing with minorities and ethnic communities. This education proves to be a two way street and the community benefits from the exchange as much as the individual police officers.

In Canada, municipal police forces do not as of yet have the benefit of sharing seized assets. I understand that in the U.S.A. these funds can be used for many purposes including education.

(B) Greater involvement of smaller Municipal Police Forces in Joint Forces Operations.

These forces deal daily with the community and respond to the needs of that community. Working in a Joint Force Operation, local Police Agencies contribute a great deal to the overall efficiency of the parent unit. You must work with the community to solve crime affecting their community.

While smaller Forces do not have the funds to undertake major investigations, larger Federal agencies don't have the community involvement to get the necessary support of and feedback from the citizens.

In Canada, we must have stronger immigration laws. If I had been speaking to you several months ago I would likely have spoken much more harshly than I am now. Over the past several months our Federal Government has been working on new laws that will enable us to remove bogus refugee claimants and ship these individuals out of our country.

Over the past few years, our lax immigration laws have affected our American neighbours by allowing criminals into Canada who have been using our country as a springboard into the U.S.A. where they continue their criminal activities.

One of the problems we will have prior to 1997 is the influx of Triad members from Hong Kong. At present, intelligence information alone is not sufficient to prevent their entry into Canada. If they do not have criminal convictions it appears we will have an extremely hard time in preventing their entry.

Co-operation between Law Enforcement Agencies in Canada and the United States seems to be very good. However I believe there should be more dialogue between the Forces and Agencies.

At times politics seems to become a barrier which inhibits the flow of information so necessary to fight organized crime. I believe, as I have previously stated, there has to be more involvement and information sharing of municipal forces on a national and international level.

Cost prevents officers from Municipal and smaller forces from attending many of the seminars and information sessions. If a funding mechanism could be set up for these Agencies I believe the flow of critical information could only improve.

In the area of credit card counterfeiting there are a number of things that can be done to alleviate this situation. The problem we all now face started in the Pacific Rim countries. As schemes were perfected they were exported to North America and Europe.

The experts in the current trends are the officers in the Pacific Rim countries and in particular those from Hong Kong.

We obviously must maintain better ongoing contacts with Hong Kong. Additionally I believe seminars and lectures would improve our knowledge of current trends.

Criminal law in the United States involving access devices is much stronger than any in Canadian law. Your law fits the counterfeit card crimes. Canada has laws that tend to fit stolen, lost or altered cards but none to fit counterfeit cards.

When the card holder is from another country it makes prosecution that much harder. In Canada we are presently lobbying for a change in the laws to make them similar to American access device laws. This is being done in cooperation with the Canadian Bankers Association.

Heroin smuggling by Asian organized crime syndicates has been going on for quite some time. In the past two years we've had one major case, "Project Dragon" dealing exclusively with heroin smuggling. The market is the United States and the heroin is springboarded from Canada into that market.

Heroin investigations are time consuming and very costly due to the required translation necessary for a successful court prosecution. They can not be done by smaller Forces unless funding is supplied or a joint force type of operation is commenced.

There are very few good informants involved in these kinds of operations for very obvious reasons. It is hard to introduce undercover operators to such tightly knit organizations. Electronic surveillance is therefore essential for any hope of success to be realized.

Sadly if there is one area where there appears to be communication problems between Agencies and Forces it is in the investigation of international heroin smuggling.

Such inquiries are expensive and dangerous, with limited opportunities to obtain information critical to the successful prosecution of parties involved.

I reiterate my belief that a Joint Forces style operation could alleviate a number of the major stumbling blocks in this area.

CONCLUSION

As I have indicated earlier, I believe the answer to Organized Crime within the Asian community is a shared response through the cooperative efforts of the community with the various levels of policing.

Communication and above all, education is essential.

As 1997 approaches and the British lease to Hong Kong terminates, Canada and the United States must be extremely cognizant of the pending migration of Triad members from Hong Kong to our shores.

We now know of many office bearers of the various Triad groups who are planning to settle in Canada and the United States.

The Police and community of both our nations share a common desire for a safe and secure home for our families free from any violence and crime.

This dream is only possible by the shared and cooperative effort of all levels of government based on a common desire to assist the community most affected, the Asian community.

I hope Detective Yates and I have helped in some small way to protect and assist the Asian communities most affected by Organized Crime, the cancer of the nineties.

PREPARED STATEMENT OF MR. YATES

I currently hold the rank of Detective in the Metropolitan Toronto Police Force, Ontario, Canada, and have fifteen years service, most of which has been spent as an investigator. During this time, I have been assigned to the following Investigative Units:

1. Youth Bureau
2. Criminal Investigation Bureau
3. Plainclothes Unit (Vice)
4. 52 Division (Precinct) Asian Crime Unit.
5. Asian Organized Crime, Intelligence Services.
6. Officer in Charge of the Strategic Intelligence Section, Combined Forces Asian Investigative Unit.

For the past eight years I have been assigned as both an Investigator and Intelligence officer in the Asian Community. As a result of the knowledge and experience

I have gained, I have been qualified as an expert witness approximately ninety times in relation to Asian Crime and Asian Organized Crime, and have testified in this capacity in Provincial Court, the Ontario Court of Justice, and the Supreme Court of Ontario.

POPULATION TRENDS

Hong Kong continues to be the number one source country for immigrants to Canada. Statistics for 1990 show that 29,261 persons entered Canada from Hong Kong, and in 1991—22,105.

In comparison, during 1990, a total of 7,989 persons entered Canada as immigrants from the People's Republic of China, and in 1991—13,466.

Total immigration to Canada during 1990 was 214,230 persons and in 1991—226,596.

RECENT VIOLENCE

There have been a number of significant changes in Asian crime patterns throughout Ontario during 1991. In essence, these changes primarily took place in the larger Urban centers throughout Southern Ontario.

In particular, Metropolitan Toronto experienced a growth in violence which reached epidemic proportions. From December, 1990 to December 1991, eighteen persons, mostly Vietnamese in origin, were shot in the downtown Chinatown area, eight of whom died of injuries sustained.

These shootings, signified a new era in Asian Crime within Ontario with the use of fully automatic weapons in two of the occurrences.

In 1992 thus far, there has been a reduction in the number of shootings and related homicides. This is seen as encouraging, however, it is felt to be somewhat temporary, and in part a result of agreements between the groups to share the wealth, especially in relation to lucrative illegal gambling.

Successful investigations leading to the arrests and convictions of persons involved in the recent murders and shootings in Toronto's Chinatown, including members of the New York based Vietnamese gang "Born To Kill," are also considered a major factor in the reduction of violence.

Further violence is anticipated however, as the various gangs and individuals compete with each other to arm themselves with more powerful weapons such as fully automatic machine pistols. In the Asian criminal subculture, the most violent groups become the most powerful and consequently make the most money. In order to be powerful and have the most "Face," or respect, one must have the weapons and be bold enough to use them.

Recent trends also indicate an increase in Vietnamese criminals distributing South East Asian Heroin in Toronto. As drugs are considered a catalyst for a myriad of other criminal activities, this factor must also be taken into account when looking to the future situation of crime within our Asian Communities.

ASIAN CRIMINAL GROUPS—TRIAD SOCIETIES

The Asian criminal scene in Toronto is, like many other locations in North America, in a constant state of flux.

During the late nineteen seventies and early eighties, all criminal activity in Toronto's Asian Community was run by Triad Societies such as the Hung Lok and Ghost Shadows who were later to become members of the 14K Triad.

With the advent of refugee "Boat People" from both North and South Vietnam into North America, Triad Societies were unable to cope with the surge of violence which was dispensed in a ruthless manner by their Vietnamese criminal rivals.

With the retreat of Triad Society members, the Vietnamese quickly assumed control of criminal activities such as Armed Robberies, Extortions, Illegal Gambling and related crime such as Protection Rackets and Loansharking.

Because of this takeover and subsequent loss of crucial income for their organizations, the Triad Societies in Toronto are no longer cohesive units as they once were, and in fact no longer exist as organizations.

As Triad power declined in Toronto, it appears that the Vietnamese presence has also reduced the strength of the Triads in the United States. Like a domino effect, the old Triad leader network that existed between Toronto, Boston and California, collapsed.

There is sufficient evidence at hand to suggest that the network is still in place but the criminal personalities have changed. Tran Asau, prior to his murder on August 16, 1991, is known to have definite connections with a person in Los Angeles

involved with the Asian Entertainment Industry and a known associate of Wo Hop To Triad member, Peter Chong in San Francisco.

As the Asian criminal scene in Toronto evolves, a number of Triad members in Toronto are acting in concert with both Big Circle Boys and Vietnamese gangs. This is considered to be significant, in that characteristics from each ethnic group will complement each other to become a formidable adversary for Law Enforcement to deal with.

We must also maintain a perspective on what Triad members are, and that is criminals first, Triad members second. There is no mystique, but membership does provide access to an exclusive worldwide fraternity of criminals.

As the Asian criminal subculture has evolved during the last decade, it has become obvious that in order to survive, some groups have compromised and instead of vying for power which in turn is money, have begun working in concert for mutual financial advantage.

The current status of individual Triad members, is that some have become inactive, but a number are acting as free agents if you will with persons who are not necessarily fellow Triads. In this framework, they continue to commit covert criminal activity such as Heroin Importation and Alien Smuggling.

Others continue to maintain a monopoly on the control of entertainers from Hong Kong.

Those persons involved in the promotion of Hong Kong entertainers are identified as follows:

MO Shui Chuen Danny

TSOI Ip Shun Raven

KWAN Yee Man Charlie

TRAN A Sau (Deceased—murder victim August 16, 1991).

BIG CIRCLE BOYS

During late 1987, a new phenomenon entered into the Asian Crime scene in Canada. "Big Circle Boys" or "Dai Huen Jai," are criminals from the Province of Canton, People's Republic of China, who utilize Alien Smuggling rings located in the Far East to facilitate their arrival in Canada in order to take advantage of the Federal Government's Refugee Program.

These criminals, are responsible for a tremendous increase in the volume of criminal activity committed in Asian Communities throughout Canada's major Urban Centers. Since their arrival in Canada, "Big Circle Boys" have proven themselves to be highly sophisticated in their methods of committing crime and evading detection.

A great many of them are, in my opinion, criminally brilliant and make Vietnamese and Triad members appear amateur in comparison, especially when one considers they are currently progressing through their criminal infancy in North America.

From investigations conducted, it is clear many of the groups operating are made up of cells comprising ten to twenty members, many of whom have direct access to other active criminals in the Far East, including credit card and currency counterfeiters, travel document forgers, and, more importantly, Heroin producers in the Golden Triangle.

In addition, there is abundant intelligence indicating approximately four out of ten refugee claimants entering Canada from the PRC, are subsequently smuggled into the United States.

A number of these persons who are smuggled into the United States, go to New York in order to consolidate a base for criminal operations such as large scale Heroin Importation, Alien Smuggling, and counterfeit credit card distribution, using Canada as a transshipment point for contraband between the Far East and the U.S.

As their criminal activities continue with Triad members and Vietnamese Gangs in Canada, Big Circle Boys have immediate access to the Asian criminal network which is already established throughout North America. This network provides an immense outlet for the contraband available to them in the Far East, and the potential threat to peace and security is limited only to the imagination, especially in the area of Heroin distribution.

In 1991, Big Circle Boys have committed large scale frauds with the use of counterfeit credit cards, most of which are supplied by counterfeiting syndicates in Hong Kong, Malaysia, and Singapore. These highly sophisticated syndicates, are responsible for a large proportion of the fifty million dollar loss experienced by Canadian Financial Institutions in 1991 through Fraud.

In Toronto, a number of Big Circle Boys are acting in concert with high ranking Triad members. Most of this activity is covert in nature.

This merger is historic and cultural in nature and is thought to evolve from Hong Kong where Triad Societies, in particular the 14K, who have their roots in Canton Province, have worked in concert with "Big Circle Boys" during criminal joint ventures for a number of years.

VIETNAMESE

As I previously mentioned, a number of the shootings that took place in Toronto during 1991, can be attributed to American Vietnamese gang members entering Canada from the Eastern Seaboard and attempting to gain a foothold in the lucrative criminal activities controlled by local Vietnamese gangs.

Of special note, several of these occurrences are directly related to the infamous American Vietnamese Gang known as the "Born To Kill"/"Canal Street Boys," originating in New York City.

In addition to these shootings, there has been a dramatic increase in the number of Armed robberies committed throughout Southern Ontario. Losses in Toronto for 1991 alone, were well over one million dollars.

A number of these robberies, can also be attributed to American Vietnamese Gang members, namely the Born To Kill who are known to have a number of Vietnamese criminal associates in Toronto, Montreal, Calgary and Vancouver where they have also been involved in shootings and armed robberies.

Toronto Vietnamese gang members are known to have Vietnamese criminal associates throughout both the United States and Canada wherever a major Asian Community exists.

Past investigations have proven that these associates will assist each other in their criminal endeavours, be it providing haven from opposing gangs or Law Enforcement, to identifying potential robbery or extortion victims and supplying weapons to carry out their tasks.

Crimes committed by roaming Vietnamese from other jurisdictions provide an almost impossible task for Law Enforcement to solve as the perpetrators know the chance of being identified, unless arrested at the scene of the crime, is very slim indeed. These roaming Vietnamese gang members can be described as nothing less than "Domestic Terrorists."

OTHER CRIMINAL GROUPS—U.S. CONNECTIONS

As a result of the decline of Triad Societies as cohesive organizations in Toronto, and the fact that we have had to deal with a number of violent crimes committed by Vietnamese, there has been little international criminal intelligence gathered on these Triad subjects in relation to their U.S. connections.

We are aware, however, that the wife (Yuen Wai Chu) of the alleged leader of the Wo Hop To Triad in Hong Kong, Chan Ting Hung, has been residing in Toronto since 1989. Her current status is "Work Permit," and she is presently employed at one of the larger Chinese restaurants in downtown Toronto.

During 1990, it is known that Chan himself applied for a visitor's visa to Canada "to explore a new business venture". This application was cancelled by the Canadian High Commission in Hong Kong after it was discovered he had a criminal record.

The significance of these facts, are, I'm sure, appreciated by the members of this subcommittee, after hearing evidence in relation to the recent Wo Hop To activities in California.

To date, we have no criminal intelligence to indicate there are any Sun Yee On Triad members in the Toronto area.

CRIMINAL ACTIVITY—CANADA—U.S. BORDER

HEROIN SMUGGLING

Asian Law Enforcement investigators in Canada have, in the last two to three years, seen a dramatic increase in the amount of Heroin seizures from South East Asia entering the country.

This is borne out by statistics showing a ninety eight percent increase in Heroin seized during 1991 compared to 1990. The total for 1991 being eighty four kilos in comparison to 44 kilos in 1990.

In addition, criminal intelligence indicates more and more Big Circle Boys are importing Heroin from the Far East into Canada. Much of this is destined for the United States as Canada does not have the numbers of addicts to support such large quantities of Heroin.

Prices of Heroin have also dropped dramatically in Toronto which indicates an abundance of the drug. In 1990, one pound of No. 4 Heroin sold for \$140,000. The current selling price is now \$80,000 per pound which is a \$60,000 reduction.

Importation methods include such simple things as concealment inside metal coat buttons to letters sent through the postal system from China.

On the other end of the spectrum, there are the sophisticated organizations who import large quantities of the drug.

During 1993, one such Big Circle Boy Organization became the focus of an eleven month Combined Forces Asian Investigative Unit investigation known as Project DRAGON.

Utilizing wiretaps for eight months and after intercepting approximately forty five thousand calls, ninety five of which related to Heroin, the investigation, with outstanding assistance and cooperation from members of Group 41 of the Drug Enforcement Administration in New York, and the U.S. Attorney's Office in addition to information shared with the FBI, led to seizures in New York totalling twenty four pounds of No. 4 Heroin, a number of firearms, body armour, and cash.

A further seizure in Toronto of over one pound of No. 5 Heroin which was analyzed as being 99% pure, was also made.

The main Toronto target, a refugee claimant from the People's Republic of China, and a Big Circle Boy, was intimately involved in an ongoing conspiracy with a number of major Heroin importers in New York including four Chinese males arrested in September 1990 in possession of \$8.6 million cash.

This Toronto male was eventually arrested and convicted in New York after being indicted on a conspiracy to distribute heroin with one of the males found in possession of the millions of dollars in cash.

Documents seized from these persons showed they had imported between 800 and 1,200 pounds of Heroin between 1983 and 1990, and had realized a profit on the wholesale level of \$72 million, most of which was transferred back to the Far East.

All those persons arrested, were illegally in the United States from the People's Republic of China.

ALIEN SMUGGLING ORGANIZATIONS

During 1990, the Metropolitan Toronto Police in conjunction with RCMP, Immigration and Passport Section, and USINS Buffalo, conducted a Joint Forces investigation named Project Overflight into the operation of a large scale Alien Smuggling Organization operating from the Far East into Canada and the U.S.

This investigation, which was initiated by the Combined Forces Asian Investigative Unit, showed that over a two year period, the organization had smuggled over twelve hundred persons into Canada, including a large number of "Big Circle Boys," whom, upon their arrival into Canada had applied for Refugee status.

During the investigation, intercepts showed a direct connection between the Smuggling Organization in the Far East to a Triad member in Toronto, and also to the Chairman of the Fukienese Society in New York City who had five hundred persons in China waiting to be smuggled to New York.

This connection resulted in the head of the Smuggling Organization in Bangkok, agreeing to finance the operation of bringing the five hundred Fukienese to Canada, and then on to the United States.

At \$15,000. per head, this would have meant the Organization would have financed \$7.5 Million dollars up front. An additional charge of \$4,500 per head was to be levied for being smuggled into the U.S. from Canada.

This financing gives some idea of the scope that this organization was capable of, and equals a major multi-national corporation in their operations.

The North American segment of this Organization was run by both Triad members and "Big Circle Boys" with Vietnamese heavily involved in the smuggling of Aliens from Canada into the U.S.

Criminal intelligence indicates a number of those persons who arrived in Canada and claimed to be refugees from mainland China were in fact Hong Kong citizens.

This Organization was neutralized in August 1990, when numerous arrests were made in Hong Kong and Toronto where the leader of the Organization was arrested while visiting Canada illegally from Hong Kong.

Statistics for Refugee claims from China in both 1990 and 1991 illustrate that these International Investigations can make a dramatic difference. Statistics show in 1990 there were 2,993 such claims in comparison to 1,445 in 1991, resulting in a 48 percent reduction.

COUNTERFEIT CREDIT CARDS

This continues to be a major world wide problem. In Canada, counterfeit cards began appearing in the fall of 1990, the source of which was the Far East whose syndicates supplied Big Circle Boy Refugee claimants.

Since that time, Big Circle Boys in Canada have expanded and diversified their credit card activities to the point of committing Break and Enters to steal card embossers and encoding machines.

These machines enable them to emboss cards and program the magnetic strip on the back of the cards with surreptitiously obtained genuine card holder information which is obtained by corrupt employees working in hotels, restaurants, and stores or wherever persons use credit cards.

There have been a number of cases in the U.S. which are connected with Canada including New York City where Big Circle Boys are known to be distributing cards. Law Enforcement Agencies have also conducted credit card investigations in Washington D.C., and Los Angeles, California where Big Circle Boys have been involved, and I'm sure there are many more.

Our Agency in Toronto is in regular contact with the Royal Hong Kong Police, and the Independent Commission Against Corruption in Hong Kong to exchange intelligence information pertaining to counterfeit credit card syndicates in an attempt locate and arrest the syndicate members responsible for the manufacture of the cards.

Close liaison is also maintained with the credit card companies and banks in order to reduce the number of frauds taking place.

It is anticipated that in the future, counterfeit credit card usage in Canada will increase because of the lack of appropriate legislation and sentencing, but also because of the simplicity in committing the crime.

The counterfeiters are producing almost perfect reproductions of the genuine cards which are usually the "Gold" or "Platinum" credit limit type.

The lawful cardholder, whose information is encoded onto the magnetic strip usually does not receive a bill for merchandise purchased with his card information, until two to three months after the crime has been perpetrated if the counterfeit card is used in a country other than where the cardholder resides. Chances of getting caught in the act, therefore, are very slim.

When considering the United States, there is a huge untapped market for Big Circle Boys to sell and distribute these cards. In comparison to Canada's fifty million dollar loss, if one goes by the rule of thumb that the United States is ten times as large in population as Canada, losses, if counterfeit card activity reaches the same proportions as Canada, mean the United States could see a half billion dollar a year criminal industry.

CONTROL OF ASIAN ENTERTAINMENT

Control of Asian entertainment in Toronto has, for the past ten to fifteen years has been rigidly controlled by Triad Society members acting in concert with their counterparts in the U.S.

Criminal Intelligence indicates this will continue because most, if not all Hong Kong entertainment artists are under Triad control in that jurisdiction. It is then, a natural progression for that control or subtle extortion, which Triad members consider to be artist "Promotion," to be continued during their tours of North America.

RECOMMENDATIONS

The Combined Forces Unit of which I am a member, has, I believe, all the components necessary for any jurisdiction to successfully combat the growing problem of Asian Organized Crime.

Each component complements the other to produce an effective weapon against the criminal element and credit for it's creation must go to Detective Inspector Tefft.

Starting with a good intelligence base which identifies the specific groups that are engaged in the various criminal activities, the other components are able to build up a case and obtain the necessary evidence for a successful prosecution.

Because of the International nature of these crimes, electronic surveillance is absolutely necessary to successfully investigate and prosecute members of these multinational conspiracies.

Dedicated surveillance teams attached to Asian investigative units also play an integral role in the overall efficiency of the investigation process, and through time develop the expertise necessary in Asian crime tactics to further enhance the overall efficiency of investigations.

With respect to improvement by Law Enforcement Agencies in general, I know, having worked in Asian Crime for over eight years, that Asian investigators throughout North America, the Far East, and the United Kingdom, are constantly in communication with each other to share information and ideas.

We probably have the best network in existence in Law Enforcement and I am very proud of what we have achieved in the past. That is not to say there is no room for improvement, for we must strive to keep the channels of communication open and not be afraid to use new initiatives.

The spirit of assistance and cooperation between Law Enforcement Agencies in the United States and Canada is excellent. Having been involved in two major International investigations, I can speak from personal experience in this regard and say that assistance from such Agencies as the DEA in New York City and INS Buffalo, during our Heroin and Alien Smuggling investigations, can only be described as truly phenomenal. The same can be said for the Royal Hong Kong Police who have also proved to be outstanding.

Although the spirit of cooperation between International Agencies is very strong, this alone cannot solve the problems we face now, or in the unpredictable future relating to 1997. Law Enforcement at the present time, is simply overwhelmed by the sheer volume of criminal activity committed on a National and International basis by these Asian Organized Crime Groups.

IMMIGRATION LAWS

Future projections relating to Asian Organized Crime within Canada indicate further growth in criminal activity, the extent of which depends on a number of factors.

One major factor to consider, is the Federal Immigration Policy which dictates as to who will enter the country as Immigrants/Refugees and who are deported after committing serious crimes. I understand that the Canadian Government is to table a new bill in Parliament in the very near future to address this problem.

Up to the present time, there have been no persons deported to either Vietnam or the People's Republic of China, which at present are considered the source countries for most of the crime problems inherent with the Asian Communities of Canada.

As such, there is no deterrent factor for the perpetrators of serious crimes, as prison is not perceived by them to be a strong deterrent but the prospect of being deported is.

Second, as 1997 rapidly approaches and Immigration from Hong Kong continues, not only can we expect a growth of Triad members within Canada if they are not refused entry, the number of potential victims of crime will also increase dramatically.

Criminal Intelligence shows a number of high ranking Triad members have already applied to emigrate to Canada, and we should consider ourselves naive if we think they will not continue their criminal activity upon arrival to the North American continent.

The new law abiding immigrants from the Far East, with their traditional mistrust of Police and Government, will no doubt become easy prey for the Asian Organized Crime Groups in operation, thereby placing further demands on Law Enforcement to fulfill its obligations of protecting this segment of society.

STEMMING THE FLOW OF CONTRABAND

In Canada, and I believe the situation is similar in the United States, it is becoming increasingly difficult to obtain authorization to conduct electronic surveillance during investigations.

Recent decisions handed down by the courts in Canada make it almost impossible to use informant information because at the time of trial, in order to prevent the identity of the informant becoming public, the information given has to be edited from the Application Affidavit.

As a result, the Affidavit collapses and the evidence obtained during the wiretap declared inadmissible. The charges against the defendants are then withdrawn by the court.

This creates an impossible situation for Law Enforcement who obviously have to obtain information of covert criminal activity from informants who know the identity of persons involved and methods of how the crime is being committed.

Relocation of informants is one answer, but this proves to be an almost impossible task within the Asian Community.

If Law Enforcement is to be successful in stemming the flow of Heroin, Aliens and other contraband to North America, and I cannot stress this point strongly enough, we must be given support in the form of strong legislation to conduct wiretaps.

Although we must all be cognizant of individual freedoms and the right to privacy, surely it is in the public interest and for the good of our communities to have members of these criminal organizations removed from law abiding societies for which they have no respect. In addition, funding for these lengthy and costly investigations must also be made available if we are to be successful in attaining our objectives.

Project Overflight is a vivid example of the costs saved by the State by reducing the number of Aliens smuggled into Canada. Funding of this investigation has saved Canada multi millions of dollars in Social Security payments, manhours that would have been expended on criminal investigations, court costs for subsequent trials, and money spent on incarcerating those convicted of committing crimes.

As the situation stands at the present time, we are handcuffed while attempting to carry out our responsibilities, whereas the criminals carry on their activities with impunity.

This creates a great deal of frustration within Law Enforcement who have a sincere desire to protect the people they are sworn to serve, but cannot do so without the necessary tools to do the job.

In conclusion, I would like to say that as we approach the year two thousand, Asian Organized Crime presents a formidable challenge to both Governments and Law Enforcement alike whose responsibilities are to legislate and enforce the law.

We must be decisive, strong, and take a bold stand if we are to protect our nations and the communities who rely upon us to provide a safe and peaceful environment in which to live.

PREPARED STATEMENT OF MR. KOPPE

Mr. Chairman and Members of the Subcommittee, I am pleased to present this testimony before your Subcommittee's hearing on "Asian Organized Crime—The International Criminal." I am Robert W. Koppe, Jr., Assistant Director of the Office of Strategic Analysis, Financial Crimes Enforcement Network.

The Financial Crimes Enforcement Network ("FinCEN") was created on April 25, 1990, by Order of the Secretary of the Treasury, to help combat national and international money laundering operations, primarily those involving the proceeds of narcotics trafficking. FinCEN provides analytical intelligence support to law enforcement and bank regulatory agencies and monitors the trends and patterns of money laundering that its analyses reveal. It supports ongoing criminal investigations and assists in the coordination of law enforcement anti-money laundering efforts.

Examples of FinCEN's involvement in successful law enforcement investigations include:

Operation Clean Hands: FinCEN has provided continued support to the U.S. Postal Inspection Service task force during Operation Clean Hands. The U.S. Postal Inspectors executed arrest and search warrants in Miami, Florida, on the residences of two money laundering suspects, involved in a money exchange house in Ecuador. A total of \$20 million was seized. On January 28, 1992, FinCEN was advised by U.S. Postal Inspection Service, New York, that two defendants pled guilty in Federal District Court on charges stemming from information supplied by FinCEN in support of this investigation.

Polar Cap V: This case represents a coordinated, multi-agency investigation of a major international money laundering operation by the U.S. Customs Service, the Internal Revenue Service, the Drug Enforcement Administration, and the Federal Bureau of Investigation. In November 1991, these agencies executed 30 search and seizure warrants and 35 arrest warrants in New York; Fort Lauderdale, Florida; Providence, Rhode Island; Los Angeles, California; and Atlanta, Georgia. Those arrested included key figures in a network which laundered most of the money generated by the Cali and Medellin cocaine cartels' narcotics trafficking activity. FinCEN has supported the Polar Cap V investigations nationwide. Agents and analysts from FinCEN were detailed to Miami, Los Angeles, and New York. As a result of these assignments, the analysts and agents were instrumental in providing assistance in the location of account information and asset locations. The Polar Cap V investigations have so far resulted in the arrest of 42 individuals, and in the seizure of \$10 million in assets.

Operation China Beach: FinCEN has provided support to an investigation concerning the seizure of 1,200 lbs. of heroin in San Francisco. FinCEN provided information on individuals holding Asian passports traveling to or from the Los Angeles and San Francisco areas, and specifically profiled targeted suspects and businesses involved in the case.

ASIAN ORGANIZED CRIME

Increasing Asian involvement in criminal activity, especially in North America, has resulted in recent scrutiny of Asian Organized Crime (AOC) by law enforcement. Many Asian groups have been identified by law enforcement as engaging in organized criminal activity. According to these sources, the AOC groups currently posing the greatest criminal threat are the Chinese Triads, criminally influenced Tongs, Japanese Yakuza, and various Vietnamese criminal groups. Reportedly, all four groups are involved in murder, kidnapping, extortion, drug trafficking, prostitution, gambling, weapons smuggling, smuggling of illegal aliens, insurance fraud, and money laundering. Of the groups from Asia engaging in criminal activities, law enforcement sources generally agree that Chinese Organized Crime (COC) groups pose the greatest threat today.

FINCEN CHINESE ORGANIZED CRIME STUDY

FinCEN has begun to analyze information on the methods and mechanisms used by COC to disguise the nature, origin, and beneficial ownership of the proceeds of illicit activity, which is, by definition, how they launder money. We are analyzing the money laundering process, which involves a series of transactions that ultimately provide the funds with a false provenance and the appearance of legitimacy.

Since initiation of FinCEN's study on COC money laundering, FinCEN has conducted numerous interviews of investigators and other experts on Chinese crime group activity. Interviews have been completed in several areas of the country with heavy Asian concentrations, including Los Angeles, San Francisco, Boston, New York City, and Atlantic City (New Jersey). Various law enforcement, prosecutorial, regulatory, and intelligence agencies have contributed intelligence to FinCEN's money laundering data collection effort. Through our interviews and research, we have identified and studied many COC cases, focusing primarily on the major investigations, currency seizures, and the financial aspects of these investigations. Our study is continuing, and we are compiling the data gleaned from our research to date.

Law enforcement officials have indicated that while money laundering has always been associated with organized crime, Federal authorities are becoming increasingly aware of the extent of the problem as it relates to COC. The law enforcement community has only limited information regarding COC money laundering methodology. Law enforcement officials generally agree that it is very difficult to develop concrete knowledge because of a number of factors, such as linguistic and cultural barriers and a lack of Asian police officers and Federal enforcement agents to tackle the COC problem.

FinCEN has developed examples and anecdotal information of how law enforcement officers believe COC groups are currently laundering illegal proceeds. The general consensus of law enforcement officials throughout the U.S. is that the money laundering methods utilized by Chinese Organized Crime members bear a striking resemblance to that of other criminal groups with two significant additions: the laundering of illegal proceeds through legal "card clubs" and through the underground banking system. I will discuss these in more detail later in my testimony.

Our preliminary findings reveal that, historically, Hong Kong has been used as a laundering site for much of the illicit proceeds generated by COC. Illicit proceeds derived from drug sales, gambling, theft, and extortion are smuggled into Hong Kong to be laundered and subsequently repatriated to the United States.

Hong Kong is one of the most important banking centers in the world. In an average business day, more than 50 billion U.S. dollars are exchanged through the Hong Kong financial community. Hong Kong has no currency exchange controls and no currency transaction reporting requirements. These factors attract both legitimate and illegitimate businessmen.

Various methods reportedly used by COC to launder money are:

WIRE TRANSFERS

Law enforcement sources indicate that COC groups frequently move money via wire transfers. Large amounts of currency are reportedly wired through the U.S. from and to Hong Kong, Taiwan, and other Southeast Asian countries.

CURRENCY SMUGGLING

On several occasions currency has been seized from Chinese Organized Crime members. As they attempted to board commercial flights to Hong Kong, they were caught trying to smuggle substantial amounts of currency in their luggage. An intelligence source suggests that large amounts of COC illegal proceeds are being physically smuggled out of the United States through Canada to Hong Kong.

An example of a large smuggling operation involved a prominent Chinese-American, who has been indicted along with five others for money laundering, Bank Secrecy Act violations, and traveling in aid of racketeering. This individual, who has since pleaded guilty, is associated with the attempted smuggling of over \$1 million dollars of illicit drug profits out of the United States via Chicago to Hong Kong. While some of this Chinese organization's illegal profits were smuggled out of the U.S. in bulk form, large portions were being wired transferred to Hong Kong, often through Japan.

Information received from one law enforcement source indicates that Chinese Organized Crime members use non-sophisticated methods to import/export currency such as the mailing of bulk shipments, body packers/money swallows, wire transfers, and physical transportation of bulk cash.

COC members who are involved in laundering illicit proceeds also reportedly use cash intensive businesses (e.g., fish wholesalers, travel agencies, and restaurants) in order to exchange small denomination bills for large bills. Once this exchange is effected, the currency is then smuggled out of the United States.

SMUGGLING ILLEGAL ALIENS

As reported by law enforcement, another lucrative endeavor by Chinese Organized Crime groups in the U.S. (which helps support their money laundering activities) is the smuggling of increasing numbers of Chinese illegal aliens into the United States in what U.S. Immigration officials say is a steady flow. Federal law enforcement sources report that each illegal alien typically pays from \$35,000 to \$50,000 to Chinese smugglers, many of whom have connections to Chinese Organized Crime. The smugglers use illegal documents and an array of circuitous routes by land, sea, and air to avoid detection.

Once in the U.S., according to law enforcement sources, these aliens become essentially indentured servants, working in sweatshops in the garment district, restaurants, laundries, or other businesses. They work as long as five years, often seven days a week, day and night, for minimum wage or less while living in squalor to pay off the loans that brought them here. Some are lured to the quicker money to be made by smuggling drugs, becoming enforcers, or engaging in prostitution for the Chinese gangs that paid for their entry into the United States. Often, in exchange for their freedom, the aliens smuggle currency (usually \$50,000 in \$100 and \$50 denominations) out of the United States without filing a Report of International Transportation of Currency or Monetary Instruments (CMIR). The Bank Secrecy Act requires each person who physically transports, mails, ships, or causes the transportation, mailing, or shipment of currency or bearer negotiable monetary instruments in an aggregate amount exceeding \$10,000 into or out of the United States to file a CMIR, Customs Form 4790, at the time of arrival, departure, mailing, or shipment.

UNDERGROUND BANKING SYSTEM

The Chinese "underground banking system" is one of the major problems law enforcement faces because of the difficulty encountered in tracing currency movements. Large amounts of money are moved by COC groups internationally in an underground banking system that operates on tradition and trust. There is a historical distrust for traditional banks among the Chinese. With this underlying its development, the underground banking system also grew out of political turmoil resulting from Communist takeovers in many countries where the Chinese reside, and its existence was reinforced in the countries where expatriate Chinese experienced harassment. Operated by money changers, gold shops, and trading companies, according to law enforcement sources, the underground banking system is linked by kin-

ship ties to the Chinese-dominated heroin production business and to an intricate web of other Chinese commercial interests.

Record-keeping within the underground banking system is almost nonexistent, with coded messages, "chits," and simple telephone calls used to transfer money from one country to another. This system allows the transfer of funds from one country to another in a matter of hours, provides complete customer anonymity, provides total security, can be used to convert gold or other items into currency or to convert one currency into another of the customer's choice.

GAMBLING

Law enforcement sources suspect that gambling is an enormous source of funds, as well as a method of money laundering, for Chinese Organized Crime figures in southern and northern California. In the fall of 1984, several California communities began to license gambling facilities known as "card clubs." These clubs offer a list of approved card games which include the very popular Asian game called "Pai Gow." The card clubs offer opportunities for extortion, money laundering, and tax evasion. Law enforcement sources believe that an extensive amount of money laundering and profit skimming takes place in card clubs.

Several methods reportedly used by COC members to launder funds at card clubs include:

The money launderer may buy large amounts of chips with cash, then bet only a small portion of the chips (10 percent-20 percent), spread out over several tables. The money launderer then will cash in the remaining chips after he or she has gambled so as to make it appear that this money is derived from gambling.

The money launderer may deposit a large amount of cash in a credit account at a card club, then he or she will withdraw most of it later so as to make it appear that the money is derived from gambling.

The money launderer deposits a large amount of cash in his or her player account, then buys chips from the account and divides the chips among several people. These people cash in the chips giving the appearance that this money is derived from gambling.

The money launderer physically exchanges small denomination bills for larger ones at card club windows.

Card clubs are legal in the State of California. These clubs are licensed by the State's Department of Justice and are regulated by the municipality in which they operate. There are 302 licensed card clubs in California. The top 30 clubs generate approximately 90 of the total gambling revenues in California.

Law enforcement officials indicate that the only transaction records maintained by card clubs are player bank records. Regardless of how much money is exchanged at the playing table, there are no records recording the transactions at the table.

The Internal Revenue Code requires trades and businesses to file Form 8300, Report of Cash Payments Over \$10,000 Received in a Trade or Business, each time a cash payment in excess of \$10,000 is received in one transaction, or two or more related transactions. Traditionally, there have been many problems with currency reporting by gambling establishments. Additionally, even Form 8300 reporting, if done, would not extend to transactions in which cash is paid out by a card club, such as cash winnings payments.

Intelligence indicates that Chinese Organized Crime groups in northern California use legal card clubs to launder substantial amounts of illicit proceeds from gambling, loan sharking, extortion, prostitution, and narcotics trafficking activities. Many bookmakers and other criminals allegedly maintain "cage" or "player" accounts at card clubs where they can deposit large amounts of currency and maintain balances to pay other "bookies," to secrete funds, and to avoid scrutiny by law enforcement authorities.

PRELIMINARY FINCEN ANALYSIS

FinCEN has provided law enforcement agencies with a preliminary analysis of unusual or suspect currency flow activity within certain California areas. The preliminary analysis was based on Federal Reserve data and Department of Treasury's Financial Database information. The areas of focus were the focal points of suspected COC activity.

FINCEN CURRENCY FLOW ANALYSIS

FinCEN plans to complete an in-depth analysis of those areas exhibiting unusual currency flows which may indicate money laundering activity on the part of Chinese Organized Crime groups. This analysis will incorporate case information, currency flow data, and other database information.

FinCEN has examined CMIR data reflecting the reported inbound and outbound currency figures for Hong Kong, China, Taiwan, Thailand, and South Korea with respect to total reported currency transportations for the period 1988-1991. Currency figures for China, Taiwan, Thailand, and South Korea were, by comparison, negligible; our emphasis is on Hong Kong as the major Far East repatriator of U.S. currency. We have also compared reported inbound currency transportations from Hong Kong with comparable data on three other primary countries returning U.S. currency—Mexico, Argentina, and Panama.

Total reported U.S. inbound currency activity remained relatively stable during 1988, 1989, and 1990, but increased 87 percent in 1991 to over \$20 billion (see Chart 1).¹ Reported outbound currency activity, by contrast, increased considerably in 1988 and 1989, reaching a peak in 1990 at over \$32 billion, and then decreasing 14 percent in 1991 (see Chart 1).² It is estimated that one-half to two-thirds of U.S. currency in circulation (\$150-\$200 billion, of \$307 billion total) is held overseas, and while the gap between outbound and inbound currency narrowed in 1991, there was still a considerable net export of U.S. currency.

One possible partial explanation for the sharp rise in dollars returning to the U.S. is the issuance of the new \$100 bill in August 1991. This may have caused a repatriation of existing \$100 notes to be exchanged for the new notes. FinCEN is continuing to examine these currency figures along with Federal Reserve and commercial bank currency shipment data to determine the extent of the impact of the new \$100 note and to identify any other significant trends or explanations.

Possible explanations for the 1988-1990 increase in exported/outbound currency are Federal law enforcement efforts and the cooperation of financial institutions. The early and mid-1980's saw the proliferation of "smurfing" activities. Smurfing is the practice of deliberately structuring numerous cash transactions at less than \$10,000 each, at one or more financial institutions, in order to avoid the \$10,000 Currency Transaction Reporting threshold. As smurfing increased, so did law enforcement efforts to combat it. These efforts included enforcement of bank compliance with the BSA reporting requirements and enhanced cooperation between banks and law enforcement.

Financial institutions also began their own training programs in money laundering awareness and established "know your customer" policies, which have helped protect them from liability and to enhance further cooperation with law enforcement and regulatory personnel. These efforts made the smurfing option less attractive, and much currency that might have been "smurfed" began to be physically exported, possibly causing an increase in the outbound currency reporting on CMIRs.

Chart 2¹ illustrates reported outbound and inbound currency activity to/from Hong Kong for the period 1988-1991. Outbound currency figures increased unremarkably during this time period. Inbound currency activity, however, exhibited some significant fluctuations. From 1988-1990, inbound currency activity decreased from over \$1.5 billion to under \$700 million, yet at the same time the actual number of CMIR filings increased. In 1991, the number of inbound CMIR filings increased only 16 percent, while the inbound dollar amount increased 540 percent to over \$3.8 billion.

Two possible explanations for this dramatic increase are the repatriation of existing \$100 notes and the impending re-annexation of Hong Kong to China in 1997. We believe that the repatriation of \$100 notes may account for some of this activity. Unfortunately, the CMIR form does not identify how much of the returned currency is in \$100 notes. The impending re-annexation of Hong Kong to China in 1997 may be causing some capital flight from Hong Kong to the U.S. and to other countries. The extent of these and other possible factors causing the return of U.S. currency is difficult to determine, but FinCEN is continuing to monitor the situation.

Chart 3² illustrates the amount of currency (as reported on CMIRs) returned to the U.S. by the top four countries returning U.S. currency during 1988-1991. Hong

¹ Chart 1 which was marked as Exhibit 109 and can be found on page 217.

² Chart 2 which was marked as Exhibit 110 and can be found on page 218.

³ Chart 3 which was marked as Exhibit 111 and can be found on page 219.

Kong is the second largest repatriator of U.S. currency behind Mexico, followed by Argentina and Panama. The table below lists each of these countries' percentage of total reported U.S. currency returned.

Percentage of Total Reported U.S. Currency Returned

	1988	1989	1990	1991
Mexico.....	26.6	30.6	29.2	20.4
Hong Kong.....	12.7	8.5	5.3	18.0
Argentina.....	1.9	7.4	6.4	4.7
Panama.....	3.7	4.1	6.5	4.1

One explanation, at least in part, for Hong Kong's strong showing is its dominance as a center of banking and finance in the Far East. Much U.S. currency that makes its way to many of the surrounding countries eventually reaches Hong Kong for shipment to the U.S. This fact, combined with the lack of currency transaction reporting requirements, makes Hong Kong an excellent target area for the laundering of large amounts of U.S. currency.

When discussing what this CMIR data represents and the conclusions that may be drawn from it, it is important to understand the limitations of the data, which include:

CMIRs represent only reported currency transportations; there is significantly more currency crossing our borders than is reported. For example, currency has been illegally smuggled across the southwest border into Mexico, and then "legitimately" brought back into the U.S. with a CMIR filed reporting its importation. This CMIR can be used by the smuggler as documentation showing a "legitimate" source for the currency (imported from Mexico). This type of scheme could cause inbound figures to be significantly higher than outbound figures (as in Mexico's case).

There are instances where currency shipments may be double-reported. This usually occurs when a bank ships currency to a foreign bank via commercial carrier. The bank will file a CMIR as will the courier when crossing the border. Since it is estimated that banks account for 80 percent of the currency shipped out of the U.S., this may pose a significant problem. FinCEN is attempting to determine the extent of this problem.

It is also important to remember and take into consideration the many factors that influence international finance before trying to pinpoint specific causes for currency flows and fluctuations.

FINCEN ACTIVITIES

FinCEN provides direct support to law enforcement agencies engaged in investigating Asian Organized Crime cases. In FY 1991, FinCEN generated a total of 58 intelligence reports in support of AOC cases. During FY 1992 through May 31, 1992, FinCEN generated 25 intelligence reports on Asian-related heroin investigations. FinCEN also provides proactive targeting information to law enforcement agencies. To date, FinCEN has provided law enforcement agencies with 23 proactive targeting reports concerning Asian Organized Crime activities.

CONCLUSION

FinCEN is continuing to procure financial intelligence on COC money laundering from law enforcement. By so doing, we will be able to analyze this information collectively, to gain a better understanding of the specific money laundering methodology used by COC members. Accordingly, we will be better able to identify the location of COC funds; this will aid law enforcement in making asset seizures. In addition, we will learn more about criminal group patterns and trends, thus enabling law enforcement agencies to better target COC violators and violations. I thank you Mr. Chairman, and the other Members of this Committee, for the opportunity to share with you the results of FinCEN's efforts to learn more of the techniques and methodologies COC groups use to launder the profits of their illicit activities, both domestically and internationally. I would be pleased to answer questions concerning FinCEN's activities in the analysis of Chinese Organized Crime.

PREPARED STATEMENT OF MR. SICKLES

VISA International submits this statement in connection with its oral testimony presented on June 18, 1992 to the Permanent Subcommittee on Investigations of the Committee on Governmental Affairs ("Subcommittee") regarding the role of Asian organized crime groups in the important global problem of credit card fraud. The Subcommittee is to be commended for holding these hearings concerning this growing problem and its impact on the peoples and economies of many nations.

VISA International is submitting this statement on its own behalf, as well as on behalf of MasterCard International Incorporated. MasterCard International shares VISA International's strong concern with the important international credit card fraud issues being considered by the Subcommittee. Given time constraints, this statement primarily reflects the experience of VISA International with respect to international credit card fraud. MasterCard International would like to submit an additional statement to the Subcommittee concerning its experiences in this regard.

VISA International is an international membership association comprised of over 22,000 financial institutions in the United States and around the world that are licensed to use the VISA service marks in connection with payment systems, including credit cards. Through its members, VISA International provides a global network for effecting transactions and is the largest and most widely recognized consumer payments system in the world. VISA International itself does not directly serve consumers or merchants. It provides world-wide telecommunications services, sets operating standards and develops new payments products, enabling its members to provide their customers with a convenient, low-cost means of consummating a high volume of transactions throughout the world. Member institutions determine the terms and conditions of providing VISA services to their customers, both cardholders and merchants. This structure encourages competition among members and with other payments systems.

VISA International is headquartered in San Mateo, California, with its U.S. Region headquarters located there as well. The Latin America Region headquarters is in Miami, Florida; the Canadian Region headquarters is in Toronto; the Asia-Pacific Region headquarters is in Tokyo, and the Europe, Middle East, and Africa ("EMEA") Region headquarters is in London.

Each Region has its own investigative staff responsible for identifying and monitoring bankcard fraud activities and working with the member banks of the Region to control fraud. VISA International also has a headquarters staff responsible for coordinating multi-Regional investigations and assisting the Regions with their programs and activities.

VISA'S EFFORTS TO ADDRESS CREDIT CARD FRAUD

VISA's¹ full-scale efforts to combat credit card fraud began in the early 1980s when there was a sudden and dramatic upsurge in the use of counterfeit cards. This upsurge peaked in 1984 when VISA members sustained nearly \$40 million in losses from transactions involving counterfeit credit cards. Approximately 90% of these losses occurred in the United States, a substantial portion of which was attributed to organized crime activities.

Early credit cards were relatively easy to counterfeit, requiring little more than embossing numbers on a simple, silk-screened piece of plastic. The bankcard industry redesigned the card to incorporate a number of enhanced security features which made it much more difficult to counterfeit. While the hologram was introduced as one of these security features, it was the enactment of the Credit Card Fraud Act of 1984 that provided much needed support to VISA's fraud-prevention activities. The Credit Card Fraud Act, which made credit card fraud a Federal crime, greatly assisted in reducing losses from counterfeit credit cards in the United States to approximately 20% of the overall \$12.4 million in losses sustained from this type of fraud worldwide in 1988.

While the counterfeiting of VISA cards declined steadily during the late 1980s, today it is on the rise again, due primarily to the criminal activities of extremely sophisticated, organized counterfeiting rings in VISA's Canadian, Asia-Pacific and EMEA Regions. Of particular concern today is electronic counterfeiting, which involves the encoding of fraudulently obtained account information on the magnetic stripe of either lost, stolen or counterfeit credit cards. These methods may account for as much as 90% of all losses from counterfeit credit cards reported.

¹ The name "VISA" is used herein to mean VISA International, its United States affiliate, VISA U.S.A. Inc. ("VISA U.S.A."), and related VISA member associations.

VISA and its financial institution members have aggressively addressed electronic counterfeiting practices and have remained committed to pursuing all appropriate measures to combat this growing international problem. In this regard, VISA actively cooperates with international enforcement agencies. For example, in cooperation with the International Association of Credit Card Investigators ("IACCI"), VISA U.S.A. regularly presents educational programs designed to heighten the awareness of both merchants and law enforcement officers regarding counterfeit credit card activities throughout the United States.

VISA also is continuing to educate its member financial institutions and consumers about fraudulent credit card practices. For example, VISA U.S.A. has sent several communications to its member financial institutions concerning the problem of counterfeit credit cards and has prepared "statement stuffers" for members to distribute to cardholders warning of the dangers posed by credit card fraud. VISA U.S.A. has developed fraud awareness manuals and videotape programs for both its members and law enforcement officials in an effort to heighten their awareness of credit card fraud activities. Also, VISA U.S.A. presently is preparing a curriculum on credit card fraud to be used at the Federal Law Enforcement Training Center. VISA U.S.A. keeps its members advised on fraud concerns through its Strategic Information Line, an electronic bulletin board utilized by VISA U.S.A. members as an information exchange resource.

ASIAN CRIME GROUPS AND NEW TYPES OF CREDIT CARD FRAUD

Just as the threat of substantial losses due to traditional forms of credit card counterfeiting resulted in the introduction of enhanced security features in the credit card itself, the placement of electronic verification terminals at merchant locations in the 1980s and the enactment of the Credit Card Fraud Act, the new threat of counterfeit and re-encoded magnetic stripes demands a technological response. It is relatively easy and inexpensive to re-encode a valid account number onto an existing magnetic stripe, as well as to re-emboss a different account number of the face of a stolen card.

Valid account numbers are often obtained for fraudulent purposes from unsuspecting VISA cardholders by criminals working in various, otherwise legitimate merchant locations, such as hotels and restaurants. These account numbers and other personal information are then furnished to criminals who encode the data on the magnetic stripe of counterfeit or stolen credit cards.

The counterfeiting of the credit card's magnetic stripe has emerged as a major threat to the global credit card payments system. Losses resulting from the alteration and/or re-encoding of the magnetic stripe have been experienced by all major credit card associations. While this threat first emerged in Asia and the Pacific, it has increasingly become a worldwide problem.

To reduce the risk from mass magnetic stripe counterfeiting, VISA International now requires that card issuers add a card verification value to the stripe. The card verification value is a unique check value calculated from the data encoded on the stripe using a secure cryptographic process. Once encoded on the stripe, the card verification value can prevent magnetic stripe counterfeit transactions by validating the other credit card information contained on the magnetic stripe during the authorization process.

While this process prevents the encoding of counterfeit cards and the reencoding of lost or stolen cards, it will not stop "skimming." Skimming is the process by which the magnetic stripe information on a legitimate, valid card can be copied onto the magnetic stripe of a counterfeit, lost or stolen card. VISA is currently implementing a long-term plan to utilize magnetic verification value technology known as the "watermark magnetic stripe."

Asian organized crime groups involved in credit card fraud are generally comprised of individuals from various elements who do not always stay with one specific crime group, but move among groups. There is, however, usually a common denominator among these groups which provides a network for their activities. For example, the members may be from the same geographical region, may know someone within the group or may have a family member within the group, etc. The dominant factors often are that members are of the same ethnic group and speak the same dialect.

The majority of the organized crime groups have their origin in Hong Kong, Malaysia or Taiwan and the leaders of the groups usually remain in these locations. The groups reportedly have recruited individuals from the Peoples' Republic of China who have criminal backgrounds and may now be recruiting former members of the Chinese Army from Southern China who have been recently released from

the Army. By joining with the organized crime groups in Hong Kong these new recruits are provided an easy and quick way to make money. They are useful to the groups, because these recruits, if caught, are expendable.

The usual *modus operandi* of these crime groups is as follows. Valid cardholder account numbers and expiration dates of the accounts are obtained from crime group associates at various merchant locations or, in some cases, from crime group associates in banks. The account numbers preferred by the crime groups are from business credit cards and "gold" cards because of their higher credit limits. Lost or stolen cards are re-embossed and re-encoded with this account information. Recently, there has been an increase in the number of new counterfeit cards being manufactured by criminal organizations in Taiwan, Hong Kong, and China which have the technology necessary to replicate or counterfeit the hologram. These new cards are also embossed and encoded with compromised valid account numbers. The embossing and encoding usually takes place in Hong Kong and Malaysia as well as on location where crime group members will be making their purchases.

The leaders of the crime organizations usually recruit a group of about six young Chinese males to travel to various locations around the world to purchase goods. These individuals are provided with stylish clothing and accessories to give the impression of affluent travelers which enables them to blend in with the clientele of the targeted merchants.

The target country or city usually is easily accessible by air, is a normal tourist destination, has high-value items available for purchase (such as, jewelry, watches, electronics, high-fashion clothing), has lax laws and/or prosecution relating to credit card fraud, and, generally has a native Asian community that includes elements who are willing to provide a support role and assist in identifying specific merchants that would be susceptible to fraudulent activities.

The group of criminals usually travels using their own legitimate passports and other identification documents. The counterfeit credit cards, along with counterfeit identification supporting the credit cards, are usually sent by legitimate worldwide courier services to a contact in the target destination so the mission will not be jeopardized in the event that the members and their luggage are searched as they enter the country.

Purchases are made with the counterfeit cards until the criminals are unable to obtain authorizations, at which time they dispose of the cards or re-encode the magnetic stripes with new account numbers. The items purchased are either shipped to a contact in another country (generally a dutyfree location) where the merchandise is sold; or the merchandise is sold to a cooperating merchant in the country where it was purchased. In the latter instance, the proceeds are deposited in a local bank account and then wiretransferred to a bank account in the crime group's home country.

As this counterfeit activity increases around the world, there have been more and more instances of cases involving Asian organized crime group activity in the United States which affects United States banks. For example, valid United States VISA cardholder account numbers may be obtained anywhere in the world, as outlined above, and encoded on counterfeit credit cards which will be used worldwide. A summary of recent cases that actually occurred in the United States and Guam provides some examples of the problem.

In March 1992, two Chinese males were detained in Phoenix, Arizona after attempting to buy an expensive watch at a local jewelry store. One of the suspects was in possession of two counterfeit VISA cards. The cards bore the graphics of a U.S. bank; however, the numbers on the cards were VISA account numbers issued by a Japanese bank. The same VISA account numbers were also used for purchases in Hong Kong following the incident in Phoenix. Also, the names embossed on the cards previously had been used on counterfeit cards in Guam in January of this year. In addition, an address in California on a bank account related to these card numbers was identified as being associated with an Asian crime group. This account had been used to transfer funds to a Hong Kong bank.

Since the end of February 1992, over 20 VISA account numbers from one U.S. bank have been compromised at a Chinese merchant location in Seattle, Washington. There has been fraudulent activity on these accounts involving counterfeit account data in Toronto and Vancouver, Canada, as well as Seattle. Investigation is ongoing in this matter, and it appears that crime group members may be using extortion methods to persuade some merchants to accept counterfeit cards for purchases of high-value merchandise.

Last fall, three crime group members were arrested in Guam after having purchased over \$300,000 worth of expensive watches. They had entered Guam from Hong Kong, while the counterfeit credit cards had been concealed in a hollowed-out

book that had been sent by courier from Hong Kong. The credit card graphics were of a Hong Kong bank and the VISA account numbers were from banks in the U.S., the United Kingdom and Japan. One of the individuals indicated to enforcement authorities that they were "testing" the market in Guam with the intent of continuing on to Hawaii and the West Coast of the United States.

The majority of losses from counterfeit credit cards are associated with magnetic stripe counterfeiting. White plastic counterfeiting, where the face of the card contains no graphics or trade name and the back has only the magnetic stripe, is associated with collusive merchants; the counterfeiting of the magnetic stripe onto valid cards affects legitimate and innocent merchants.

Canada has had significant problems with credit card fraud. Canada's problem arise, in part, from the lack of adequate laws and prosecution resources. Canadian authorities are presently reviewing current laws to develop an enforcement strategy and determine whether new legislation should be enacted. Canada, as a member of the British Commonwealth, is also more susceptible to infiltration by crime group members because of the ease of entry from Hong Kong, a British territory.

Apprehension of perpetrators along with prosecution and incarceration are important factors in controlling the growth of the problem; but the organized crime groups are quite aware of these factors as they plan their operations. Where the rewards are great and the risk of apprehension and prosecution is low, counterfeit activity will continue to increase.

COMBATting CREDIT CARD FRAUD

VISA continues to look at new technology in order to improve the security features of credit cards themselves and the credit card payments system as a whole. One method to protect the account number from being skimmed is the Watermark Magnetics¹ process. This technology would be used to determine the magnetic verification value of the magnetic stripe. It improves the security of the current magnetic stripe by embedding within the stripe a serial number which cannot be altered or effectively copied. This serial number can be read in specially equipped terminals and ATMs and could be used in conjunction with the card verification value discussed above. VISA is utilizing the possibilities of this new technology in a long range plan to improve security. The more sophisticated the technology, the more money and time must be invested by criminal groups in order to defeat the security features. This new security technology is being shared among the bankcard industry associations in order to enable all credit card issuers to minimize their fraud losses.

As for the current law enforcement effort in the United States, the investigation of credit card fraud must compete for resources and enforcement priorities with investigations of other crimes. This competition sometimes causes delay. Also, investigation of these new types of credit card fraud is complicated, timeconsuming, and crosses enforcement jurisdictions and national borders. These factors hamper the investigation and prosecution of credit card crimes.

The Secret Service, Federal Bureau of Investigation, and Postal Inspection Service have all been cooperative in working with VISA; however, they have been limited by a lack of resources to allocate to this type of credit card fraud problem. Of benefit would be more resources for agents knowledgeable about and trained in investigating Asian crime groups and dedicated to working these cases in conjunction with investigators of the bankcard associations. There is increasing evidence that these groups commit many types of crimes and the proceeds of their counterfeit activity help to finance other criminal activity. The groups are global in scope and are able to exploit the weaknesses of a system, whether it be commercial or governmental.

VISA has established a worldwide 24-hour investigative assistance desk that has multilingual operators available to expedite investigative requests between countries and time zones. In addition, VISA has initiated a program to identify those nations that have been targeted by these crime groups because of inadequate criminal laws and enforcement, and is working with its members and the other bankcard associations to enact criminal legislation in these countries to deal with credit card fraud.

VISA also has been meeting with international investigative organizations, such as IACCI, Interpol and the International Association of Asian Organized Crime Investigators, in order to increase their awareness of the problem and to advise them of our willingness to assist and provide expertise in their investigations. VISA has recently brought into the Security and Fraud Investigations Department of VISA International an expert in card and travelers cheque manufacturing and printing to

¹ Trademark

examine recovered counterfeit cards and travelers cheques that have not been examined by foreign law enforcement agencies. This expert will identify the common cards that are being used around the world and advise the foreign investigative jurisdictions involved.

VISA and MasterCard believe that Congress should appropriate new, or reallocate existing, funding and resources to combat the international credit card fraud problem and Asian crime groups in particular. In addition, U.S. law enforcement agencies should augment existing inter-agency coordination within the U.S. government, between Federal and State authorities and internationally, in bilateral and multilateral contacts.

Congress also should amend the Credit Card Fraud Act to grant State and local prosecutors authority to enforce this statute in the Federal and/or State courts. MasterCard and VISA have worked closely with these law enforcement officers and has found them to be responsive in pursuing credit card fraud under state law. This grant of additional authority would expand the statutory tools available to state and local prosecutors and bring additional enforcement resources to bear on the problem of credit card fraud.

VISA and MasterCard International appreciate this opportunity to present their views to the Subcommittee. MasterCard and VISA have been working closely with the Senate and House Judiciary Committees and other concerned Congressmen and Senators to develop and enact amendments to the Credit Card Fraud Act which would expressly address other new types of credit card frauds. In addition, VISA and MasterCard have worked with the Congressional appropriations committees to help secure additional enforcement resources to combat credit card fraud. MasterCard and VISA intend to continue these efforts. In addition, VISA and MasterCard would be pleased to work with the Subcommittee and its staff in other initiatives designed to expressly address the international fraud activities that the Subcommittee is now investigating.

TUESDAY, AUGUST 4, 1992

PREPARED STATEMENT OF MR. ORCHARD

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 to 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 translates roughly 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 1st 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 two law enforcement agencies and an exhibit identifying these 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 of 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 under way by 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 Yugo 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 Tao Yuai Jigyo Kumiai or TYJK. This group has only an estimated 886 members, but many of the group's 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. He 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 1982 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 was reportedly used to obtain a loan from Mitsubishi Bank to cover the purchase. Itoman is a firm of ques-

tionable 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 which is based in North 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 agency we spoke with 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 later today 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 are either currently or formerly holding 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 a 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.

PREPARED STATEMENT OF MR. LORD

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 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 14K 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 these 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 to agreement voluntary 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, especially 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 concerns at the U.S. State Department about, among other things, the effect such a step would have on U.S. relations with the People's Republic of China seem 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 People's Republic of China 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 an extradition agreement 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 Taiwanese officials are important to the government's case which involves a 1,080-pound heroin shipment seized in Hayward, California which was 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 a 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 in a key location for Asian organized crime, and whatever the status of the official relationship between the United States and Taiwan, we must take that reality into account.

PREPARED STATEMENT OF MR. COHEN

Thank you Mr. 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:

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 U.S. market.

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 U.S. markets.

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 long-standing 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.

PREPARED STATEMENT OF MR. ROEBER

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 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 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:

In the initial phase, producers and refiners in Burma, Thailand and Laos obtain raw opium from farmers and refine it into heroin. Some three-quarters of the region's heroin refining capacity is concentrated just inside Burma.

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.

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.

Finally, retail distribution networks in the U.S. 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 U.S. 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 U.S. 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 very 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 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 the cargo companies, and arranging documentation of shipments. Heroin traffickers also used tour and travel companies as 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 1970's 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 that we face a daunting challenge from criminal organizations, Asian and others, that are trafficking in 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:

First, opium production in the region is booming and is likely to grow further.

Second, trafficking networks are diverse and expanding.

Third, each heroin shipment is unique and could involve different players.

Fourth, traffickers' use of semi-legitimate businesses and containerized shipping makes heroin shipments extremely difficult to detect.

And finally, although they by no means are the only crime groups in drug trafficking, secretive Chinese triads and other criminal associations with well-established links to the U.S. market play a major role in organizing heroin shipments.

Mr. Chairman, I would like to thank you and the Committee members for this opportunity and I will be happy to answer any questions you have at this time.

PREPARED STATEMENT OF MR. KON

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 as 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 U.S. 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 U.S. Government until 1975, when I left Saigon on the last plane, 3 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 business people 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 night clubs 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 to 40 million Hong Kong dollars (\$4-5 million U.S.). As a result, I looked for new business opportunities and I 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 traveling 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 of 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 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 to 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 caliber 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" adviser. 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 to 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 No. 4 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 Routollo to bring the heroin to New York, where a friend who was also a Wo On Lok and a 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 five units, 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. 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 vast 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 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 the 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 misfortune 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 did not 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 Kwa-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 a half pounds) could be hidden in a compartment in each ice bucket. Over five shipments were successfully brought into the U.S. 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 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. I called a settlement meeting in Tokyo in July of 1985, followed 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 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.

PREPARED STATEMENT OF MR. "BULLY"

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 this game of hanafuda. 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 Chi-No-Shudan, which means "those who gather 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 from 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 legitimate 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 then 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 then 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 largest 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 Wa-

tanabe. 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 yen 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 interest 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 they will fail to reach agreement at this stage. The developer will then call on a rival of the Boryokudan, 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 advance.

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. 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 decades, 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. A good deal 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 50 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 U.S. 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 Philippines, 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 Philippines, 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 on 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.

ASIAN ORGANIZED CRIME
(Ethnic Chinese Groups)**Sun Yee Triad (Hong Kong)**

- Largest Hong Kong-based Triad
- 25,000+ members
- 2,000+ office bearers
- Associates in New York City, Los Angeles, Canada, Australia and Thailand

Wo Group (Hong Kong)

- 20,000+ members within 10 subgroups
- Wo Shing Wo Triad is largest subgroup
- Wo Hop To Triad has a major base of operations in San Francisco

14K Triad (Hong Kong)

- 20,000+ members
- Over thirty subgroups
- Leadership is dispersed
- Associates in the United States, Canada, Australia and throughout the Far East

Luen Group (Hong Kong)

- 8,000+ members in 4 subgroups
- Luen Kung Lok Triad has a strong presence in Toronto and has associates in the U.S.

Big Circle Gang (PRC/Hong Kong)

- Created by former "Red Guards" from China who fled to Hong Kong
- Most members are also Triad members
- Cells active worldwide; particularly active in Hong Kong, Canada, New York

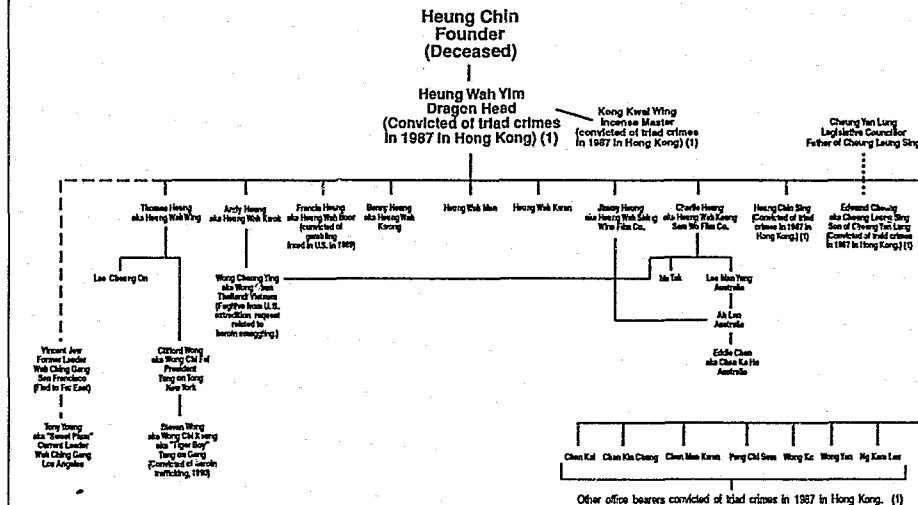
United Bamboo Gang (Taiwan)

- Largest Taiwan-based group
- 20,000+ members
- North American operations in Houston, Los Angeles, New York and Vancouver

Four Seas Gang (Taiwan)

- Second Largest Taiwan-based Group
- 5,000+ members
- U.S. operations in Los Angeles

SUN YEE ON TRIAD



Prepared by: United States Senate
Permanent Subcommittee
on Investigations

Note: (1) Reversed on appeal.

WO HOP TO TRIAD

Chan Ting Hung
aka Chan Tai
aka "Crazy Tai"
aka Sor Chai Tai
aka Tom Hung Chan
Dragon Head

Hui Lui

Peter Chong
aka Chong Bing
Keung
aka Cao Fu
aka "Uncle"
San Francisco

No Tai Wah
Australia

Kung Chung Hoi
aka "Mao Tse"

Ng Lai On

Lau Wing Hop

Cheung CN Tai

Chan Kwok Ming

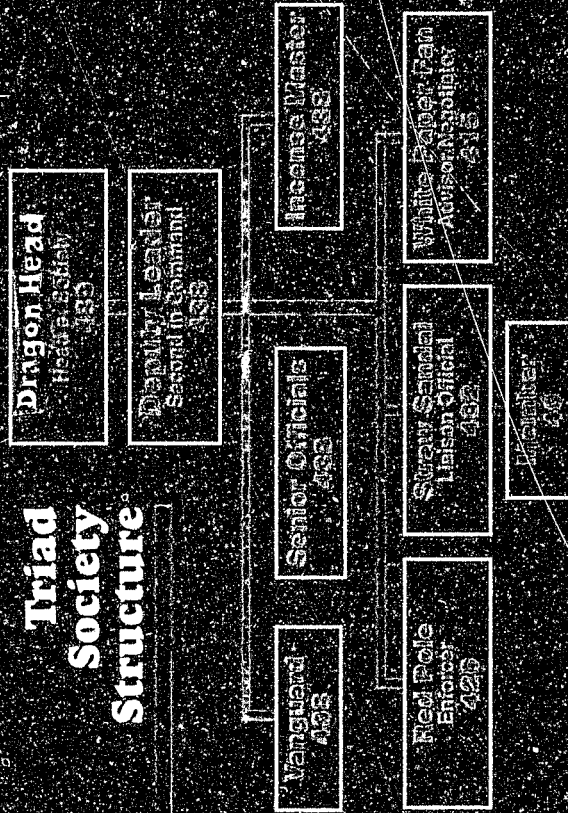
Chan Kwok Keung

Lo Wai Fu

State Department Intelligence
on Foreign Groups

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Triad Society Structure



Senate Permanent Subcommittee
on Investigations

EXHIBIT D 77



Senate Permanent Subcommittee
on Investigations

EXHIBIT # 11



Senate Permanent Subcommittee
on Investigations

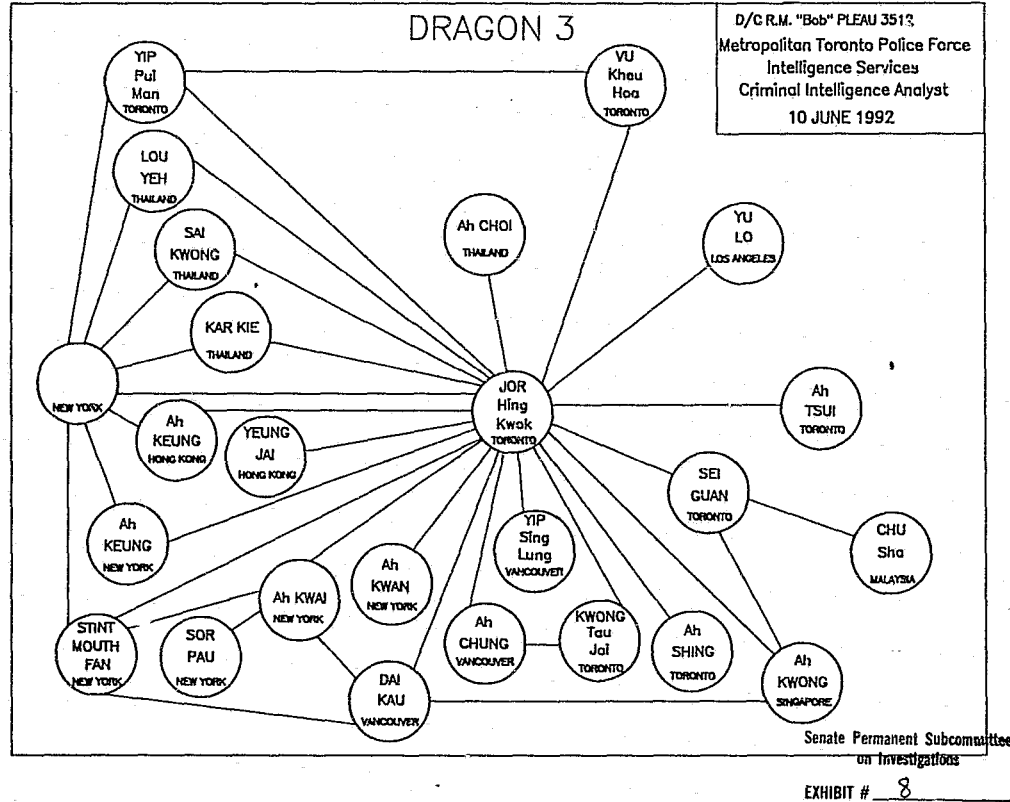
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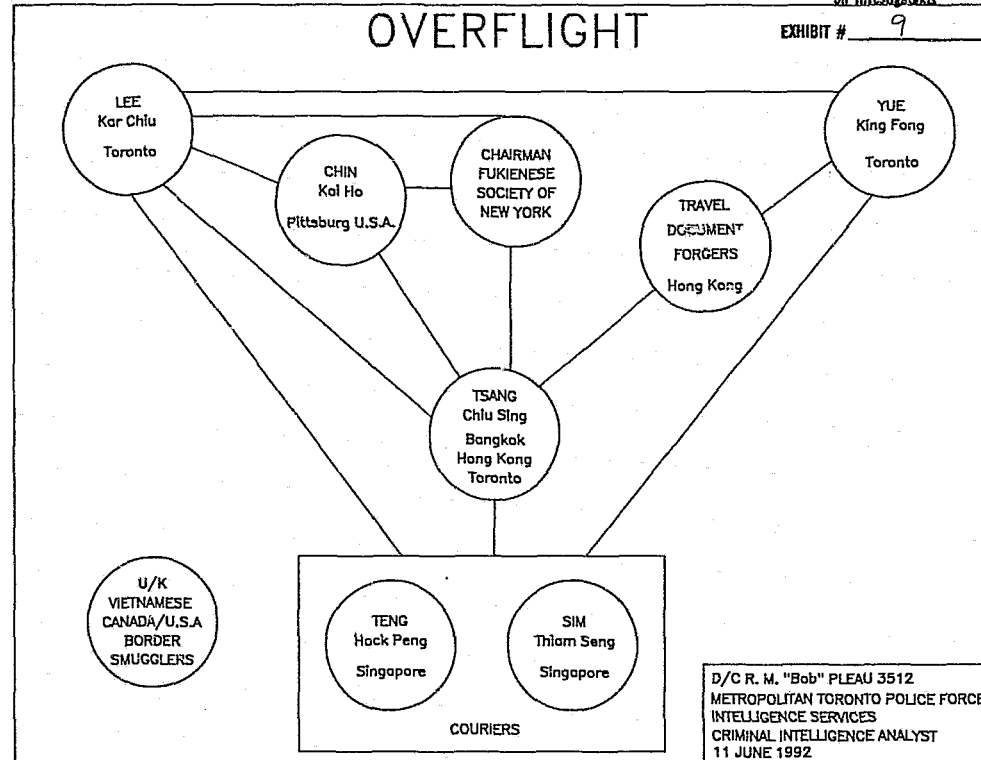


United States Permanent Subcommittee
on Investigations

EXHIBIT 2

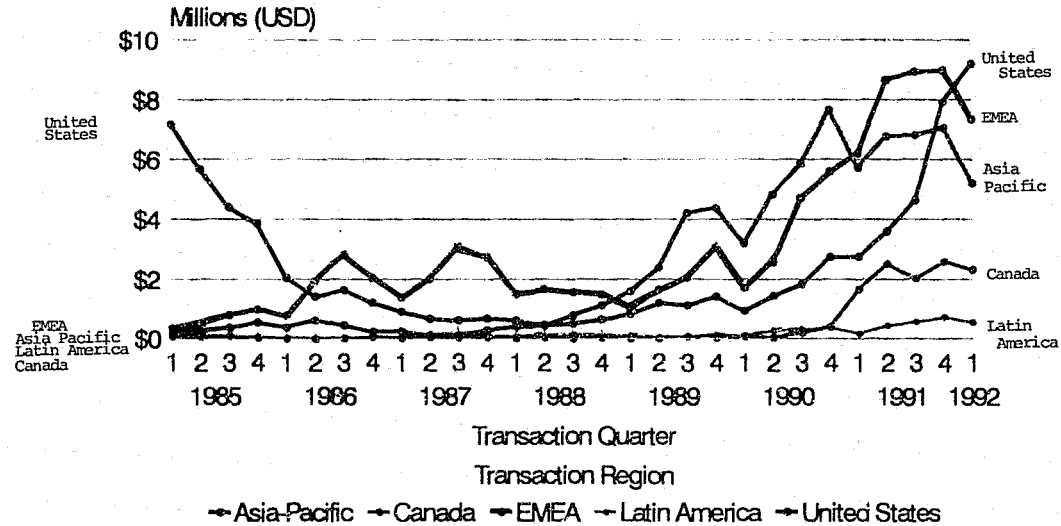






Visa International

Worldwide Visa Card Counterfeit Losses



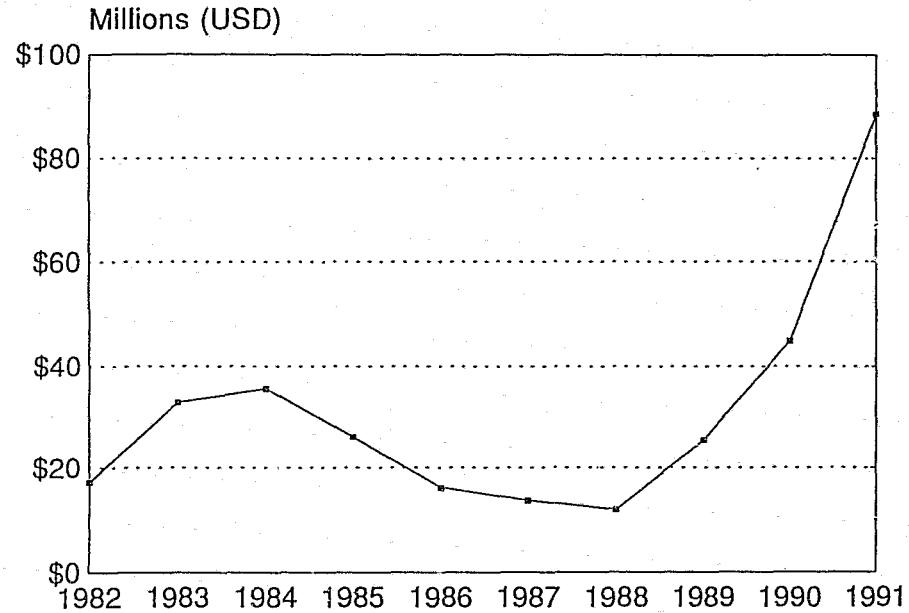
Reported as of 2 June 1992. The First Quarter 1992 is 85 percent complete.

Visa International

Worldwide Visa Card Counterfeit Losses

Senate Permanent Subcommittee
on Investigations

EXHIBIT # 11



VISA INTERNATIONAL
Risk Management and Security
Reported Fraud Activity

Fraud Types by Region of Transaction (US\$ Thousands)

Region: USA Region

FOUR QUARTERS ENDED

Confirmed Fraud Types	31 DECEMBER 1991		31 DECEMBER 1990		Change in Reported Fraud	Fraud Growth
	Reported Fraud	% of Region	Reported Fraud	% of Region		
LOST	\$76,941	26.04%	\$36,656	19.74%	\$40,285	109.9%
STOLEN	\$84,507	28.60%	\$54,882	29.55%	\$29,624	54.0%
CARD NOT RECEIVED	\$81,808	20.92%	\$38,724	19.77%	\$25,084	68.3%
FRAUDULENT APPLICATION	\$9,700	3.28%	\$21,249	11.44%	(\$11,549)	-54.4%
COUNTERFEIT	\$19,015	6.44%	\$8,906	3.72%	\$12,109	175.3%
MISC. NOT DEFINED	\$16,375	5.54%	\$11,601	6.25%	\$4,774	41.2%
FRAUDULENT USE OF ACCT. NO.	\$27,086	9.17%	\$17,708	9.53%	\$9,377	53.0%
REGION TOTAL	\$295,431	100.00%	\$185,727	100.00%	\$109,705	59.1%

Confirmed Fraud Volume as of 4/22/92.

VISA INTERNATIONAL
Risk Management and Security
Reported Fraud Activity

Distribution of Country/State of Transaction (US\$ Thousands)

Region: USA Region

Country/State	FOUR QUARTERS ENDED					
	31 DECEMBER 1991	% of Region	31 DECEMBER 1990	% of Region	Change in Reported Fraud	Fraud Growth
CALIFORNIA	\$73,039	24.72%	\$41,285	22.23%	\$31,754	76.9%
NEW YORK	\$49,568	16.78%	\$36,043	19.41%	\$13,525	37.5%
FLORIDA	\$21,435	7.25%	\$16,070	8.65%	\$5,365	33.4%
ILLINOIS	\$19,256	6.52%	\$9,745	5.25%	\$9,510	97.6%
NEW JERSEY	\$14,636	4.95%	\$10,497	5.65%	\$4,139	39.4%
TEXAS	\$12,182	4.12%	\$6,803	3.66%	\$5,380	79.1%
MASSACHUSETTS	\$9,397	3.16%	\$4,815	2.59%	\$4,582	95.2%
PENNSYLVANIA	\$9,005	3.05%	\$5,970	3.21%	\$3,035	50.8%
GEORGIA	\$7,993	2.71%	\$5,210	2.81%	\$2,783	53.4%
NEVADA	\$6,919	2.34%	\$4,154	2.24%	\$2,765	66.6%
REGION TOTAL	\$295,431	100.00%	\$185,727	100.00%	\$109,704	59.1%

Confirmed Fraud Volume as of 4/22/92.

VISA INTERNATIONAL
Risk Management and Security
Reported Counterfeit Activity by Region of Transaction

Distribution of Country/State of Transaction (US\$ Thousands)

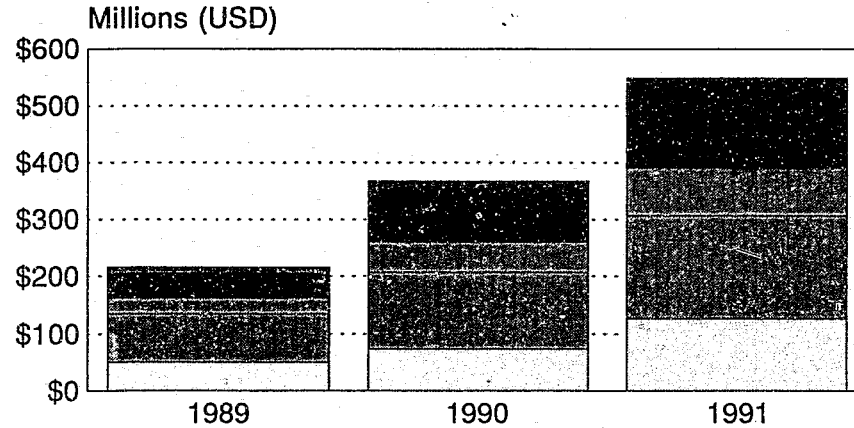
Region: USA Region

FOUR QUARTERS ENDED (Counterfeit Only)

	31 DECEMBER 1991		31 DECEMBER 1990			
Country/State	Reported	% of Region	Reported	% of Region	Change in Reported Fraud	Growth Rate
CALIFORNIA	\$8,106	42.63%	\$2,417	34.99%	\$5,689	235.4%
NEW YORK	\$2,717	14.29%	\$1,483	21.47%	\$1,235	83.3%
FLORIDA	\$748	3.94%	\$686	9.93%	\$63	9.1%
NEW JERSEY	\$492	2.59%	\$263	3.81%	\$229	87.2%
TEXAS	\$373	1.96%	\$152	2.20%	\$221	145.4%
WASHINGTON	\$355	1.87%	\$78	1.13%	\$277	356.1%
GEORGIA	\$333	1.75%	\$44	0.64%	\$288	648.1%
NEVADA	\$304	1.60%	\$181	2.61%	\$123	68.2%
PENNSYLVANIA	\$303	1.60%	\$73	1.06%	\$230	316.0%
ILLINOIS	\$286	1.50%	\$194	2.81%	\$92	47.6%
REGION TOTAL	\$19,015	100.00%	\$6,906	100.00%	\$12,109	175.3%

Confirmed Fraud Volume as of 4/22/92.

Visa International Worldwide Fraud Losses By Fraud Type



Lost	Stolen	NRI
Fraud Appl.	Counterfeit	Misc.
Fraud Use of Acct #		

Senate Permanent Subcommittee
on Investigations

EXHIBIT # 16

WRITTEN STATEMENT OF
MASTERCARD INTERNATIONAL INCORPORATED
FOR SUBMISSION
BEFORE THE PERMANENT SUBCOMMITTEE ON INVESTIGATIONS
OF THE
COMMITTEE ON GOVERNMENTAL AFFAIRS
UNITED STATES SENATE
SEPTEMBER 22, 1992

MasterCard International Incorporated¹ submits this statement to the Permanent Subcommittee on Investigations of the Committee on Governmental Affairs ("Subcommittee") regarding the role of Asian organized crime groups in the important global problem of credit card fraud.

Visa International had previously given oral testimony to the Subcommittee on June 18, 1992 and provided a written statement in support of its testimony both on its own behalf and on behalf of MasterCard International. MasterCard International believes the information contained in this statement augments the previous testimony of Visa International and will be of considerable use to the Subcommittee in its deliberations on this important subject.

Background

During the past two years the credit card industry has experienced an explosion of counterfeit fraud activities centered in and driven from Southeast Asia. MasterCard members' counterfeit losses increased 166.7% during 1990 and a further 74.6% in 1991 to reach \$US 57.5 Million. Today there exists two primary counterfeit centers in Southeast Asia: Hong Kong and Malaysia. The former of the two poses the most serious problem to the industry as certain ethnic Hong Kong Chinese groups have refined the production and use of counterfeit credit cards to a highly sophisticated level and extended their reach globally. As discussed in the Visa testimony, evidence of involvement of organized crime has also emerged in the way of groups known as Triads, which will be discussed in more detail later in this statement.

Counterfeit credit cards had previously reached a peak during the early 1980's with activity at that time centered in the United States. MasterCard pioneered the laser hologram as a security device for credit cards and was the first to mandate its use on its members' cards in mid-1986, resulting in an overnight drop in counterfeit losses of 60%. The advent of the hologram essentially controlled counterfeit losses for the bankcard industry for approximately three years.

In mid-1987, one year after the introduction of holograms, an event occurred which was to change the global focus of counterfeit cards and set the die for today's problem. Criminals in Thailand, who had previous limited experience in counterfeit card production and use, found a way to turn the genuine product against itself. They managed to heat flatten the genuine card and at the same time reencode the data contained in the magnetic stripe. Essentially they produced a genuine product with different genuine account details embossed and encoded on it that could also function in a point-of-sale environment. The information for the account data they placed on the flattened genuine cards was obtained from employees of international hotels who stole hard copies of overseas gold cardholders' sales drafts which contained account data. This system was to be adopted and refined by various ethnic Hong Kong Chinese groups two years later and such a location is today termed as a "point of

¹MasterCard International Incorporated is a membership organization comprised of financial institutions that are licensed to use the MasterCard service marks in connection with payment systems, including credit cards.

compromise."

By the close of 1987, counterfeiters in Thailand had produced the first counterfeit hologram card. The product had limited production and, although somewhat crude, was recognized as a potential threat. During 1988, the problem shifted to neighboring Malaysia where counterfeit losses during that year accounted for 13.4% of the global figure and 36.3% of the regional counterfeit losses. Malaysian counterfeiters also experimented with their product overseas with limited success, owing to its crudeness at that stage which was easily recognizable by merchants familiar with the genuine product. While counterfeit losses in Malaysia during 1991 accounted for the greatest single country total, the problem is essentially domestic to Malaysia both in terms of production and use.

In 1988, the first evidence of Hong Kong Chinese involvement in counterfeit cards appeared on the market, with a product much improved in quality. Hong Kong has long been known as the Asia/Pacific region's center for counterfeit monetary products, largely due to the ethnic Chinese population's exposure, familiarity and constant use of high-tech equipment in a wide variety of fields. The product was exported and used successfully in Japan as well as in the Hong Kong domestic market.

Hong Kong counterfeit card production continued during 1989, when the level of quality of the counterfeit product improved and the operating systems of the emerging counterfeit groups were developed.

In 1990, counterfeit card use both in Hong Kong and elsewhere exploded. In London, England six ethnic Chinese were arrested and 82 counterfeit cards were recovered. Four of the six were Hong Kong Chinese and the remaining two, British Chinese born in Hong Kong. Of the two British Chinese, one was determined to be a Triad figure in England. Investigations were to reveal the level of sophistication the group had reached in their operations. The "English" Chinese connection had canvassed and recruited in advance a number of merchants throughout the country to accept counterfeit cards. The Hong Kong Chinese then brought the products to London from Hong Kong and commenced using them at prearranged times organized with the merchants by portable telephones. Proceeds were wire transferred to various individual accounts in Hong Kong, Malaysia and Australia on a regular basis.

Subsequent investigations revealed the group was controlled by an office bearer (426 Red Pole) of the 14K Triad in Hong Kong and a tangled web of criminal association and points of compromise. The 426 office bearer has since been arrested and arraigned for trial in the Supreme Court of Hong Kong. Nine British merchants were later convicted for "Conspiracy to Defraud" in connection with the case.

During the same year, Canada became the focus of counterfeit card activities driven by ethnic Chinese from Hong Kong and losses rose from just over US\$4,000 in 1989 to nearly US\$500,000 in 1990. In 1991, counterfeit losses in the Canadian region rose

913%, placing it as the number four country for MasterCard global counterfeit losses, amounting to US\$4.4 million. In recent years many Hong Kong Chinese have emigrated to Canada, where long established Chinese communities have taken root, as a result of the impending transfer of power in Hong Kong to the People's Republic of China in 1997. This recent exodus has facilitated the establishment of connections between Hong Kong Triads and their Asian counterparts in major Canadian cities as well as with illegal immigrants from mainland China.

1990 also saw numerous arrests of ethnic Hong Kong Chinese using counterfeit cards within a number of European countries as well as Australia and other countries in the Asia Pacific region. Among those arrests were Triad members from the Sun Yee On, 14K and Wor On Lok societies.

The Hong Kong criminal card groups had by this time developed and stabilized to assume a distinct form and modus operandi. Unlike traditional criminal groups that have a pyramid type structure of control within the hierarchy, the ethnic Hong Kong Chinese groups involved in counterfeit credit cards were mercurial in nature. A group could consist of anywhere from two to six persons, but might only exist for a short period of time, sufficient to travel to a country and use the counterfeit cards. In this way, the individuals in the group would gain experience in the system. Some or all of the group members would then split up, certain of whom form their own groups and teach inexperienced recruits "on the job." While it would not be true to say that all of these groups are controlled by Triads, Triad influence certainly exists. In numerous arrest cases Triad membership is a common element and criminal records commensurate with Triads are frequently seen. Curiously however, there does not appear to exist any territorial or product rights in ethnic Hong Kong Chinese counterfeit card crime. Groups will include members of different Triads who happily work together for mutual financial benefit. In nearly all cases today, counterfeit cards from Hong Kong bear Chinese names and use is supported by counterfeit passports and other forged and counterfeit identity documents.

In limited cases, drugs have also been connected with the groups and this connection would appear to bear some relation to the dramatic rise of counterfeit card crime in the Netherlands. Hong Kong Chinese have long established drug ties with the Netherlands using it as a principal base in Europe. In a recent case involving ethnic Chinese obtaining cash advances in the Netherlands with counterfeit cards produced in Hong Kong, passports stolen during a burglary of a Dutch town hall were used by the criminals.

Once such groups commence operating in a country and have established local ties, they subsequently mail cards to contacts within that country using postal and courier services. Personal couriers are also utilized; typically they fly first class to three or four countries, dropping off large deliveries of counterfeit cards to groups along the way within those countries.

Europe came under attack in 1991 from the Hong Kong Chinese groups, while South Africa also became a target following the inaugural Cathay Pacific direct flight between Hong Kong and Johannesburg. The west coast of the United States has also suffered a meteoric rise in Hong Kong counterfeit card use, with counterfeit losses rising 106.2% in 1991 to US\$5.3 million. A further increase of 247.4% for counterfeit fraud was reported as of July 31, 1992, reaching US\$5.8 million.

For example, in March 1992 two Asian males were arrested in Honolulu for making purchases of luxury goods using counterfeit credit cards. The Honolulu Police Department recovered counterfeit Hong Kong Bank MasterCard cards and Visa cards, along with counterfeit travelers checks and identity cards. The defendants appear to be affiliated with Los Angeles area Asian gangs with probable Hong Kong connections. In another incident last June, an Asian male was arrested in Las Vegas for obtaining cash advances using a counterfeit Gold MasterCard card. Although the card appeared to be issued on a U.S. bank, it contained the cardholder name and account information of a Japanese citizen. The defendant was also carrying falsified identity papers.

The Asian connection to counterfeit credit card activities in the United States is clearly on the rise. MasterCard International will continue to cooperate with law enforcement authorities in the investigation of these and other incidents of credit card fraud.

Points of compromise have now spread globally, with merchants and hotels affected in countries as far apart as New Zealand, Canada, the United States of America and Europe. It is estimated that Hong Kong counterfeit cards used today account for approximately 70% of the industry's global losses, which topped US\$200 million in 1991. Undoubtedly, proceeds of this magnitude are channeled towards the development of more serious crime.

Combating Credit Card Fraud

The Security and Risk Management Department of MasterCard International has been at the forefront of the credit card industry in developing programs to combat and deter fraud and control losses.

The **MasterCard Fraud Reporting System** has been in existence since 1969, the first of its kind in the credit card industry. It is the central repository for fraud data within MasterCard International, and provides meaningful direction to MasterCard International's fraud prevention programs and security efforts. All MasterCard issuers are required to report fraudulent transactions to the Fraud Reporting System monthly.

The **Combined Terminated Merchant File/Special Merchant File** is a file maintained jointly with Visa of merchants who were terminated for cause and listed in

this file by the acquiring member². The Special Merchant File, a sub-file of the Terminated Merchant File, lists merchants who may or may not have been terminated by a member or members but have been classified as special merchants as the result of a merchant audit or other information developed by MasterCard International's staff. In excess of 23,000 merchants currently reside on this file, which acts as a tool to help acquirers assess risk prior to signing a merchant.

The **Merchant Audit Program** has been since May 1984. This program audits 100% of the worldwide merchants base on a monthly basis, assessing each merchant's fraud to sales ratio. It identifies any merchant whose fraud to sales ratio exceeds MasterCard International's Board of Directors mandated criteria for two consecutive months of a six-month period. Acquiring members have the option of terminating their merchant agreement or agreeing to accept chargebacks for all future fraudulent transactions for a minimum of one year. In excess of 7,000 merchants have been terminated since the program's inception.

The **Merchant Watch Program** identifies merchants whose fraud-to-sales ratio exceeds the MasterCard International Board of Directors' mandated criteria for two non-consecutive months of a six-month period. Acquiring members are not required to accept chargeback liability or terminate their merchant agreement, but are required to implement MasterCard International-approved fraud control program at the merchant location. In excess of 2,000 merchants have initiated fraud control programs since being identified by this fraud control measure.

The **Merchant Tracking Program** was created as an adjunct to the Merchant Audit Program. It was designed to prevent the migration of fraud from acquirer to acquirer. Any additional or new acquirers of a merchant that has been identified as a violator or watch merchant are subject to the same requirements of the original acquirer. For a violator merchant, the new or additional acquirer must terminate the agreement or accept chargebacks for the remainder of the designated chargeback period. An additional or new acquirer of a watch merchant receives an advisory letter that its merchant exceeded a MasterCard International threshold.

The **Excessive Counterfeit Special Merchant Audit Program** was developed to identify those merchants processing unacceptable levels of counterfeit transactions, exceeding the MasterCard International Board of Directors' criteria in any one month on one account. This program assists members in better managing their merchant business and identifying potential problems. In excess of 4,000 merchants have been identified by this program.

First Alert provides an early warning to member banks on a weekly basis by

²An "acquiring member" or "acquirer" refers to a financial institution that is a member of MasterCard International and contracts with merchants to accept MasterCard cards as a payment mechanism. Each such institution acquires MasterCard sales receipts from its MasterCard merchants and processes them through the MasterCard settlement system.

identifying transactions occurring on accounts listed on the authorization file for credit or fraud reasons. There is a report for both issuers and acquirers. Issuing members that participate in First Alert may also choose the option of the **Automatic Listing Service (ALS)**. ALS enhances the First Alert program by automatically monitoring the activity of any account listed in the previous week's Warning Bulletin. If an account experiences activity in any region other than the region in which it was listed, ALS will automatically add the account to the new region for thirty days.

The **Authorization Velocity Monitoring Report** monitors issuers' authorizations on a daily basis for unusual patterns of authorization activity. This information assists issuers in recognizing excessive authorization trends and patterns to identify potential fraud and counterfeit activities.

The **Address Verification Service** is a product enhancement which provides greater security to merchants and cardholders. The service protects against fraudulent use of cards, in non face-to-face transactions, by verifying the cardholder's billing address. This U.S. service has been available to the membership since November 1, 1989 and has been mandated for all U.S. issuers effective November 1, 1990. For 1991, an estimated \$40 million in potential fraud was avoided. An enhancement to the service to provide a "shipped to" address verification is under development.

Standards have been established to **improve card security features** through a package of enhancements. These features, which are available to issuers on an optional basis, include: indent printing of the account number on the signature panel, card validation code to be placed after the indent printed account number and also encoded in the magnetic stripe and an oversized unique symbol embossed onto the front of the card. In addition, a tamper-evident signature panel has been mandated for all cards issued after June 1992. These features qualify the member for counterfeit magnetic stripe insurance.

Issuers and acquirers with high counterfeit activity are subject to staff **operations reviews** to ensure compliance with MasterCard International's minimum security standards regarding manufacturing, embossing, and encoding of MasterCard cards.

The **Issuers' Clearinghouse Service (ICS)**, managed jointly by MasterCard International and Visa USA, is designed to curtail the fraudulent use of credit cards obtained through submission of fraudulent applications. The ICS program is for the benefit of card-issuing members in the United States. It features a central facility for storing, validating and tracking information used in credit applications and reports of fraudulent activity. An ICS promotional/training video is available.

The **Asia/Pacific Task Force** was established in 1989 to address critical Asia/Pacific counterfeit and fraud problems. Participants consist of European issuers and Asia/Pacific members. The Task Force has been successful in creating a high level of cooperation and positive action in the region.

The **Never Received Issue Task Force** consists of MasterCard International staff and members and law enforcement officials and was created to address the increasing problems of never received issue (postal) fraud.

The **Security Steering Committees** are comprised of members and MasterCard International staff worldwide, with meetings held in traditionally high-fraud areas (New York, Florida, and California). The meetings provide feedback to MasterCard International on existing programs, and provide insight and ideas for future fraud control efforts as well as create a forum for meaningful exchange of fraud prevention tactics among the members.

Issuers are notified daily of accounts used at suspected **points of compromise**. This is geared to reduce potential counterfeit activity.

Educational Efforts include:

- **U.S. Secret Service Seminars** conducted periodically to instruct new agents on credit card fraud trends in the United States.
- **Mall/Chain Store Seminars** given at malls and major retail outlets in high fraud locations. The seminars are presented to merchants in order to raise awareness about credit card crime and to emphasize to personnel that they can make a difference in credit card protection.
- The **Card Security Enhancement video** is a 10-minute video presentation geared to educate merchants on fraud prevention at the point of sale and to introduce and describe the enhanced card security features.

The **Card Security Enhancement brochure** is an information piece to introduce and describe the enhanced card security features.

A **point-of-sale guide**, which is geared to assisting merchants in fraud detection and card acceptance procedures. The guide is available in Chinese, English, French and Spanish. A copy of the English guide is attached.

MasterCard International has developed and makes available to its card issuing members "**statement stuffers**" that can be included in cardholder billing statements. These pieces are designed to educate consumers about various types of credit card fraud and what they can do to protect themselves. Similar MasterCard International alerts are sent to MasterCard merchants by acquiring members. Some examples are attached.

A 24-hour **Law Enforcement Hotline** is available for law enforcement agencies nationwide. An international hotline to English-speaking non-U.S. countries is also

available. Calls are referred to issuing banks which are able to put an immediate trace on stolen or counterfeit cards.

Efforts are continuing to seek appropriate **federal legislation** through expert testimony and statistical information to cover telemarketing violations to protect against credit card fraud abuses.

Vendor inspections of all certified contractors and card manufacturers worldwide are conducted annually to ensure compliance with minimum security standards regarding manufacturing, embossing, and encoding of MasterCard cards.

Project Omni is a long-term strategic project defining the processing and business strategies for MasterCard International. One of its initiatives provides for a risk management platform, which has been designed to effectively manage risk through the control of fraud and credit losses by MasterCard members, merchants, and cardholders. Two deliverables have been identified for completion in 1992: **Member Risk Monitoring**, which will enable members to compare their risk and fraud control performance with those of their peers; and a **Merchant Velocity Monitoring** report, which will alert members to unusual or suspicious merchant deposit activity. Upgrades

to the MasterCard Fraud Reporting System and Merchant Audit System are planned for 1993 and beyond. Savings to the industry are estimated at \$38 million annually.

* * *

MasterCard International appreciates the opportunity to present this additional written statement to the Subcommittee and would be pleased to assist the Subcommittee in its work on this important problem.

Senate Permanent Subcommittee
on Investigations

EXHIBIT # 17



FINANCIAL CRIMES
ENFORCEMENT NETWORK

3833 N. Fairfax Drive, Arlington, VA 22203, Telephone (703) 516-0520



SEP 18 1992

The Honorable William V. Roth, Jr.
Ranking Minority Member
Permanent Subcommittee on Investigations
Senate Committee on Governmental Affairs
Washington, DC 20510

Dear Senator Roth:

Enclosed are responses prepared by the Financial Crimes Enforcement Network (Fincen) to questions for the record of your Subcommittee's June 18, 1992, hearing on Asian organized crime.

If you or your staff have any further questions about this or other matters related to Fincen, please feel free to contact me at (703) 516-0591.

Sincerely,

Shelley A. Altendorf
for BRIAN M. BRUH
Director

Enclosure

**Financial Crimes Enforcement Network (FinCEN)
Responses to Questions for the Record of the
Asian Organized Crime Hearing on June 18, 1992**

1. Does FinCEN have a pro-active role with relation to financial crimes and Asian Organized Crime Groups? If so, what specifically does that role involve?

FinCEN's current involvement in the issue of Asian Organized Crime is at both the tactical and strategic levels. FinCEN provides specific pro-active tactical support to Federal and State law enforcement agencies engaging in the investigation of Asian Organized Crime. FinCEN has provided various law enforcement agencies with 23 pro-active targeting reports detailing Asian Organized Crime activities.

In addition, FinCEN is developing an artificial intelligence (AI) system that will, based on certain criteria, identify targets exhibiting unusual or suspicious financial behavior. This AI system is expected to support the Asian Organized Crime initiative by using Bank Secrecy Act data to develop tactical targeting leads.

FinCEN is also pro-actively studying the money laundering activities of Asian Organized Crime on a strategic level. While much is known about the illegal activities of Asian Organized Crime groups, preliminary research conducted by FinCEN reveals that little is known about how illicit money is laundered and disposed of by these groups.

FinCEN personnel will continue to research this issue both domestically and internationally. FinCEN is collecting and exchanging information with law enforcement agencies in the United States and abroad, examining the Department of the Treasury's Financial Database and other records and data, reviewing ongoing and closed Asian Organized Crime investigations, and interviewing key confidential sources and convicted criminals.

FinCEN also has developed an Asian Money Laundering Questionnaire which is planned to be used as an intelligence gathering tool. Law enforcement officers in the United States and abroad will be able to use the questionnaire as an aid for debriefing Asian criminals and informants. FinCEN will serve as a central repository for intelligence data collected via the questionnaire, and as a result, hopes eventually to create a detailed outline of money laundering activity by Asian Organized criminals.

2. With which Federal agencies does FinCEN currently have agreements for exchange of information? With what agencies do such agreements not exist?

FinCEN arranges for the exchange of information with other Federal agencies and access to their data bases through a three step process. The first step is FinCEN's initial contact with the other agencies, review of their data bases, and entering into discussions relative to the use that can be made of the information gained through access to their data bases. The second step is the development of formal agreements between FinCEN and the other agencies as to the type of data base access and use FinCEN can make of the accessed information. This formal agreement takes the form of a Memorandum of Understanding (MOU). The third and last step in the process is the actual execution of the MOU.

As of August 1992, FinCEN has formalized agreements or signed MOUs with nine (9) Federal agencies, as follows:

1. U.S. Postal Inspection Service
2. INTERPOL
3. Department of Justice, Organized Crime Drug Enforcement Task Force (OCDETF)
4. U.S. Customs Service
5. National Association of Securities Dealers (through Securities and Exchange Commission)
6. Bureau of Alcohol, Tobacco & Firearms
7. Drug Enforcement Administration (DEA)
8. U.S. Marshals Service
9. Department of Agriculture, Economic Research Service -- (Signed a Letter of Acknowledgment/Information is of Public Record)

Also, as of August 1992, FinCEN has tentative formal agreements, with MOUs in final clearance, for exchanges of information with the following four (4) Federal agencies:

1. Secret Service
2. Immigration and Naturalization Service
3. Bureau of Public Debt
4. Department of Defense, Defense Criminal Investigative Service

Currently, FinCEN is developing formal agreements with four (4) Federal agencies, whose MOU's are in the second step of the process, which are:

1. Internal Revenue Service, Criminal Investigation
2. Department of State, Bureau of Consular Affairs
3. Department of Transportation, Federal Aviation Administration (FAA) and Office of the Inspector General (OIG)
4. El Paso Intelligence Center (DEA)

FINCEN also has entered into the first step of the process, the discussion stage, with eight (8) other Federal agencies:

1. Comptroller of the Currency
2. Department of Commerce
3. Department of Health and Human Services
4. Department of Labor
5. Environmental Protection Agency
6. U.S. Department of Probation
7. U.S. Coast Guard
8. Department of the Interior

Although FincEN has exchanged draft MOUs with four (4) other Federal agencies, significant differences as to access remain with the following:

1. Securities and Exchange Commission
2. Federal Reserve Board
3. Federal Bureau of Investigation
4. Department of Agriculture, Food and Nutrition Service

These differences arise in part because the legal and policy issues raised by data exchange are often issues of first impression for the respective agencies. The concerns arise, in some instances, such as in the case of the Department of Agriculture, Food and Nutrition Service, from specific statutory restrictions on dissemination of an agency's data base records which may be amenable to legislative solution.

3. Does FincEN have any information exchange with foreign law enforcement agencies? If so, with whom? If not, what difficulties have been encountered?

FINCEN has entered into one MOU with a foreign law enforcement organization. On February 19, 1992, FincEN signed an MOU with TRACFIN, which is our counterpart agency in France. We have provided a great deal of assistance to TRACFIN in responding to standard as well as special inquiries, which must be handled in an expedited manner. FincEN has also responded to requests for assistance from other international law enforcement entities, such as those in Britain and Australia, although we have not entered into formal agreements with them. FincEN's first priority is on obtaining agreements with other Federal agencies and the development of a FincEN network of State and local coordinators to handle information exchanges with their respective agencies.

4. In your study of the California card clubs, what evidence did you receive that the clubs were being used by Asian Organized Crime groups to launder the proceeds of illicit activity?

The evidence we received from law enforcement officers in California indicates that these card clubs present an attractive means to launder proceeds of illegal activity and should be considered a significant threat. Law enforcement sources believe that an extensive amount of money laundering and profit skimming takes place in card clubs. Many of these card clubs are currently under the scrutiny of law enforcement.

5. What are the current reporting requirements for the card clubs regarding both incoming and outgoing cash transactions?

According to the Internal Revenue Service, card clubs are required to file IRS Forms 8300 on certain player transactions. Specifically, filing is required in instances where players exchange over \$10,000 in cash for chips, and/or deposit over \$10,000 cash into player accounts. Payouts and/or cash withdrawals by players are not reportable.

Law enforcement sources indicate that currency transaction reporting by card clubs is a serious problem. It is anticipated that as we progress with our study of the card clubs we will be able to gauge some level of reporting compliance by the clubs. This information will be presented in future analytical products.

6. Are the reporting requirements adequate? If not, how can they be improved?

Current reporting requirements are limited to cash receipts in excess of \$10,000, excluding cash payouts. As gambling institutions, card clubs may be vulnerable to criminal exploitation in similar ways as casinos. Treasury is considering whether these card clubs should be subject to the same Bank Secrecy Act requirements as financial institutions, including casinos.

7. Has FincEN studied, or does it plan to study, the reports generated by the card club reporting requirements? If so, please describe the proposed study of the findings.

FincEN plans to study the card clubs with a focus on how the clubs operate, and how much currency is being deposited, generated, and disposed of in and through the card clubs. We will attempt to establish a nexus between the financial activity of the card clubs and the criminal activities of Asian Organized Crime members.

This study will involve interviews with law enforcement officials, as well as individuals involved with the card clubs. Additionally, we will conduct extensive analysis of Financial Database records which may indicate the types and volumes of currency flows in and through the card clubs. The Financial Database records to be studied will include any reports generated by the card clubs' reporting requirements.

8. What suggestions does FincEN have for addressing the problems presented by the card clubs?

At this time any additional recommendations other than those already suggested, would be premature.

9. What percentage of FincEN resources are being committed to Asian Organized Crime groups?

Six people, or 5% of FincEN's operational personnel, are committed to the Asian Organized Crime initiative and its related issues.

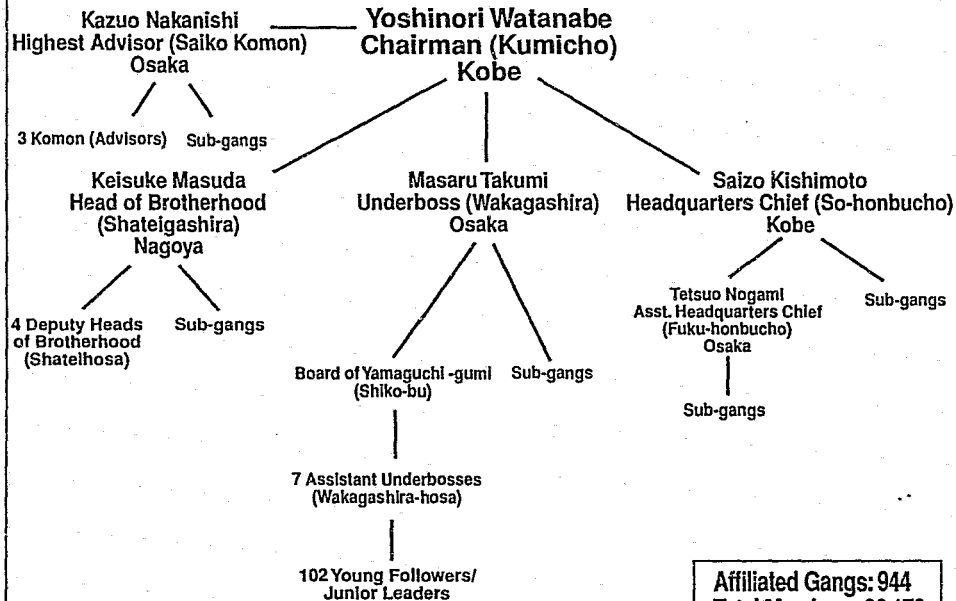
10. What are FincEN's future plans in the area of financial crimes and Asian Organized Crime?

FincEN will continue to lend support to Asian Organized Crime investigations while at the same time providing pro-active targeting reports for field law enforcement agencies. FincEN also plans to use its artificial intelligence (AI) system for developing Asian Organized Crime money laundering leads.

FincEN plans to serve as a central repository for Asian Organized Crime related financial intelligence data. All information collected and maintained by FincEN will be used for case support as well as in analytical studies.

We will continue our strategic examination of the financial aspects of Asian Organized Crime. This is a long-term project. FincEN is attempting to identify the mechanisms through which Asian Organized Crime groups move and launder the proceeds of their illegal activities. This involves identifying the source of illegal funds and tracking the flow of such funds through financial institutions, businesses, international ports of entry, or other means.

YAMAGUCHI-GUMI (Yamaguchi Gang)



Prepared by United States Senate Permanent Subcommittee on Investigations

Senate Permanent Subcommittee
on Investigations
EXHIBIT # 59

Other Major Japanese Boryokudan Groups

Inagawa-kai
(Inagawa Society)

Sumiyoshi-Kai
(Sumiyoshi Federation)

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

Yuko Inagawa
Boss
Tokyo

Shigeo Nishiguchi
Boss
Tokyo

Morihiro Okita
Boss
Tokyo

Est. Membership:
8,682

Est. Membership:
7,000

Est. Membership:
886

Total Gangs Under Control: 716

Prepared by United States Senate Permanent Subcommittee on Investigations

Senate Permanent Subcommittee
on Investigations
EXHIBIT # 161

Senate Permanent Subcommittee
on Investigations
EXHIBIT # 63



ASIAN ORGANIZED CRIME
Influence in the Asian Entertainment Industry

EXHIBIT # 65

This document has been prepared by the Minority Staff of the United States Senate Permanent Subcommittee on Investigations in support of a chart presented at the Subcommittee's hearing on Asian organized crime on August 4, 1992.

It is important to note that the individuals with ties to the Asian entertainment industry fit into several categories. As the chart makes clear, not all of the named individuals are members of organized crime groups. However, all of the persons listed on the chart have direct ties and associations with organized crime figures.

For the names listed on the chart as "Identified Asian Organized Crime Figures", certain strict criteria were adhered to. Each individual identified has been named by two or more independent law enforcement agencies as a member or associate of an organized crime group. For many of the names we also have other sources, including confidential informants. Sources for identification of the organized crime figures identified have been listed on a separate exhibit filed under seal with the Subcommittee.

The different categories of people listed on the chart include: Entertainment agents in Hong Kong; Entertainment promotion companies in New York who obtain entertainers through deals with Hong Kong agents; Entertainment promotion companies in other North American cities who typically sub-contract with New York promoters; Casino managers who sign contracts with promotion companies to promote shows at the casinos; Marketing personnel in U.S. casinos who focus on Asian customers; and other individuals linked to the industry. Many of the casino marketing figures, who are not necessarily directly responsible for any particular casino's contracts with a promoter, have relationships with the promoters for other purposes. The chart does not purport to represent all connections among those listed. The full structure of relationships in the Asian entertainment industry, if charted thoroughly, would resemble a spider web.

* Clifford Wong aka Wong Chi Fai

Clifford Wong is currently the President of the Tung On Tong in New York's Chinatown. The Subcommittee's hearings in the Fall of 1991 clearly established that Clifford Wong is the "dai-lo" or big brother of the Tung On Gang. His younger brother, Steven Wong, aka Wong Chi Keung aka "Tigerboy" has been in prison for heroin smuggling since 1988. Both Clifford and Steven Wong are closely associated with the Sun Yee On Triad, and more specifically, Heung Wah Wing, an office bearer in the triad. Testimony by a confidential witness, "Mr. Ma", before the

Subcommittee on June 18, 1992, noted that Clifford Wong "represents the Sun Yee On's interests" in New York. Mr. Wong was summoned to appear at the Subcommittee's hearing on November 5, 1991, but refused to testify based on his Fifth Amendment privilege.

Clifford Wong ran junkets and promoted Asian entertainment at Caesar's Hotel and Casino in Atlantic City until October of 1989, when he was placed on the New Jersey Casino Control Commission Exclusion List, as a result of his criminal activities and associations. Wong had a business relationship with Jackie Yee, a Director of Oriental Marketing at Caesar's (see Deposition of Robert Chan, June 9, 1992). Wong had promoted shows with Nicky Louie, aka Louie Yin Poy, a former leader of the Ghost Shadows Gang, now in prison on a RICO conviction which included murder charges.

In 1987 Clifford Wong and his brother Steven met in Hong Kong with Vincent Jew, the former leader of the San Francisco Wah Ching Gang, and with Stephen Tse, aka Tse Chun Wah, the former leader of the Boston Ping On Gang, to discuss the entertainment business. Both Jew and Tse had previously been involved in the Oriental Arts and Promotion Corporation, which was established in the early 1980's by Jew and Tse along with Danny Mo, aka Mo Shui Chuen, who was a former leader and current associate of the Kung Lok Triad in Toronto, Tony Young, aka "Sweet Plum", the leader of the Wah Ching Gang in Los Angeles, and Kit Jai, a former leader of the New York Ghost Shadows Gang (see testimony of Sergeant Barry Hill, President's Commission on Organized Crime, Record of Hearing III, October 23-25, 1984).

Although it is not clear whether or not Clifford Wong continues to exercise direct influence in the Asian entertainment business, a number of his associates have been actively involved in promoting Asian shows subsequent to his exclusion from Atlantic City. Robert Chan, currently a Director of International Marketing at the Sands, was formerly at Caesar's during part of the period of time that Caesar's had a business relationship with Clifford Wong. Although Chan was based in Hong Kong at the time, he met Clifford Wong through Jackie Yee (see Deposition of Robert Chan, June 9, 1992). Over the three years that Chan has been at the Sands, the casino has worked with three separate promoters of Asian shows, and all three are associated with Clifford Wong (see Deposition of Robert Chan, June 9, 1992).

In 1990, the Sands Casino in Atlantic City contracted with Rose Lam, who operates Shanghai Productions. In 1991, the Sands worked with Herbert Liu aka Liu Kee Chan, who operates United Four Tours and Travel, and numerous other companies including Wing On Productions. A February 1992 show at the Sands Casino was promoted by Lee Tong, aka Peter Lee, who operates Sing Bo Productions (see deposition of Robert Chan).

* Rose Lam

Rose Lam of Shanghai Productions was a charter member and office holder of the Wai Tung Bo Federal Credit Union, which operated out of the headquarters of the Tung On Tong in New York City. Clifford Wong was also a charter member and was chairman of the credit union between 1984 and 1985. The Wai Tung Bo was believed to be a vehicle for money laundering prior to its voluntary liquidation in April of 1987 (see Report on Asian Organized Crime, U.S. Department of Justice, February 1988). Rose Lam has also been linked to Danny Mo in Toronto through correspondence between Lam and Mo which was found in the offices of the Sands Casino (see Deposition of Calvin Quach, April 9, 1992). Calvin Quach, a Director of Oriental Marketing at the Sands, testified that Danny Mo "definitely" had something to do with arranging for entertainers with Rose Lam.

* Herbert Liu aka Liu Kee Chan

Herbert Liu was also a charter member and office holder of the Wai Tung Bo Federal Credit Union, which was chaired by Clifford Wong. Between 1979 and 1983, Herbert Liu operated buses from New York's Chinatown to Caesar's in Atlantic City. He later introduced Clifford Wong to Caesar's management. Herbert Liu also knew Robert Chan at Caesar's and previously knew Chan from Hong Kong, where both men were police officers (see Deposition of Robert Chan, June 9, 1992).

Herbert Liu's history in New York's Chinatown portrays involvement in a variety of activities. In May of 1982, Liu established the Chinese Freemasons Tong in New York City. The Freemasons were almost immediately involved in conflict in Chinatown, and three members were shot. Liu had previously been inducted into the Hip Sing Tong, before he broke away and formed the rival Freemasons (see New York Magazine, February 14, 1983, "The War for Chinatown"). The Freemasons, and Herbert Liu specifically, have been described as closely related to, or akin to, the "Hung Mun Triad" in Hong Kong (see Report on Asian Organized Crime, U.S. Department of Justice, February 1988). All triad members are known as brothers of the Hung Mun, and while the Hung Mun Triad is not a specific triad in Hong Kong, it may be best described as an umbrella group or "universal group" for the triads (see W.P. Morgan, Triad Societies in Hong Kong).

Liu has also been independently linked to promoter Andy Suen, and Suen himself testified that both men were members of the Chinese Freemasons in New York (see deposition of Andy Suen, February 28, 1992).

Herbert Liu promoted several shows at the Sands Casino in Atlantic City in 1991, but his contract was not extended at the end of the year. The Sands asserts that he was not bringing in high calibre entertainment. (see Deposition of Calvin Quach, April 9, 1992)

* Peter Lee aka Lee Tong

Peter Lee operates Sing Bo Productions. Sing Bo produced one show in February of 1992 at the Sands Casino in Atlantic City, and had previously produced at least one show at Trump's Castle Casino in Atlantic City. Peter Lee is also the general manager of the Nice Restaurant, located at 35 East Broadway, New York City. According to law enforcement sources, Clifford Wong is an alleged part-owner in the restaurant. Subcommittee Staff has not been able to determine how Peter Lee managed to go from his general manager/waiter position at the Nice Restaurant to a position as an entertainment promoter.

* Peter Chan aka Peter Cuomo Chan

Peter Chan is another associate of Clifford Wong who has been involved in the entertainment industry. Both Wong and Chan were early players in the Asian entertainment scene in Atlantic City. Chan operated buses from New York's Chinatown to Atlantic City in 1987, and was indicted in October of 1987 in a case involving kickbacks to executives of Trump's Castle Casino in Atlantic City, including Willard "Bucky" Howard (New Jersey v. Peter Chan et al, 1989). Howard was acquitted, but Chan pled guilty to corporate misconduct and tax evasion charges. He was subsequently excluded from operating in Atlantic City. Howard is currently at the Taj Mahal Casino in Atlantic City.

Chan operated Peter C.M. Chan Productions, Inc., and put together Asian tour bus and entertainment packages to Trump Castle over a two year period between 1985 and 1987. He was also involved in running the bus program for Bally's Casino from San Francisco to Reno. These buses would take people to Asian shows promoted by Vincent Jew, the former head of the Wah Ching Gang in San Francisco. Chan also used Jew's company, Grandview Productions, for a show at Trump's Castle in May of 1986. Chan has also been involved in junkets and entertainment in San Juan, Puerto Rico, at the Condado Plaza Hotel and Casino. Chan was involved in Puerto Rico as recently as 1991. Chan is now reportedly in Hong Kong.

* Danny Leung

Danny Leung is currently responsible for Oriental Marketing in Toronto on behalf of the Taj Mahal Casino in Atlantic City. He is a Vice President for Marketing of the casino, and is also involved in Danny Leung, Inc., a junket company he runs out of Toronto. Law enforcement sources have advised that Danny Leung received an entry into the casino world in Atlantic City through associations with Clifford Wong and Willard "Bucky" Howard. Both Howard and Leung are currently employed by the Taj Mahal Casino, and Leung has been employed by at least one other casino under the management of Howard.

Danny Leung is an associate of the 14K Triad. He was formerly a business partner with Eddie Louie, a 14K Triad member and the brother of Nicky Louie, aka Louie Yin Poy, a former leader of the Ghost Shadows Gang. Leung has also given complimentary tickets for hotel rooms and Asian shows to numerous members and associates of Asian organized crime.

Law enforcement sources indicate that Leung also has a business relationship with Raymond Miu, the promoter who operates Raymond Miu Productions, the exclusive promoter of Asian entertainment at the Taj Mahal Casino. Leung has been involved in Asian entertainment and entertainment-related businesses since 1985.

* Cheung Kwok

Cheung Kwok is the Director of Image Impact Co., a Hong Kong-based entertainment company which has provided performers to various U.S. promoters since 1981. These promoters have included Clifford Wong and more recently, Peter Lee of Sing Bo Productions and Raymond Miu of Raymond Miu Productions. The Sun Yee On Triad asserts influence through Image Impact and Cheung Kwok, who is an associate of the triad. Image Impact's Overseas Directors are Frederick Ip and Dolby Sham. Both of these individuals have travelled on North American tours with entertainers procured through Image Impact Co.

Image Impact Company, through their Overseas Director, Frederick Ip, brought famous Hong Kong entertainer Andy Lau aka Lau Tak-Wah on a North American tour in March of 1992.¹

Raymond Miu Productions has an exclusive relationship with Image Impact Co. for the purpose of obtaining entertainers for U.S. tours. Peter Lee's company, Sing Bo Productions, also obtained entertainers from Image Impact on one occasion.

* Raymond Miu

Raymond Miu runs Raymond Miu Productions, and Miu is a prominent New York-based promoter of Asian entertainment. His company currently has a contract with Trump's Taj Mahal Hotel and Casino in Atlantic City to be the exclusive promoter of Asian entertainment. Raymond Miu Productions contracted through the Taj Mahal's Oriental Marketing and Entertainment Departments, most notably through a relationship with Liu Gwo aka Paul Liu, and Danny Leung, the Vice Presidents of International Marketing at the Taj Mahal Casino (see Deposition of Robert Chan, June 9, 1992).

As noted above, Raymond Miu Productions was responsible for promoting the recent North American tour of Andy Lau. This tour had links to both the California Wah Ching Gang and the Hong Kong Sun Yee On Triad. The Wah Ching Gang and the Sun Yee On Triad have had an ongoing relationship, and Vincent Jew, the former

leader of the Wah Ching, is a prominent Sun Yee On Associate. Jew fled the United States in the late 1980's in response to law enforcement pressure, and is reportedly involved in Sun Yee On activity in Hong Kong. Vincent Jew's company, Grandview Productions, has been involved in promotion of Asian entertainment since the early 1980's. Grandview Productions has promoted shows in California and Nevada.

The Los Angeles leg of the Andy Lau tour was promoted by Tony Young and Grandview Productions. Tony Young was previously Vincent Jew's lieutenant, and is currently the head of the Wah Ching Gang in Los Angeles (see Chart prepared by PSI, entitled "Wah Ching Gang-California", presented November 5, 1991). The Andy Lau tour also travelled to San Francisco, Toronto, Vancouver and other North American cities. While Raymond Miu brought Andy Lau to America, he used various promoters in individual cities to handle each performance.

* Peter Moy/Andy Suen

Peter Moy and Andy Suen are the President and Vice President, respectively, of 92 Production Corp., which is based in New York's Chinatown. They are co-partners in the business. 92 Production currently holds a contract with TropWorld Casino and Entertainment Resort in Atlantic City to serve as the exclusive promoter of Asian entertainment (see Deposition of James Perry and Chi Hui, TropWorld Casino, February 21, 1992). TropWorld executive Chi Hui explained that his former employee, Robert Chan introduced him to Suen and Moy (Deposition of Perry and Hui). Andy Suen also explained that Robert Chan was responsible for his introduction to TropWorld (see Deposition of Andy Suen, February 28, 1992). 92 Production Corp. has been producing shows at TropWorld since December of 1988.

Andy Suen asserts that he obtained introduction to Hong Kong companies for the purpose of bringing singers to the U.S. from Hong Kong in 1988. This introduction was made possible by his "friend" Charles Kwan (see Suen deposition). Charles Kwan is an office bearer in the Kung Lok Triad in Toronto. Kwan has also been closely associated with Danny Mo, who is in turn closely tied to both the Kung Lok and 14K Triads. Additionally, both Andy Suen and Peter Moy are members of the On Leong Tong (see Suen deposition). Peter Moy has had business associations with a number of prominent On Leong Tong members, including some criminal figures.

Peter Moy was, and may still be, a partner in the Oriental Pearl Restaurant in New York. The restaurant's other partners include Paul Ma, an On Leong Tong member who maintains associations with members of the Ghost Shadows Gang, and Chan Wing Yuen, the former National President of the On Leong Tong. Chan Wing Yuen and his brother Chan Wing Wa, the current National President of the On Leong Tong, were indicted in August of 1990 on a variety of criminal charges. The On Leong Tong has been

repeatedly linked to the leadership of the Ghost Shadows Gang in New York's Chinatown, including another of the Chan brothers, Chan Wing Lok aka "Lok Jai" (see Chart prepared by PSI, "Leadership Structure of Primary Tongs and Affiliated Gangs in New York City", presented November 5, 1991).

Suen and Moy were recently involved in the tour of Hong Kong singer/actor "Leon" Lai Ming, which travelled through North America in April of 1992. This tour was promoted in the United States by a number of different promoters who contracted with 92 Production Co., Inc. for the rights to promote the show in any particular city. 92 Production Co. signed a contract with Leon Lai's manager, Frankie Lee of Paciwood Music, to bring Lai to the United States. All other promoters had to work through 92 Production Corp., and most specifically, Andy Suen, to obtain the rights to promote the show in any particular city (see letter from Victor Ngai, counsel to 92 Production Corp., to Daniel F. Rinzel, Chief Counsel to the Minority, PSI, March 17, 1992). 92 Production Corp. assumed responsibility for obtaining visas for the entertainer and the entourage travelling from Hong Kong (see Suen deposition).

Andy Suen agreed to contract out to individuals in San Francisco (who also handled a Reno performance), Los Angeles (who may also have handled a San Diego performance), Chicago and Boston (see Suen Deposition). 92 Productions handled the Atlantic City performances at TropWorld Casino as it has since December of 1988. Separate individuals had reportedly contracted with Frankie Lee to bring Leon Lai to Canada, including Charles Kwan in Toronto (see Suen deposition). The Canada portion of the tour included shows in Montreal, Toronto, Calgary and Vancouver.

Andy Suen testified that Frankie Lee introduced him to the other parties in San Francisco, Chicago and Boston, who then contracted with Suen to produce shows in each particular city. The party in Los Angeles was introduced to Andy Suen through ChinaSeasons Limited, a Hong Kong company through which Suen had obtained entertainers on several occasions in the past. Andy Suen established his relationship with ChinaSeasons through Charles Kwan (see Suen deposition).

* Wade Lai aka Lai Kit

In San Francisco, the Leon Lai tour contract with 92 Productions was signed by Wade Lai, on behalf of New Paradise Investment Co., Inc. (see letter from Victor Ngai, counsel to 92 Production Corp. to Daniel F. Rinzel, Chief Counsel to the Minority, PSI, March 17, 1992). New Paradise Investment Co. is run by Peter Chong aka Chong Bing-Keung, the head of the San Francisco operations of the Hong Kong-based Wo Hop To Triad (see Hearing before the Permanent Subcommittee on Investigations, November 5, 1991). However, the show in San Francisco was eventually produced under the name Designer Productions, a company run by partners Wade Lai and Hing Tse.

Wade Lai claims that he used the name New Paradise to impress Andy Suen, because the company had previously had success in promoting the tour of singer/actress Amy Yip (see PSI hearing of November 5, 1991). According to Wade Lai, in interviews with Subcommittee Staff, while he was "on the payroll" of New Paradise at the time, he was not yet certain whether or not he would sell the rights to the Leon Lai shows, or if he would keep them for his own company, Designer Productions. He claims that he actually paid the deposit with a check from Designer Productions, and thus the listing of New Paradise under his name on the contract was a mistake.

Wade Lai was also involved with Peter Chong in 1991, when both were involved in the "PRC Flood Relief Campaign", which raised money for flood victims in China (see Affidavit of Wade Lai, November 1, 1991 and accompanying documents).

* Peter Chong aka Chong Bing-Keung

The Subcommittee heard testimony on November 5, 1991 that in September of 1991, "over 30 Wo Hop To members and associates masquerading as Hop Sing Tong representatives, went door to door in Oakland's Chinatown in an attempt to extort money. This extortion effort proceeded under the guise of an attempt to sell tickets to a concert of a well-known Hong Kong entertainer, Amy Yip..." Peter Chong sponsored the Amy Yip tour through his New Paradise Investment Co.

Additionally, confidential witness "Mr. Tam" testified that "Peter Chong is also involved in controlling the entertainment industry...when [Amy Yip] appeared at Caesar's in Lake Tahoe, Peter Chong ordered all the gambling dens closed and chartered buses so that people would attend her show. Peter was 'given face' by many Chinatown businesses to sponsor this event. Caesar's also paid Peter Chong a commission for each person he brought in" (see Deposition of "Mr. Tam" before PSI, November 6, 1991).

While it is unclear whether or not Peter Chong was directly involved in the Leon Lai tour, it is clear that Peter Chong expressed interest in becoming involved. Wade Lai told Subcommittee Staff in an interview that Peter Chong was interested in obtaining the rights to the shows at various times. Wade Lai told Subcommittee Staff in interviews that he used the name of Peter Chong's company to "impress" Andy Suen. Additionally, Charles Kwan told Subcommittee Staff in an interview that Peter Chong was at the San Francisco show, and that he was seen with Wade Lai at the performances.

* Johnny Chan aka "Ah Sing"

The April 1992 Southern California performances of Leon Lai were promoted by Sea Star Entertainment Ltd., of which Johnny

Chan aka "Ah Sing" is Production Manager. According to law enforcement sources, Johnny Chan is an ex-Wah Ching member who is an associate of Peter Chong. Chan has also been associated with Asau Tran, the former leader of a Vietnamese Gang in Toronto, who was murdered in August of 1991.

* Charles Kwan aka Kwan Yee Man

In Canada, the April 1992 Toronto performance of Leon Lai was promoted by Sing Sing Promotion, Inc., which is controlled by Charles Kwan. Kwan is an office bearer in the Kung Lok Triad in Toronto. Kwan is closely associated with Danny Mo, currently of the 14K Triad, and formerly of the Kung Lok Triad, and Raven Tsoi aka Tsoi Ip-Shun. Tsoi, like Kwan, is an office bearer in the Kung Lok Triad, and has been associated with Asau Tran, the slain leader of a Vietnamese Gang in Toronto. Representatives of the Metropolitan Toronto Police testified before the Subcommittee on June 18, 1992 that Danny Mo, Raven Tsoi, Charles Kwan and Asau Tran have been involved in the "monopoly of entertainers from Hong Kong".

It is not clear how much influence Charles Kwan exerted over the Leon Lai performances in Montreal, Calgary and Vancouver. Andy Suen asserted that the Montreal show was being handled by Kwan, and that Kwan controlled the Canada portion of the tour (see Suen deposition). Charles Kwan told Subcommittee Staff in an interview that the Montreal show was being promoted by John Ma, and that the Calgary show was being promoted by Alfred Chan. Kwan explained that a friend of Alfred Chan was in charge in Vancouver. Kwan previously handled Calgary performances, and has worked with Alfred Chan in this capacity.

Andy Suen, the Vice President of 92 Production Corp. testified that Charles Kwan introduced him to important figures in the entertainment industry in the early stages of his career as a promoter (see Suen deposition). 92 Production Corp. is currently one of two promotion companies which have exclusive contracts with Atlantic City casinos to promote Asian entertainment. Such contracts play an important part in giving a promoter some degree of control over North American tours of entertainers from Hong Kong.

* Kenneth Cheung aka Cheung Kung Lok

Kenneth Cheung is a member of the Kung Lok Triad in Toronto. He is also the owner of the New World Oriental Cuisine Restaurant in Toronto. Robert Chan, Director of Oriental Marketing at the Sands Casino has entertained various gamblers ("high rollers") and entertainment-related figures at Cheung's restaurant. At least one large gathering was held at which numerous triad members were present. Robert Chan testified that Cheung previously brought singers to North America from Hong Kong, and that Danny Mo is his "assistant" (see Chan deposition).

* Robert Chan aka Chan Yui

Robert Chan is currently a Director of Oriental Marketing at the Sands Casino in Atlantic City. Robert Chan's "partner" is Calvin Quach, who is also a Director of Oriental Marketing at the Sands. Chan operates out of Toronto and Atlantic City, handling the Canadian market. Quach is responsible for New York, but both he and Chan spend a significant amount of time there recruiting gamblers. Robert Chan's assistant in Toronto is Eddie Ngan aka Ngan Wu Man (see Chan deposition). Ngan is a confirmed member of the Kung Lok Triad. Ngan is a listed owner in Cafe Terrace, a Toronto restaurant. Chan testified that Ngan is his assistant, who books flights for high rollers the two of them bring to Atlantic City on behalf of the Sands (see Chan deposition). Robert Chan's wife is a part owner of Lucky Strike Travel, which runs junkets to Atlantic City (see Chan deposition).

Chan has also been tied to other Toronto organized crime figures, including Danny Mo, who is associated with both the Kung Lok and 14K Triads. Chan has met with Mo in the New World Oriental Cuisine Restaurant in Toronto, which is owned by Kung Lok Triad member Kenneth Cheung.

Chan has close ties to a number of individuals mentioned above as having ties to the Asian entertainment industry, including Clifford Wong, Herbert Liu, Andy Suen and Peter Moy. Chan worked at Caesar's for a period of time when Clifford Wong was involved in organizing junkets to the casino. Herbert Liu, who law enforcement sources claim introduced Clifford Wong to Caesar's management, was in the Royal Hong Kong Police with Chan. Robert Chan introduced Andy Suen and Peter Moy of 92 Production Co., Inc. to TropWorld Casino Resort management (see deposition of James Perry and Chi Hui). Calvin Quach testified that he knows Clifford Wong, Herbert Liu and Danny Mo "through Robert [Chan]" (see Quach deposition). During Chan and Quach's tenure at the Sands, Rose Lam, Herbert Liu and Peter Lee have all promoted shows at the casino. As noted previously, Rose Lam was connected to Danny Mo during the time she was promoting shows at the casino.

According to law enforcement sources, Robert Chan has supplied complimentary hotel and Asian show tickets to various high ranking Asian criminal figures, including Johnny Eng aka "Onionhead", the former leader of the Flying Dragons Gang in New York. Chan is also closely tied to Yip Hon, a Hong Kong real estate mogul who owns property throughout the world through his company Wing Ming Enterprises (see Chan deposition). Wing Ming Enterprises owns the largest building in New York's Chinatown. Yip Hon has been cited by several independent law enforcement sources as an organized crime figure. He has been identified as a member of the "Hung Mun Triad". This group has been identified as an umbrella or "universal group for triads (see W.P. Morgan, Triad Societies in Hong Kong), and may mediate disputes among various crime groups. As noted previously, it is generally

acknowledged that triad members are considered "brothers of the Hung Mun."

Chan himself called Yip Hon a close "friend" (see Chan deposition). Yip Hon was formerly the Chairman of Sociedade de Turismo e Diversoes de Macau (STDM), which runs Macao's casinos. He reportedly sold his share in the company to Stanley Ho, who was previously the manager of the casinos, and is now the controlling owner (see Chan deposition). The Macao casinos are a major center of Asian organized crime activity, including money laundering and loan sharking, and while the exact role of Yip Hon and Stanley Ho in such criminal activity is unclear, they have specifically been linked to a number of criminal figures.

Lau Wing Kui, the former leader of the Kung Lok Triad in Toronto, is now reportedly in charge of the Pai Gow gambling section of a gambling boat run by Stanley Ho in Macao (see Chan deposition). Lau and Ho have been linked to several members of the so-called "Five Dragons", five former Royal Hong Kong Police staff sergeants who fled Hong Kong in the mid-1970's in response to an investigation by the Independent Commission Against Corruption (ICAC). The "Five Dragons" were highly corrupt, and were involved in controlling gambling and extortion in Hong Kong prior to the establishment of the ICAC (see testimony of Sergeant Barry Hill, President's Commission on Organized Crime, Record of Hearing III, October 23-25, 1984).

Although Stanley Ho has been tied to organized crime figures such as Yip Hon and Lau Wing Kui, he does not meet the Subcommittee's strict criteria for identification as an "Asian Organized Crime Figure". The Subcommittee requires two independent law enforcement sources to identify an individual as a member or associate of an organized crime group for such identification to take place. Additionally, Subcommittee Staff was not able to establish Ho's ties to a specific criminal group.

During depositions, both Robert Chan and Calvin Quach explained that they were introduced by Hsu Wah Min, a lawyer (see depositions of Chan and Quach). Hsu Wah Min is the husband of Christina Hsu, who has been active in the entertainment business (see depositions of Quach and Chan). Hsu Wah Min has also been tied to Johnny Kon aka Kon Yu-Leung, a convicted heroin smuggler. Johnny Kon bought millions of dollars worth of U.S. real estate with proceeds from his heroin business. In testimony before the Subcommittee on August 4, 1992, Johnny Kon testified that Hsu Wah Min handled his real estate investments in the U.S., but sold the properties and fled to Taiwan with the money after Kon was arrested.

* Calvin Quach aka Quach Thuymv

Calvin Quach is a Director of Oriental Marketing at the Sands Casino in Atlantic City. He has previously worked at

other casinos, including the Showboat Casino in Atlantic City, where he was responsible for giving complimentary tickets to a number of major Asian organized crime figures. Quach now works closely with Robert Chan, who is also a Director of Oriental Marketing at the Sands Casino.

When at the Showboat Casino, Quach gave complimentary tickets for various casino services to George Wong, the former National Secretary of the Fukien American Association (see Quach deposition). Wong recently pled guilty to money laundering. Quach was also giving "comps" to Paul Wong, aka "Foochow Paul", the former leader of the Green Dragons Gang in New York, who is now a fugitive from federal law enforcement (see Quach deposition). Paul Wong was named in a major RICO case against the Green Dragons in 1991.

As noted above, Quach has met with Danny Mo, who is tied to both the Kung Lok and 14K Triads in Toronto. Quach testified that he met Mo through Robert Chan (see Quach deposition). Correspondence between Mo and entertainment promoter Rose Lam was found on Quach's desk at the Sands. While Quach has been at the Sands, Rose Lam, Herbert Liu and Peter Lee have all promoted shows at the casino (see Quach deposition).

¹ Andy Lau was quoted in the South China Morning Post in January of 1992 as saying, "I refused [to cooperate] once...my office was turned upside down by several gangsters and my manager had a gun put to his head" (South China Morning Post, January 16, 1992, "Hitting out at tactics of triads"). The perpetrators of these actions were not noted in the article.

Senate Permanent Subcommittees
on Investigations

EXHIBIT # 68

OATH

"Having read this solemn oath, I understand completely its meaning, because I have not acted imprudently but rather I have taken much time to understand and comprehend explicitly the meaning and once I was conversant with and fully understood the oath then and only then did I make my decision."

"I _____ from _____ year _____ month _____ day am willing to join the FLAMING EAGLES and be a member of the FLAMING EAGLE GANG and accept the gang's present and future glories and sufferings, follow the rules of the organization, obey the orders of the organization without question, no matter what difficulty comes I will

cast my lot with the organization. If I betray the above oath, let the organization deal with me, I will even accept death without complaint.

Signature _____ Year _____ Month _____ Day

誓 言 書


當我讀這篇嚴肅的說話時，

我是很清楚亦很了解現在所作的一切，因為我不是草率而決定的，而是經過一段長時間去認識去溝通，去深入交往和了解才下這個決定。

我本人從 1995 年 / 月 11 日，願加入烈鷹隊成為一員，遵守組織紀律，服從組織命令，捐俸，分畀，不惜艱難，永無退縮，如有違背上述誓言，願將自己交給組織安排，威而無懲。

本人簽名 1995 年 1 月 11 日

HUANG YAO 烈鷹隊員登記表

姓名	徐永祥	編號		備 注
年 齡	37	性 別	男	
國 籍	CHINA			
出生日期	1958.12.12			
身份證號碼	2338631			
職 別	商			
地址	住 戶 民 主 東 路 923 室 1354F			
到職日期		離職日期		
學歷	大學	身 高	175	體 重 66
語 言	粵 語	特 長		

家庭成員表

姓名		年齡	籍貫	地址
父	徐秉毅	62	中國	
母	羅清石	60		
兄				
弟				
姐				
妹	徐玉珍	21	"	
子	徐偉倫	3	"	
女				

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

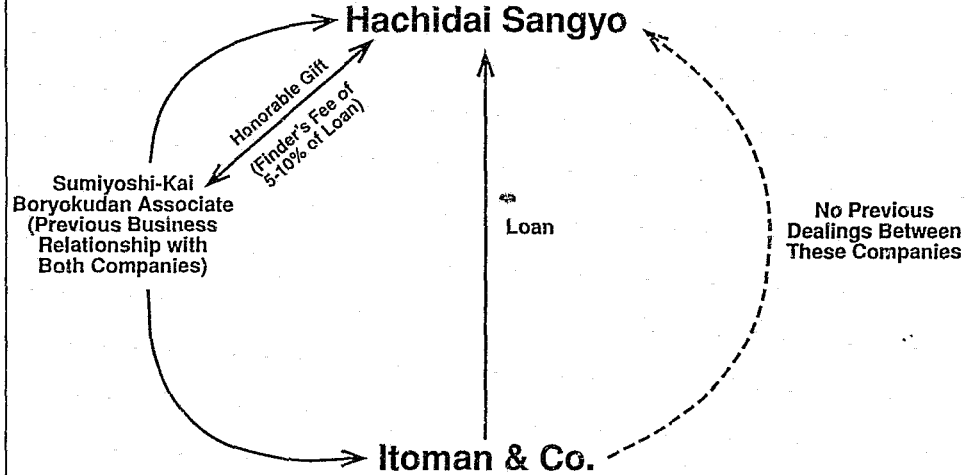
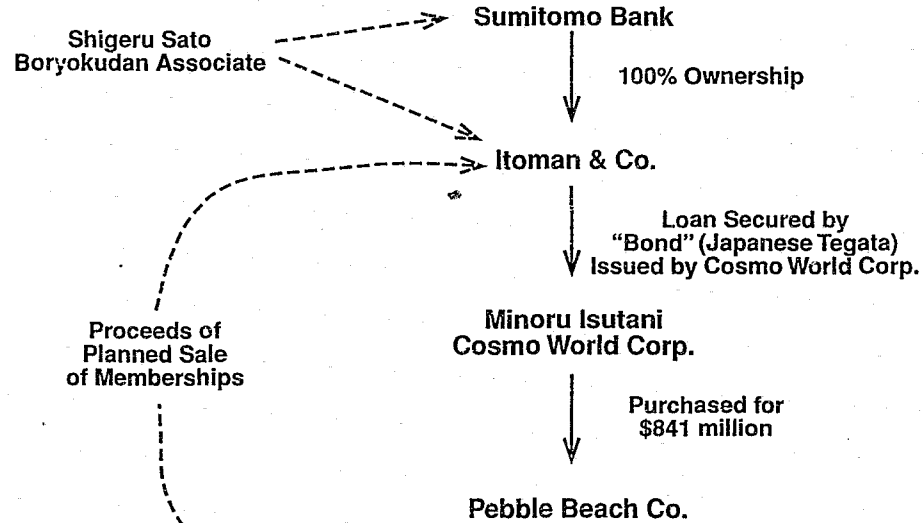


EXHIBIT # 69
Secret Permanent Subcommittee
on Investigations

Purchase of Pebble Beach Co.



Senate Permanent Subcommittee
on Investigations
EXHIBIT # 70

TESTIMONY OF FREDRIC E. GUSHIN

BEFORE THE

SENATE PERMANENT SUBCOMMITTEE

ON INVESTIGATIONS

AUGUST 4, 1992

WASHINGTON D.C.

Senate Permanent Subcommittee
on InvestigationsEXHIBIT # 71

MR. CHAIRMAN, MEMBERS OF THE COMMITTEE,

MY NAME IS FREDRIC GUSHIN. I AM AN ATTORNEY WHO HAS WORKED IN THE FIELD OF LAW ENFORCEMENT AND CASINO REGULATION FOR ALMOST 14 YEARS. I AM PRESENTLY AN INDEPENDENT CASINO CONSULTANT SPECIALIZING IN SERVICES TO CASINO REGULATORY AGENCIES AND LAW ENFORCEMENT. FROM MARCH 1991 TO APRIL 1992, I SERVED AS GAMING ADVISOR TO THE TINIAN CASINO GAMING CONTROL COMMISSION IN THE NORTHERN MARIANAS ISLANDS. PRIOR TO THAT, I WAS EMPLOYED BY NEW JERSEY'S DIVISION OF GAMING ENFORCEMENT WHERE I SERVED IN THE POSITION OF ASSISTANT DIRECTOR AND ASSISTANT ATTORNEY GENERAL. IN THAT CAPACITY I WAS RESPONSIBLE FOR DEVELOPING AND IMPLEMENTING COMPLIANCE AND ENFORCEMENT PROGRAMS WITHIN THE CASINO HOTELS, OVERSAW MULTI-FACETED INVESTIGATIONS AND PROSECUTIONS AND PERSONALLY PROSECUTED OVER 50 ADMINISTRATIVE CASES BEFORE THE NEW JERSEY CASINO CONTROL COMMISSION. I HAVE GAINED AN IN-DEPTH KNOWLEDGE OF CASINO LICENSING AND OPERATIONS. I HAVE ALSO ASSISTED OTHER JURISDICTIONS AS THEY PREPARE ENABLING LEGISLATION AUTHORIZING CASINO GAMING AND HAVE SPOKEN AT SEMINARS AND CONFERENCES ON CASINO MATTERS INCLUDING LICENSING, CASINO CRIME, MONEY LAUNDERING AND THE ATTEMPTED PENETRATIONS OF ORGANIZED CRIME INTO THE CASINO INDUSTRY.

TODAY, I WOULD LIKE TO FOCUS ON MY EXPERIENCES AS GAMING ADVISOR TO THE TINIAN CASINO GAMING CONTROL (COMMISSION). I WAS RESPONSIBLE FOR MANAGING THE BACKGROUND INVESTIGATIONS OF CASINO APPLICANTS, PROSECUTING CASINO LICENSURE CASES BEFORE THE COMMISSION AND PREPARING REGULATIONS. I WANT TO EMPHASIZE THAT THE OPINIONS I WILL DISCUSS TODAY ARE MY OWN AND WERE FORMULATED DURING THE TIME I SPENT IN MICRONESIA. DURING MY TIME IN THE MARIANAS ISLANDS, I SAW HOW THE YAKUZA ATTEMPTED TO PENETRATE THE PROPOSED

CASINOS IN A NEWLY EMERGING GAMING JURISDICTION AND LEARNED FIRST HAND WHAT MEASURES JURISDICTIONS CAN TAKE TO PREVENT SUCH ACTIVITIES.

POLITICAL CORRUPTION, RAMPANT DRUG USE AND DISTRIBUTION AND THE PROBABILITY OF CASINO GAMING IN THE MARIANAS ISLANDS MAKE THIS A DISASTER WAITING TO HAPPEN. I SUBMIT THAT POLITICAL CORRUPTION, DRUGS AND ORGANIZED CRIME ARE INTERRELATED AND THAT THEY MUST BE FOUGHT WITH A CONCERTED PLAN OF ACTION BY LAW ENFORCEMENT. POLITICAL CORRUPTION PRESENTS UNIQUE OPPORTUNITIES FOR ORGANIZED CRIME THAT WILL EASILY BE EXPLOITED BY GANGSTERS. FOCUSING ON ONE ASPECT OF THE PROBLEM WITHOUT A COMPREHENSIVE APPROACH WILL NOT WORK.

I WOULD LIKE TO SHARE WITH YOU A GENERAL OVERVIEW OF GAMING IN TINIAN, WHY TINIAN IS AN ATTRACTIVE LOCATION FOR THE YAKUZA, THE CONTROLS THAT CAN BE PUT INTO PLACE TO MINIMIZE THEIR INTRUSIONS AND, PERHAPS, THE INHERENT DIFFICULTIES OF ANY SMALL ISOLATED LOCATION IN EFFECTIVELY REGULATING CASINO GAMING. THEN, I WOULD LIKE TO DISCUSS A CASE STUDY --- THE PROSECUTION OF THE ASA DEVELOPMENT AND INVESTMENT CORPORATION CASINO LICENSURE CASE AND WHAT LESSONS CAN BE LEARNED FROM THIS EXPERIENCE.

THE LESSONS LEARNED IN THIS JURISDICTION CAN BE UTILIZED BY OTHER JURISDICTIONS AS THEY PLAN FOR AND IMPLEMENT GAMING. FOR IN THE FINAL ANALYSIS CASINO GAMING REPRESENTS AN OPPORTUNITY TO RAISE TAX REVENUES, ACT AS A CATALYST FOR DEVELOPMENT, CREATE JOBS AND SPUR THE ECONOMY. ON BALANCE, CASINO GAMING, PROPERLY REGULATED, IS A POSITIVE DEVELOPMENT.

FIRST LET ME GIVE YOU A LITTLE BACKGROUND INFORMATION. TINIAN IS A SMALL ISLAND IN MICRONESIA THAT LEGALIZED CASINO GAMBLING IN 1989. BECAUSE OF ITS UNIQUE LOCATION, ITS POTENTIAL TO MONOPOLIZE A LUCRATIVE MARKET AND THE NEWNESS OF THIS ENDEAVOR, IT WILL BE A TRULY BIG CHALLENGE FOR THIS JURISDICTION TO RESIST THE GREEDY AND EVER PRESENT TENTACLES OF ORGANIZED CRIME. IF THERE IS LESS THAN TOTAL COMMITMENT TO PERSONAL ETHICS ON THE PART OF GOVERNMENT OFFICIALS, AND IF THERE'S LESS THAN A 100% EFFORT TO COME TO GRIPS WITH WHAT IS TRULY INVOLVED IN LEGALIZING CASINOS, IT IS TRULY

DOUBTFUL WHETHER HONEST GAMING WILL EVER EXIST IN TINIAN.

TINIAN IS A PART OF THE COMMONWEALTH OF THE NORTHERN MARIANAS ISLANDS (CNMI). IT IS PROBABLY MOST FAMOUS IN MILITARY HISTORY AS THE SITE WHERE THE ENOLA GAY LEFT FROM TO DROP THE ATOMIC BOMB ON HIROSHIMA IN 1945. TODAY, THE CNMI CONSISTS OF THREE ISLANDS NAMELY SAIPAN, ROTA, AND TINIAN. UP UNTIL 1976 THESE ISLANDS WERE TRUST TERRITORIES OF THE UNITED STATES. IN 1976 THE UNITED STATES AND THE CNMI ENTERED INTO A COVENANT WHICH MADE THE CNMI A COMMONWEALTH OF THE UNITED STATES. WHILE GENERALLY U.S. LAWS APPLY, SPECIFIC EXEMPTIONS WERE CARVED OUT AS A RESULT OF THE NEGOTIATING PROCESS - LAND CAN ONLY BE OWNED BY PEOPLE OF CHAMORRO OR CAROLINIAN HERITAGE, CUSTOMS AND IMMIGRATION WERE LEFT UNDER THE CONTROL OF THE CNMI RATHER THAN THE U.S. GOVERNMENT. THE U.S. MINIMUM WAGE DOES NOT APPLY, AND CITIZENS OF THE COMMONWEALTH ARE NOT SUBJECT TO U.S. INDIVIDUAL, CORPORATE OR BUSINESS TAXES. WHILE THESE ELEMENTS HAVE HELPED DEVELOP THE ISLANDS, THEY HAVE CREATED PROBLEMS FOR LAW ENFORCEMENT AND CREATED SERIOUS OPPORTUNITIES FOR THE YAKUZA.

SAIPAN IS THE CAPITAL AND IS ALSO THE BUSINESS, SOCIAL AND POLITICAL HUB OF THE COMMONWEALTH. THERE ARE ABOUT 25,000 CITIZENS IN THE COMMONWEALTH OF WHICH 2,200 LIVE IN TINIAN. THERE ARE AN ADDITIONAL 20 TO 25 THOUSAND FOREIGN WORKERS MOSTLY FROM THE PHILIPPINES AND CHINA. TWO-THIRDS OF THE LAND MASS OF TINIAN HAS BEEN LEASED TO THE U.S. MILITARY FOR 50 YEARS.

ECONOMICALLY, THE MAJOR INDUSTRIES OF THE COMMONWEALTH ARE TOURISM AND GARMENT FACTORIES. AS IT RELATES TO GARMENT FACTORIES, THE U.S. DEPARTMENT OF LABOR IS SUING THE LARGEST MANUFACTURERS FOR VIOLATIONS OF THE FAIR LABOR STANDARDS ACT IN THAT FOREIGN WORKERS ARE ALLEGEDLY BEING TREATED LIKE SLAVES. UP UNTIL THE LAWSUIT, THE GOVERNMENT HAD LOOKED THE OTHER WAY.

ON THE TOURISM FRONT, THE COMMONWEALTH IS DOING QUITE WELL. SAIPAN IS ONLY 90 MILES FROM GUAM AND BOTH JURISDICTIONS ARE ATTRACTING ABOUT ONE MILLION TOURISTS A YEAR. OVER ONE BILLION PEOPLE ARE WITHIN AN EIGHT HOUR PLANE RIDE TO CNMI. TOURISTS ARE ATTRACTED PRIMARILY FROM JAPAN AND KOREA BUT AGGRESSIVE EFFORTS ARE

UNDER WAY TO ATTRACT TOURISTS FROM TAIWAN, THAILAND AND HONG KONG. THE TOURISM BOOM HAS SPURRED HOTEL CONSTRUCTION, GOLF COURSES, SHOPS, RESTAURANTS AND AN ACTIVE NIGHTLIFE. PROSTITUTION IS NOT ILLEGAL IN THE CNMI.

FOR YEARS, TINIAN DID NOT BENEFIT ECONOMICALLY FROM THE DEVELOPMENT TAKING PLACE IN SAIPAN. WHILE ONLY THREE NAUTICAL MILES FROM SAIPAN, THE ISLAND IS TOTALLY UNDEVELOPED AND LACKS ANYTHING OTHER THAN RUDIMENTARY INFRASTRUCTURE. AFTER YEARS OF FRUSTRATION, THE PEOPLE OF TINIAN TOOK DEVELOPMENT INTO THEIR OWN HANDS. CASINOS WERE SEEN AS A WAY TO DEVELOP THE ISLAND. UNDER CERTAIN PROVISIONS OF THE COMMONWEALTH CONSTITUTION, TINIAN, THROUGH A REFERENDUM, PASSED AN INITIATIVE AUTHORIZING CASINO GAMING. THIS INITIATIVE CREATED THE CASINO GAMING CONTROL COMMISSION AND SET FORTH THE STRUCTURE TO REGULATE GAMING. THE COMMISSION IS A FIVE MEMBER BODY THAT IS APPOINTED BY THE MAYOR WITH CONFIRMATION BY THE LOCAL COUNCIL. THE INITIATIVE PATTERNED GAMING, ESPECIALLY LICENSING, ON NEW JERSEY'S CASINO CONTROL ACT. THEREFORE, THE TINIAN INITIATIVE CONTAINS EXTENSIVE DISCLOSURE REQUIREMENTS, STRICT LICENSING STANDARDS, AND GENERALLY PROVIDED BROAD AUTHORITY TO REGULATE AND CONTROL GAMING. IT WAS THE INTENT OF THE INITIATIVE THAT THE COMMISSION BE AUTONOMOUS AND INDEPENDENT FROM LOCAL POLITICAL PRESSURES AND INFLUENCE.

BECAUSE OF BUDGETARY PROBLEMS AND FRICTION BETWEEN THE CENTRAL GOVERNMENT AND LOCAL GOVERNMENT, THE COMMISSION DID NOT SECURE FUNDING UNTIL FEBRUARY 1991. HOWEVER, BEFORE FUNDING WAS IN PLACE AND BEFORE ANY THOUGHT HAD BEEN GIVEN TO CONDUCTING INVESTIGATIONS ON THE QUALIFICATIONS OF THE APPLICANTS, APPLICATIONS FOR CASINO LICENSES WERE SOLICITED AND ACCEPTED BETWEEN SEPTEMBER TO NOVEMBER 1990. UNFORTUNATELY, NO EFFORT WAS MADE TO PUBLICIZE TINIAN TO THE GAMING INDUSTRY OR THE FINANCIAL MARKETS. AS A RESULT, ONLY SEVEN LOCAL COMPANIES APPLIED FOR LICENSURE. NONE OF THESE COMPANIES HAD ANY EXPERIENCE IN THE GAMING INDUSTRY OR THE FUNDING TO BUILD AND OPERATE CASINO HOTELS. AFTER PRELIMINARY INVESTIGATION, IT WAS CLEAR THAT EACH OF THE APPLICANTS HAD SERIOUS PROBLEMS RELATING TO EITHER TIES TO THE YAKUZA, OTHER INTEGRITY ISSUES OR AN INABILITY

TO RAISE CAPITAL. IT WAS ALSO CLEAR THAT DIFFERENT ASPECTS OF THE POLITICAL COMMUNITY HAD INTERESTS IN EACH OF THE APPLICANTS. THERE DOES NOT EXIST ANY CODE OF CONDUCT FOR ELECTED OFFICIALS OR GOVERNMENT EMPLOYEES. POLITICAL FIGURES ARE IMMERSSED IN LOBBYING FOR BUSINESS ARRANGEMENTS THAT THEY OR THEIR FAMILIES ARE ACTIVELY INVOLVED IN. IN SOME INSTANCES, THERE WERE WHOLESOME LIES AND MISREPRESENTATIONS ON THE APPLICATION FORMS; IN OTHER CASES IT APPEARED AS THOUGH THE APPLICANTS WERE FRONTS FOR THE YAKUZA OR OTHER SHADY CHARACTERS. MOREOVER THE MONEY USED TO FINANCE SOME OF THE PROJECTS WAS DIRECTLY OR INDIRECTLY FROM VARIOUS BRANCHES OF THE YAKUZA.

THE COMMONWEALTH IS ALREADY A LOCALE WHERE THE YAKUZA WAS TOLERATED BY GOVERNMENT AND HAD MADE INROADS. LAW ENFORCEMENT IN THE CNMI IS NOT ORGANIZED TO COMBAT ORGANIZED CRIME OR TO FIGHT WHITE COLLAR CRIME. IN POLITICAL AND GOVERNMENTAL CIRCLES THERE IS EITHER A WILLINGNESS TO DO BUSINESS WITH THE YAKUZA OR TO LOOK THE OTHER WAY. IT WAS NOT AT ALL UNCOMMON TO OBSERVE YAKUZA VISITING THE CNMI OR DOING BUSINESS IN THE COMMONWEALTH. AT BEST, GOVERNMENT AND THE YAKUZA PEACEFULLY COEXISTED IN THE CNMI; AT WORST, THEY WERE IN BUSINESS TOGETHER. DRUG USE IS RAMPANT IN CNMI AND IT IS SURMISED THAT THE CNMI IS USED AS A TRANSSHIPMENT POINT FOR DRUGS INTO THE U.S. AND ELSEWHERE. ONE FBI AGENT IN SAIPAN CHARACTERIZED THE DRUG PROBLEM AS ENDEMIC INVOLVING ELECTED OFFICIALS, GOVERNMENT OFFICIALS AND PROMINENT BUSINESSMAN. UP TO 500 SHIPPING CONTAINERS MAY BE IN PORT AT ANY ONE TIME AND DO NOT RECEIVE SCRUTINY BY U.S. CUSTOMS. THEREFORE, IT SHOULD NOT HAVE BEEN SURPRISING THAT SOME OF THE CASINO APPLICANTS THOUGHT ALL THEY HAD TO DO WAS PAY THE APPLICATION FEES AND THEN BE ISSUED A LICENSE. NO ONE EXPECTED THAT THE INVESTIGATIONS WOULD BE SERIOUS AND THOROUGH.

IN AT LEAST THREE APPLICATIONS, THE INVESTIGATIONS DOCUMENTED YAKUZA EFFORTS TO PENETRATE OWNERSHIP. TINIAN WAS OBVIOUSLY VIEWED AS A WAY FOR THE YAKUZA TO BECOME INVOLVED IN LEGITIMATE BUSINESS. ORGANIZED CRIME, BE IT THE YAKUZA OR U.S. ORGANIZED CRIME, ATTEMPTS TO COVER UP THEIR ACTIVITIES BY LEGITIMIZING IT. WE ALL KNOW THE

HISTORY OF CASINO GAMING AND HOW CASH INTENSIVE THE INDUSTRY IS. GAMING IS AN ACTIVITY THAT HAS HISTORICALLY BEEN CONNECTED WITH CRIMINALITY, MISCONDUCT AND ORGANIZED CRIME. THE OUTDATED VISION OF NEVADA AS A HAVEN FOR MOB ACTIVITIES IS ONE OF THE DOMINANT THEMES OF OUR TIMES AND THIS TRADITIONAL LINK WITH CRIME AND CRIMINALS STILL HINDERS EFFORTS TO LEGALIZE GAMING. WITHOUT STRICT LICENSING AND A ROCK HARD COMMITMENT FROM GOVERNMENT TO CONTROL LICENSING, THE YAKUZA WILL CONTROL GAMING IN TINIAN. GIVEN THE PERSISTENCE AND NEFARIOUSNESS OF ORGANIZED CRIME, THAT POSSIBILITY IS A REAL ONE INDEED.

IN ADDITION TO CASINO OWNERSHIP, THE OPPORTUNITY TO SKIM CASINO FUNDS, AND THE OPERATION OF LUCRATIVE JUNKETS, THE YAKUZA SAW TINIAN AS A VEHICLE TO LAUNDER MONEY. MOST IMPORTANTLY, DOING BUSINESS IN TINIAN GAVE THE YAKUZA A BACK DOOR ENTRY INTO THE U.S. AND MIGHT FACILITATE THEIR ABILITY TO SECURE U.S. PASSPORTS. REMEMBER, IMMIGRATION AND CUSTOMS ARE NOT CONTROLLED BY THE U.S. GOVERNMENT. ALL OF THIS MADE TINIAN AN IRRESISTIBLE LURE THAT WAS IMPOSSIBLE FOR THE YAKUZA TO IGNORE.

WHAT CAN SMALL GAMING JURISDICTIONS DO TO COMBAT ALL OF THIS IS A RELEVANT QUESTION AS OTHER JURISDICTIONS CONTEMPLATE THE LEGALIZATION OF VARIOUS FORMS OF GAMING. A BASIC STRATEGY TO COMBAT ORGANIZED CRIME IS TO FIRST AND FOREMOST ESTABLISH A CREDIBLE REGULATORY PROCESS THAT WOULD MAKE FIRST CLASS CASINO DEVELOPERS, OPERATORS AND FINANCIAL SOURCES FEEL COMFORTABLE IN INVESTING IN THESE JURISDICTIONS. IF THAT GOAL WAS NOT ACHIEVED, THE BALLGAME WOULD BE OVER AS ANY JURISDICTION WOULD NOT BE ABLE TO ATTRACT COMPANIES LICENSED IN OTHER JURISDICTIONS. FOR EXAMPLE, THE STATE OF NEVADA HAS TO APPROVE DOING BUSINESS IN FOREIGN JURISDICTIONS FOR THOSE COMPANIES LICENSED THERE. LIKEWISE NEW JERSEY KEEPS AN EYE ON THE ACTIVITIES OF IT'S LICENSES IN FOREIGN GAMING JURISDICTIONS. SECOND, IT IS CRITICAL TO ESTABLISH A POSITIVE WORKING RELATIONSHIP WITH LAW ENFORCEMENT. IN TINIAN THOSE EFFORTS WERE PRIMARILY GEARED TO THE FBI, U.S. TREASURY DEPARTMENT, FINCEN, THE U.S. ATTORNEY'S OFFICE, THE NEVADA GAMING CONTROL BOARD, THE NEW JERSEY DIVISION OF GAMING ENFORCEMENT AND

NATIONAL POLICE AGENCIES IN JAPAN, PHILIPPINES, AND KOREA. HISTORICALLY, I WAS AWARE THAT THE JAPANESE NATIONAL POLICE DID NOT READILY SHARE INFORMATION EVEN WITH U.S. LAW ENFORCEMENT. WE WERE ABLE TO WORK AROUND THE OBSTACLE BUT ADMITTEDLY IT CREATED PROBLEMS IN INVESTIGATING ORGANIZED CRIME.

OF COURSE, A CASINO REGULATORY AGENCY'S ABILITY TO MAKE PROGRESS IN THIS REGARD IS BASED ON HOW CREDIBLE THE REGULATORY PROCESS WAS AND HOW CREDIBLE THE REGULATORY AGENCY WAS PERCEIVED TO BE BY OTHER LAW ENFORCEMENT AGENCIES. THIRD, A STRICT CODE OF CONDUCT FOR THE REGULATORS AND GOVERNMENT OFFICIALS RELATING TO ETHICS IS IMPORTANT. FOURTH, THE CONDUCT OF BUSINESS IN THE OPEN SO THAT THE PUBLIC CAN BE ASSURED THAT DECISIONS ARE MADE ON THE MERITS AS OPPOSED TO BACK DOOR DECISION MAKING IS NECESSARY TO PRESERVE PUBLIC CONFIDENCE IN THE REGULATORY PROCESS.

WITHOUT GETTING INTO TOO MUCH DETAIL, I WOULD LIKE TO REVIEW HOW THE PROCESS ITSELF CAN BE AN EFFECTIVE TOOL FOR LAW ENFORCEMENT IN COMBATING ORGANIZED CRIME. THERE ARE CERTAIN UNIVERSAL STANDARDS COMMON TO ALL MAJOR CASINO REGULATORY BODIES. IN EVERY JURISDICTION THAT HAS APPROVED CASINO GAMING IN THE UNITED STATES, THAT ACTIVITY IS HIGHLY REGULATED. PUBLIC CONFIDENCE AND THE OVERALL INTEGRITY OF THE GAMING INDUSTRY REQUIRES STRICT AND COMPREHENSIVE REGULATION. THE ELEMENTS OF EFFECTIVE CASINO REGULATION INCLUDE WHAT I HAVE DESCRIBED ABOVE WITH THE GOAL TO ASSURE THAT ONLY THOSE COMPANIES OR INDIVIDUALS THAT MEET THE LICENSING STANDARDS RECEIVE A LICENSE, THAT ORGANIZED CRIME IS KEPT OUT OF THE OWNERSHIP OF THE CASINO INDUSTRY AND THAT UNQUALIFIED COMPANIES AND INDIVIDUALS ARE BARRED FROM LICENSURE. ADDITIONALLY, FROM AN OPERATIONAL PERSPECTIVE, THE GOAL OF CASINO REGULATION IS TO ASSURE THAT ALL MONIES RECEIVED THROUGH CASINO ACTIVITIES ARE ACCOUNTED FOR AND THAT THE GAMES ARE FAIRLY RUN.

FIRST, LICENSURE IN AN ADMINISTRATIVE CONTEXT, IS A PRIVILEGE AND NOT AN ENTITLEMENT. IN THE ADMINISTRATIVE PROCESS THE STANDARDS OF EVIDENCE, TRIAL PROCEDURES AND BURDENS OF PROOF ARE RELAXED. AN APPLICANT HAS TO DEMONSTRATE FITNESS FOR LICENSURE - HONESTY, INTEGRITY AND GOOD CHARACTER; BUSINESS ABILITY AND CASINO

EXPERIENCE AS WELL AS FINANCIAL STABILITY AND INTEGRITY; EACH APPLICANT MUST COOPERATE WITH THE REGULATORY AGENCY AND PROVIDE ASSISTANCE UPON REQUEST. AN APPLICANT IS DISQUALIFIED IF IT FAILS TO REVEAL MATERIAL FACTS RELATING TO ITS QUALIFICATIONS; IF IT FAILS TO PROVIDE INFORMATION; IF IT IS CONVICTED OF A SPECIFICALLY ENUMERATED OFFENSE GENERALLY WITHIN THE TEN YEAR PERIOD PRECEDING THE APPLICATION; OR IF THE APPLICANT OR ANY OF ITS OFFICERS OR MAJOR STOCKHOLDERS ARE AFFILIATED WITH A CAREER OFFENDER OR A CAREER OFFENDER CARTEL.

NEXT, THE ESTABLISHMENT OF PARAMETERS RELATING TO WHO MUST QUALIFY IN CONJUNCTION WITH CASINO LICENSES MUST BE CLEARLY SET FORTH IN THE ENABLING LEGISLATION. FINANCIAL SOURCES AND CASINO OPERATORS MUST BE REQUIRED TO APPLY AS THOUGH THEY WERE CASINO APPLICANTS. THIS ASSURES THAT THE FINANCING USED TO CONSTRUCT AND OPERATE THESE PROJECTS WOULD BE SUBJECT TO REVIEW AND WOULD THWART HIDDEN OWNERSHIP.

TINIAN INITIALLY ADOPTED MOST, IF NOT ALL, OF THESE STANDARDS. ALL OF THIS WAS WELL AND FINE AND ON PAPER ESTABLISHED A VIABLE REGULATORY STRUCTURE. ULTIMATELY HOWEVER, IT IS THE REGULATORY AGENCY AS A BODY AND THE INDIVIDUALS THAT COMPRISE THE COMMISSION THAT EITHER MAKE THE SYSTEM WORK OR FAIL. IMPLEMENTATION OF THE REGULATORY PROCESS AND A COMMITMENT TO THE GOALS OF REGULATION IS JUST AS IMPORTANT. IN THIS CASE, THE FORMER CHAIRMAN OF THE COMMISSION DIED UNEXPECTEDLY IN NOVEMBER 1991 AND HIS DEATH WAS A DEVASTATING BLOW TO THE FUTURE OF CREDIBLE GAMING IN TINIAN BECAUSE HE SET A STANDARD OF HONESTY AND INTEGRITY WHICH CANNOT BE SO EASILY OR READILY MATCHED BY THE OTHER MEMBERS OF THE COMMISSION.

I WOULD NOW LIKE TO REVIEW THE ASA DEVELOPMENT AND INVESTMENT CORPORATION AND CASINO LICENSURE CASE. THE FACTS OF THE CASE ARE MATTERS OF PUBLIC RECORD BASED ON ORAL TESTIMONY AND DOCUMENTARY EVIDENCE INTRODUCED AT THE HEARING. THIS CASE HIGHLIGHTS HOW THE YAKUZA ATTEMPTED TO PENETRATE CASINO OWNERSHIP AND HIGHLIGHTED SOME OF THE PROBLEMS CREDIBLE CASINO OPERATORS MIGHT FACE IN DEALING WITH THE TINIAN COMMISSION.

ASA WAS A CASINO APPLICANT THAT SOUGHT TO BUILD A \$300 MILLION

CASINO HOTEL PROJECT IN TINIAN. THE INVESTIGATION OF THE APPLICANT TOOK TEN MONTHS AND INVOLVED BOTH BACKGROUND AND FINANCIAL INVESTIGATIONS. I RETAINED THE FIRM OF O'REILLY VERNIER, LTD IN HONG KONG TO CONDUCT BACKGROUND INVESTIGATIONS. WILLIAM O'REILLY IS A FORMER FBI AGENT WITH EXTENSIVE EXPERIENCE IN ASIA AND THE PACIFIC AND HE WAS ASSISTANT MANAGING DIRECTOR OF KROLL ASSOCIATES IN HONG KONG BEFORE HE LEFT IN 1991 TO ESTABLISH HIS OWN FIRM. PAUL VERNIER SERVED AS U.S. ATTORNEY FOR GUAM AND THE CNMI. FOR THE FINANCIAL INVESTIGATIONS I HIRED ARTHUR ANDERSON AND CO. IN TOKYO, JAPAN. WE DEVELOPED INVESTIGATIVE PROTOCOLS INCLUDING SOPHISTICATED FINANCIAL REVIEWS WHICH HELPED PEEL AWAY THE LEGITIMACY THAT SOME COMPANIES ATTEMPTED TO PORTRAY AND WHICH EXPOSED THOSE COMPANIES AS YAKUZA FRONTS.

ONE CAN NOT EMPHASIZE TOO STRONGLY THE NEED FOR COMPREHENSIVE FINANCIAL INVESTIGATIONS WHICH IS SUPPLEMENTED BY THOROUGH BACKGROUND INVESTIGATIONS. INVESTIGATIVE TOOLS INCLUDING CONFIDENTIAL INFORMANTS MUST ALSO BE USED. FOR EXAMPLE, INFORMATION PROVIDED BY A CONFIDENTIAL SOURCE MAY LATER BE CONFIRMED BY THE RESULTS OF FINANCIAL INVESTIGATION. I ALSO RETAINED ALEC DUBRO, COAUTHOR OF THE BOOK "YAKUZA", A LANDMARK WORK ON JAPANESE ORGANIZED CRIME, AS AN EXPERT WITNESS.

AFTER A COMPREHENSIVE INVESTIGATION INVOLVING THE BACKGROUND OF ASA AND ITS KEY PERSONNEL AS WELL AS A FINANCIAL ANALYSIS OF THE PROJECT, A REPORT RECOMMENDING THE DENIAL OF THIS APPLICATION WAS ISSUED. THAT REPORT RAISED VARIOUS ISSUES AND WAS THE EQUIVALENT OF AN INDICTMENT IN THE CRIMINAL CONTEXT OR A COMPLAINT IN THE CIVIL PROCESS. IT RAISED ISSUES THAT HAD TO BE DECIDED BY THE COMMISSION AT A PUBLIC HEARING. THE BASIC REASON FOR THE DENIAL RECOMMENDATION WAS THE CONCLUSION OF THE INVESTIGATION THAT THE APPLICANT AND ITS 92% STOCKHOLDER AND CEO, YUKIHIRO ASAI, WAS A FRONT FOR THE YAKUZA.

THE PROSECUTION ATTEMPTED TO TRACE HISTORICALLY THE YAKUZA ACTIVITIES IN THE UNITED STATES. YAKUZA INVESTMENTS ARE GENERALLY, IN UNTRACEABLE AMOUNTS OF CASH. CERTAINLY, ORGANIZED CRIME FIGURES WILL FAIL TO DISCLOSE THE SOURCE, AND EVEN THE AMOUNT, OF THEIR

ASSETS. FINANCIAL RECORDS OF FRONT BUSINESSES ARE RARELY IN ACCORD WITH RECOGNIZED ACCOUNTING PROCEDURES.

CENTRAL TO YAKUZA ACTIVITY IS EXTORTION AND GAMBLING. THEIR PRESENCE IN THE TOURIST INDUSTRY IS DUE TO THEIR ABILITY TO CONTROL BOTH THESE RACKETS. THEY INTIMIDATE JAPANESE TOURISTS INTO TAKING A PARTICULAR OVERPRICED TOUR, OR TO SHOP IN AN EQUALLY EXORBITANT SHOP. THEY ALSO OPERATE ILLEGAL GAMBLING SETUPS, AND COLLECT GAMBLING DEBTS.

ANOTHER CHARACTERISTIC IS THE YAKUZA PRESENCE IN THE SO-CALLED "SEX INDUSTRY". WHETHER THEY ARE RUNNING BROTHELS OR CONTROLLING SEX TOURS OR PROCURING WOMEN, THEY HAVE FOUND THE INDUSTRY TO THEIR LIKING. THEY ALSO SHAKE DOWN MEN WITH THREATS OF EXPOSURE, OR USE PROSTITUTES TO ROB CLIENTS, KNOWING THAT FEW TOURISTS WILL COMPLAIN TO THE POLICE.

IN RECENT YEARS, YAKUZA HAVE MOVED INTO STOCK MANIPULATION AND MORE SOPHISTICATED FINANCIAL FRAUD AND INVESTMENT (REAL ESTATE, FINANCIAL AND SECURITIES). BUT BECAUSE THEY ARE ANXIOUS TO REMAIN UNDETECTED, YAKUZA IN THE UNITED STATES HAVE OFTEN BETWEEN LOW-KEYED AND FREQUENTLY USE ASSOCIATES, BOTH JAPANESE AND NON-JAPANESE, WHO ARE NOT SO READILY IDENTIFIABLE.

THE PROSECUTION ATTEMPTED TO SHOW HOW THE YAKUZA HAS MOVED INTO NEW ACTIVITIES ATTEMPTING TO LEGITIMIZE THEIR ACTIVITIES. (SEE CHARTS I AND II).

OWING TO AMERICAN LAW ENFORCEMENT PRESSURE, YAKUZA, WHO ARE USED TO A CONSIDERABLE AMOUNT OF OPENNESS IN JAPAN, MUST IN THIS COUNTRY CONCEAL THEIR GANG IDENTITIES. YAKUZA ENTERING THE UNITED STATES ALMOST INVARIABLY DISSEMBLE ABOUT THEIR CRIMINAL RECORDS. SOME HAVE GONE SO FAR AS TO COVER THEIR SEVERED FINGERS WITH PROSTHETIC DEVICES TO EVADE CUSTOMS SURVEILLANCE.

EVEN WITHOUT COMPLETE JAPANESE LAW ENFORCEMENT COOPERATION, AND DESPITE THE LOW PRIORITY GIVEN TO THE YAKUZA BY MOST AMERICAN LAW ENFORCEMENT, MANY OF THEIR ACTIVITIES HAVE BECOME CLEAR. YAKUZA CONCENTRATE ON BARS, RESTAURANTS, NIGHT CLUBS, HOTELS, AND CASINOS, AS WELL AS PACKAGED TOURS, GIFT SHOPS, AND OTHER LEISURE TIME INDUSTRIES.

YAKUZA FRONT BUSINESSES TEND TO INVOLVE HIGH CASH TURNOVER BUSINESSES SUCH AS SHOW BUSINESS AND CASINO GAMBLING. OTHERS, THOUGH, ARE IN REAL ESTATE OR THE IMPORT-EXPORT BUSINESS.

WE ATTEMPTED TO DEVELOP A PROFILE OF SOMEONE WHO MIGHT BE WILLING TO ACT AS A FRONT FOR THE YAKUZA. CHART III REPRESENTS THAT EFFORT. ALTHOUGH THERE ARE NO FOOLPROOF LITMUS TESTS FOR YAKUZA ASSOCIATES, THERE ARE CERTAIN MEASURES WHICH TAKEN COLLECTIVELY MIGHT BE INDICATIVE.

1. THEY ARE INVARIABLY ENGAGED IN FINANCIAL MANAGEMENT AS OWNERS OF BUSINESSES, IN FORMAL OR INFORMAL BANKING, OR IN SOME FORM OF STOCK OR COMMODITY DEALERS.

2. THEY FREQUENTLY HAVE CRIMINAL RECORDS, ALTHOUGH THESE RECORDS MAY BE FOR MINOR INFRACTIONS, AND MAY OR MAY NOT BE RELATED TO TRADITIONAL YAKUZA ACTIVITY.

3. THEY MAINTAIN IMPRESSIVE BUSINESS OPERATIONS AS FRONTS IN ORDER TO CONCEAL POSSESSION AND MOVEMENT OF ILLEGAL FUNDS FROM LAW ENFORCEMENT AND OTHER SCRUTINY.

4. THEY TEND TO ENTERTAIN A GREAT DEAL AND TO FAVOR LUXURIOUS ACCOMMODATIONS.

5. THEIR BUSINESS DEALINGS AND THE RECORDS THEY KEEP ARE RARELY STRAIGHTFORWARD.

6. THEY OFTEN OPERATE THROUGH ATTORNEYS, ACCOUNTANTS, POLITICAL FIGURES AND OTHERS.

THE PROSECUTION ATTEMPTED TO APPLY THE FACTS OF THE CASE TO THIS PROFILE IN ORDER TO DEMONSTRATE THE YAKUZA INVOLVEMENT. WE DID THIS IN A NUMBER OF WAYS. FIRST, IN 1979, MR. ASAI HAD BEEN ARRESTED AND CONVICTED OF LOAN SHARKING. THIS WAS A TYPICAL LOW LEVEL YAKUZA ACTIVITY IN THE 1970'S AND EARLY 1980'S. IN FACT, MR. ASAI HAD BEEN COLLECTING LOANS MADE TO INDIVIDUALS WHO OTHERWISE MIGHT NOT HAVE BEEN QUALIFIED TO RECEIVE THOSE LOANS AND HE WAS KEEPING EXORBITANT COMMISSIONS UP TO 50% OF THE LOAN AMOUNT. IN EFFECT, THIS BEGAN A PATTERN ESTABLISHING ONE WHO WAS ALL TO WILLING TO ACT FOR AND ON BEHALF OF YAKUZA ORGANIZATIONS. MR. ASAI'S PRIMARY BUSINESS IN THE MID 1980'S TO THE PRESENT WAS TO

NEGOTIATE WITH PROPERTY OWNERS FOR THE SALE OF THEIR LAND TO THIRD PARTIES. THESE NEGOTIATIONS WERE OFTEN EQUIVALENT TO INTIMIDATION AND THIS ACTIVITY WAS ALSO A TYPICAL OF YAKUZA ACTIVITIES. ONE OF THE SIGNIFICANT YAKUZA ACTIVITIES RELATED TO GUNRUNNING. GUNS ARE STRICTLY PROHIBITED IN JAPAN AND GUNRUNNING INTO JAPAN IS ALMOST ALWAYS ASSOCIATED WITH THE YAKUZA. WE WERE ABLE TO SHOW MR. ASAI'S ASSOCIATION WITH CONVICTED GUNRUNNERS. THESE ASSOCIATIONS OCCURRED IN THE PHILIPPINES WHERE THE BUYING AND SELLING ACTIVITIES OFTEN TAKE PLACE AND WHERE GUNS ARE THEN SMUGGLED INTO JAPAN. WE HAD SEVERAL WITNESSES FROM THE PHILIPPINES WHO OBSERVED MR. ASAI WITH GUNRUNNERS AND WHO WERE PREPARED TO TESTIFY TO THAT EFFECT. OTHER WITNESSES WOULD HAVE PLACED MR. ASAI WITH YAKUZA MEMBERS NEGOTIATING TO BRING WOMEN TO JAPAN FOR THE SEX INDUSTRY.

MR. ASAI AND HIS ASSOCIATES ATTEMPTED TO PORTRAY THEMSELVES AS WEALTHY AND RESPECTABLE BUSINESSMAN WHEN THEY WERE NOT. FOR EXAMPLE, ON THE APPLICATION FORMS MR. ASAI SWORE AND HAD NOTARIZED STATEMENTS ABOUT HIS NET WORTH AND THE NET WORTH OF THE COMPANIES HE CONTROLLED. CHART IV DEPICTS THE NET WORTH OF COMPANIES CONTROLLED BY ASAI AND HIS MAJOR PARTNER. ON THE APPLICATION FORM THEY ONLY DEPICTED ASSETS OF \$138 MILLION. ONLY THROUGH FINANCIAL INVESTIGATION DID WE LEARN THAT THE LIABILITIES OF THE COMPANIES EXCEEDED THE ASSETS AND THE COMPANIES HAD AN OVERALL NEGATIVE NET WORTH. SUCH BEING THE CASE, HOW COULD ASAI RAISE THE CAPITAL TO FINANCE A \$300 MILLION CASINO HOTEL FROM LEGITIMATE SOURCES?

SECONDLY, MR. ASAI AND THE OTHER MAJOR STOCKHOLDER IN THIS CASE, MR. KAZCAKO, REPRESENTED ON THEIR PERSONNEL APPLICATION FORMS THAT THEY HAD A NET WORTH OF 50 MILLION AND 300 MILLION DOLLARS RESPECTIVELY. IN FACT, AFTER A THOROUGH REVIEW OF THEIR FINANCES, IT WAS DETERMINED THAT THEIR COMBINED NET WORTH WAS LESS THAN 6 MILLION DOLLARS. THEY HAD INTENTIONALLY OVERSTATED THEIR ASSETS SO AS TO APPEAR AS RESPECTABLE BUSINESSMEN. FOR EXAMPLE, THE FINANCIAL INVESTIGATIONS REVEALED THAT MR. ASAI CLAIMED LAND AS HIS OWN WHEN HE NEVER OWNED THAT LAND, OR THAT HE CLAIMED LAND WHICH HAD BEEN SOLD (IN ONE INSTANCE WITHIN A WEEK BEFORE HE FILED HIS APPLICATION FORM) AND THAT HE CLAIMED HOLDINGS THAT WERE IN THE

NAME OF SOME OF HIS CORPORATIONS AS HIS OWN. ALL OF THIS WAS DONE TO INFLATE HIS ASSETS.

MR. ASAI CLAIMED \$82,000 ANNUAL INCOME BUT HAD MADE PERSONAL LOANS IN ONE YEAR IN EXCESS OF \$800,000 TO FRIENDS AND ASSOCIATES; HE DROVE A ROLLS ROYCE; TRAVELED WITH AN ENTOURAGE TO SAIPAN, THE PHILIPPINES AND ELSEWHERE; AND HIS LIFESTYLE FAR EXCEEDED HIS REPORTED INCOME. ON CROSS EXAMINATION MR. ASAI'S FINANCIAL ADVISOR TRIED TO EXPLAIN AWAY THESE INCONSISTENCIES BY STATING THAT PERHAPS THAT ONE YEAR WAS AN ABERRATION AND THAT PERHAPS IN PREVIOUS YEARS, MR. ASAI HAD A LARGER INCOME. BECAUSE OF OUR FINANCIAL INVESTIGATION, WE WERE ABLE TO PRODUCE THE JAPANESE EQUIVALENT OF A W-2 FOR THE PREVIOUS 4 YEARS WHICH SHOWED MR. ASAI'S REPORTED INCOME OF ONLY \$82,000. THE FINANCIAL ADVISOR COULD NOT EXPLAIN HOW MR. ASAI COULD LIVE HIS LIFESTYLE ON \$82,000. THE PROSECUTION BELIEVED THAT MR. ASAI UNDERSTATED HIS INCOME TO AVOID PAYING JAPANESE INCOME TAXES.

THOUGH STRONG FINANCIAL ANALYSIS WE SHOWED THAT MR. ASAI HAD MONEY WIRE TRANSFERRED TO SAIPAN FROM JAPAN. IN TOTAL SOME 12.7 MILLION DOLLARS WAS TRANSFERRED TO SAIPAN BY MR. ASAI. 8 MILLION DOLLARS OF THOSE FUNDS COULD NOT BE ACCOUNTED FOR AND WE SPECULATED THAT ASAI USED THAT MONEY TO SUPPORT HIS LIFESTYLE OVER AN 18 TO 24 MONTH PERIOD. (SEE CHART VI).

OVERALL, I THINK WE WERE SUCCESSFUL IN APPLYING THE FACTS OF THE CASE TO THE PROFILE OF THE YAKUZA ASSOCIATE. THE PICTURE WE PORTRAYED WAS OF AN INDIVIDUAL WHO WAS ALL TO WILLING TO FRONT FOR AND BE CONTROLLED BY THE YAKUZA AS LONG AS HE MADE MONEY IN THE PROCESS.

THERE WERE BIZARRE EVENTS WHICH OCCURRED BEFORE AND DURING THE HEARING. FIRST, ASA REQUESTED THAT THE COMMISSION IGNORE THE INVESTIGATIVE REPORT AND ISSUE THE COMPANY A LICENSE IRRESPECTIVE IF THE ISSUES RAISED IN THE REPORT. THE ATTORNEYS FOR ASA NEVER SEEMED TO DEVELOP ANY STRATEGY TO COUNTER THE SERIOUS ALLEGATIONS CONTAINED IN THE REPORT. THE ONE MOTION THEY FILED RELATED TO AN ATTEMPT TO STRIKE ALL OF THE ALLEGATIONS FROM THE REPORT. I BELIEVE THAT THEY THOUGHT THEY HAD THE POLITICAL LEADERSHIP ON

THEIR SIDE AND THEREFORE DID NOT HAVE TO PRESENT A CASE.

UNDER THE COMMISSION REGULATIONS, ASA WAS REQUIRED TO PAY FOR THE COSTS ASSOCIATED WITH ITS INVESTIGATIONS AND HEARING. ASA PAID \$100,000 TO COVER THOSE COSTS 10 WEEKS BEFORE THE TRIAL BUT UNFORTUNATELY, THE COMMISSION WOULD NOT RELEASE THOSE FUNDS UNTIL JUST THREE AND ONE HALF WEEKS BEFORE THE TRIAL WAS SCHEDULED TO BEGIN. MOREOVER, IN MY OPINION, THE COMMISSION'S SCHEDULING OF THE HEARING DATES PUT INTENSE PRESSURE ON THE PROSECUTION UNNECESSARILY. I WAS GIVEN ONLY THREE AND ONE HALF WEEKS TO ORGANIZE THE PROSECUTION, SCHEDULE THE WITNESSES, ARRANGE TRAVEL TO THE CNMI AND ALL OF THIS HAD TO BE DONE OVER THE CHRISTMAS VACATION.

WHILE OFFICIALLY THE MAYOR IS SUPPOSED TO BE SEPARATE FROM THE REGULATORS - THE MECHANISM IS DESIGNED TO WORK AS A SEPARATE INDEPENDENT ENTITY - THE POLITICAL FORCES CONSISTENTLY ATTEMPTED TO INTERFERE IN THE REGULATORY PROCESS. THE MAYOR'S ACTIONS INDICATED A DESIRE TO SEE ASA LICENSED AND THAT POINT WAS MADE TO THE COMMUNITY AND MOST IMPORTANTLY TO THE COMMISSION HE APPOINTED. DURING THE COURSE OF OUR INVESTIGATION OF ASA, WE BECAME AWARE OF INFORMATION THAT THE MAYOR WAS ATTEMPTING TO SHAKE DOWN ONE OF ASA'S PARTNERS IN THE PHILIPPINES. ONE SHOULD VIEW THE MAYOR'S SUBSEQUENT ACTIONS IN THAT PERSPECTIVE.

THE MAYOR APPOINTED HIS YOUNGER BROTHER AS CHAIRMAN OF THE COMMISSION AND GIVEN THE STRONG ROLE OF FAMILY IN ASIA IN GENERAL AND IN TINIAN IN PARTICULAR. IT IS DIFFICULT TO BELIEVE THAT THIS WAS NOT AN EFFORT TO INFLUENCE, IF NOT CONTROL, THE COMMISSION. THIS IS NOT IDLE SPECULATION AND I DO NOT MAKE THESE CHARGES LIGHTLY - BUT CONSIDER THE EVIDENCE - DURING THE COURSE OF THE HEARING, THE MAYOR MADE IT A POINT TO TAKE THE ASA PEOPLE TO LUNCH EVERY DAY DESPITE THE SERIOUS ALLEGATIONS. ON DAY THREE OF THE TRIAL, THE MAYOR ORGANIZED A DEMONSTRATION IN FAVOR OF THE ASA LICENSE USING GOVERNMENT EMPLOYEES, AND HE ATTEMPTED TO REACH THE COMMISSION VIA PHONE DURING THEIR DELIBERATIONS.

WE RECOGNIZED THE OBSTACLES WE FACED AND DEVELOPED OUR OWN STRATEGY. DURING THE TRIAL, WE HAD EXCELLENT COOPERATION FROM

FEDERAL LAW ENFORCEMENT. THE U.S. ATTORNEY FOR GUAM AND CNMI ATTENDED THE TRIAL AND REPRESENTATIVES OF THE FBI, CUSTOMS AND DEA ALSO ATTENDED THE HEARING. IN ADDITION, REPRESENTATIVES OF THE WORLD PRESS ALSO ATTENDED THE HEARING AND WE RECEIVED FAVORABLE NEWSPAPER ARTICLES IN SEVERAL MAJOR NEWSPAPERS INCLUDING THE L.A. TIMES, HONOLULU PAPERS, AND THE PHILADELPHIA INQUIRER. THE PROSECUTION PLACED A SPOTLIGHT ON THE COMMISSION IN AN EFFORT TO FOCUS ATTENTION ON WHAT WAS HAPPENING OUT THERE. IF THE COMMISSION LICENSED THIS APPLICANT, THEY WOULD HAVE TOLD THE WORLD THAT THEY WERE A CORRUPT GAMING JURISDICTION NOT WORTHY OF INVESTMENT.

THE COMMISSION ULTIMATELY AND RELUCTANTLY DENIED THE CASINO LICENSE BECAUSE THEY HAD NO CHOICE BUT TO DO SO. HOWEVER, WITHIN ONE WEEK OF THE HEARING, MY RESPONSIBILITIES WERE REDUCED AND THE COMMISSION NEVER AGAIN WANTED TO BE PLACED IN A POSITION WHERE THEY COULD NOT DO WHAT THEY REALLY WANTED TO DO.

ANOTHER CASINO APPLICANT WAS THE OWNER OF A BANK IN THE MARIANAS ISLANDS. THIS CASINO APPLICANT WAS A MEMBER OF A YAKUZA FAMILY. OUR INVESTIGATION REVEALED THAT YAKUZA IN JAPAN WERE BRAGGING ABOUT BUYING A BANK IN THE MARIANAS AND OBTAINING A CASINO LICENSE IN TINIAN. ONE CAN ONLY IMAGINE, IN HORROR, THE EXPLOSIVE COMBINATION OF BANKING AND CASINOS UNDER THE CONTROL OF ORGANIZED CRIME. ANOTHER APPLICANT KEPT REPLACING KEY PERSONNEL AND STOCKHOLDERS IN ITS OPERATION IN AN EFFORT TO AVOID THE INVESTIGATIONS LEARNING OF POSSIBLE YAKUZA INVOLVEMENT. THAT COMPANY REFUSED TO PAY ITS INVESTIGATIVE FEES SO IT WAS DIFFICULT TO CONCLUSIVELY PROVE WHAT WAS SUSPECTED.

WHAT DOES ALL THIS MEAN? GAMING IS PROLIFERATING THROUGHOUT THE UNITED STATES AND THE WORLD. IT IS ONE OF THE GROWTH INDUSTRIES OF THE 1990'S. CASINO GAMING IS A SERIOUS BUSINESS AND DIFFICULT TO CONTROL. THE REGULATORY PROCESS CAN BE EXPENSIVE. SOME NEW JURISDICTIONS SUCH AS TINIAN DO NOT FULLY UNDERSTAND WHAT THEY ARE GETTING INTO. RATHER, THEY ARE LURED BY WHAT THEY PERCEIVE TO BE QUICK MONEY AND GLITZ. THESE PRESSURES ARE COMPOUNDED IN AN INSULAR SOCIETY SUCH AS TINIAN WHERE NEPOTISM IS THE RULE, WHERE SUNSHINE CANNOT BEAM BEHIND CLOSED DOORS AND WHERE

OFFICIAL CODE OF ETHICS THAT BIND GOVERNMENT OFFICIALS AND COMMISSIONERS IN THE CONDUCT OF THEIR OFFICIAL AFFAIRS ARE NOT ENFORCED. IN TINIAN, FOUR OUT OF THE FIVE COMMISSIONERS HAD SERIOUS ETHICAL PROBLEMS AND SOME MAY HAVE ENGAGED IN ILLEGAL ACTIVITIES (SEE ATTACHED). THE COMMISSION IS UNDER PRESSURE TO ISSUE LICENSES AND THERE'S A WELL FOUNDED FEAR THOSE LICENSES WILL BE GRANTED BEFORE EVEN A MINIMUM INVESTIGATION OF THE APPLICANT, ITS FINANCIAL SOURCES AND CASINO OPERATORS ARE COMPLETED. INDEED, THE COMMISSION RECENTLY AMENDED ITS REGULATIONS TO ALLOW A CASINO LICENSE TO BE ISSUED WITHOUT THE FINANCIAL SOURCES FIRST QUALIFYING. THIS CREATES A MAJOR BREACH IN THAT THE FINANCING OF THE CASINO PROJECT MAY NOT EVER BE DISCLOSED AT THE TIME A LICENSE IS ISSUED. ALL OF THIS MAKES TINIAN A POTENTIALLY EXPLOSIVE GAMING JURISDICTION.

THERE MUST BE A STRONG AND ACTUAL GOVERNMENT COMMITMENT TO KEEP ORGANIZED CRIME OUT OF THE OWNERSHIP, OPERATION AND FINANCING OF CASINOS. THIS COMMITMENT MUST BE MUCH MORE THAN RHETORICAL - ACTION SPEAKS LOUDER THAN WORDS.

I AM NOT OPTIMISTIC ABOUT THE FUTURE OF THIS COMMONWEALTH AND ITS ASSOCIATION WITH THE UNITED STATES. WHILE I KNOW THE UNITED STATES IS NOT PERFECT, IT IS APPALLING TO OBSERVE WHAT GOES ON IN THIS COMMONWEALTH AND HOW GOVERNMENT FUNCTIONS. AT A MINIMUM I RECOMMEND THAT THE FOLLOWING STEPS BE TAKEN TO ASSIST LAW ENFORCEMENT AND TO REDUCE THE INFLUENCE OF THE YAKUZA AND OTHER UNTOWARD INDIVIDUALS:

1. THE UNITED STATES SHOULD ASSUME SOLE RESPONSIBILITY FOR CUSTOMS INTO CNMI.
2. THE UNITED STATES SHOULD ASSUME SOLE RESPONSIBILITY FOR IMMIGRATION IN THE CNMI.
3. THE UNITED STATES SHOULD COLLECT INDIVIDUAL AND BUSINESS TAXES IN THE CNMI AND AGGRESSIVELY ENFORCE TITLE 31 RELATING TO MONEY LAUNDERING.
4. THAT CONTINUED FINANCIAL ASSISTANCE TO THE CNMI BE CONDITIONED ON DEVELOPING AND IMPLEMENTING ENHANCED REGULATION IN BANKING AND OTHER FIELDS OF COMMERCE.

5. THAT THE CNMI GOVERNMENT INCLUDING THE LEGISLATURE PROMULGATE AND ENFORCE A CODE OF CONDUCT AND ETHICS AND THAT GOVERNMENT BUSINESS BE CONDUCTED OUT IN THE OPEN.
6. THAT EFFORTS CONTINUE TO DEVELOP ENHANCED WORKING RELATIONSHIPS WITH LAW ENFORCEMENT THROUGHOUT ASIA.
7. THAT FEDERAL LAW ENFORCEMENT BE GIVEN THE RESOURCES TO COMPREHENSIVELY AND EFFECTIVELY COMBAT ORGANIZED CRIME AND CORRUPTION THAT TAKES PLACE IN THE CNMI.

Chart 1

United States Yakuza Activity

1. Gun Running
2. "White Slavery"
3. Tourist Scams
4. Extortion
5. Pornography Smuggling
6. Drugs
7. Gambling
8. Investment

Chart 2

NEW

1. Money laundering
2. Sokaiya
3. Real estate
4. Investments
5. Stock manipulation
6. Tourist scams
7. Sex tours
8. Gun running

Chart 3

YAKUZA ASSOCIATE PROFILE

1. Financial Management
2. Criminal Records
3. Impressive Front
4. Entertains
5. Distorted Records
6. Use of Professionals
7. Unethical and/or illegal practices

Chart 4

ASA ASSOCIATE COMPANIES

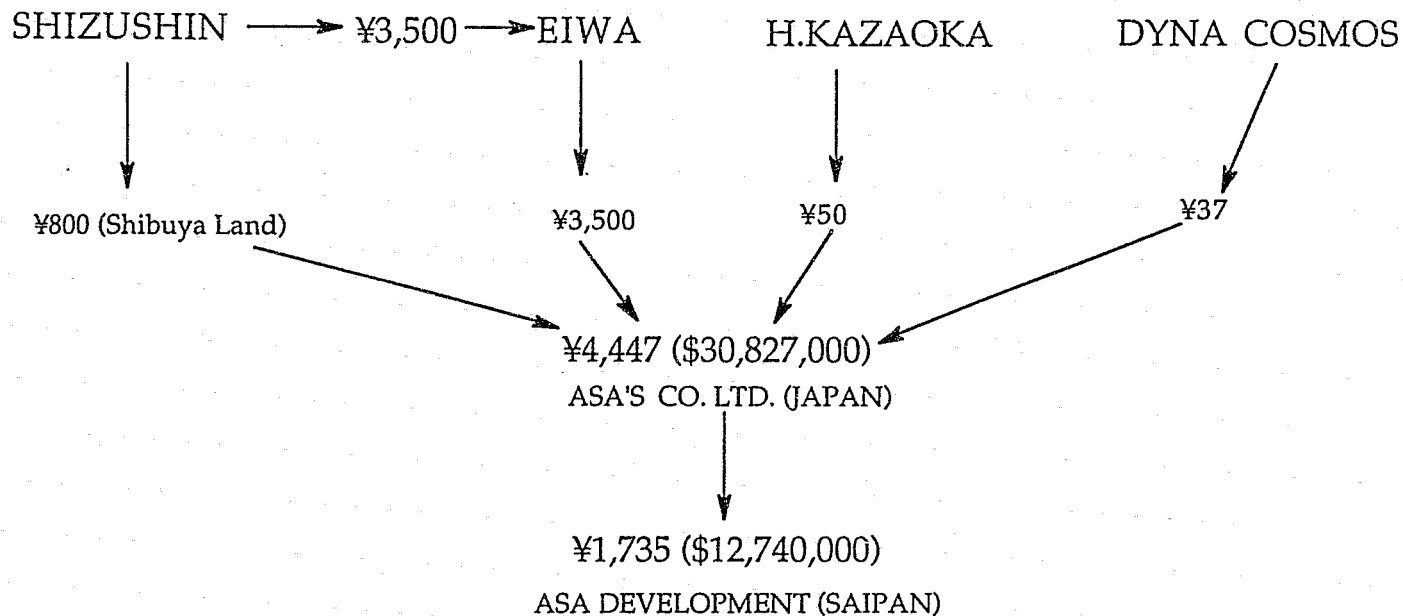
	ASA'S LTD	DYNA COSMOS	EWIWA	B-FOUR	NOGAWA ACCTNG	COMBINED TOTAL	
TOTAL ASSETS	\$29,841	\$5583	\$102,234	\$14	\$634	\$138,606	211
TOTAL LIAB.	\$29,738	\$5062	\$104,524		\$482	\$139,806	
NET WORTH	\$ 103	\$ 821	(\$ 2,290)	\$14	\$152	(\$ 1,200)	

(\$US x 1,000)

Chart 5

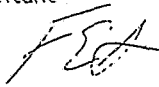
FINANCE TO ASA DEV.

(TINIAN)



TO : FILE

FROM : Fredric E. Gushin, Gaming Consultant

RE : COMMISSIONER'S CONDUCT 

DATE : March 10, 1992

The success of gaming in Tinian depends in large measure on the integrity and honesty of the Commissioners and their staff. Unfortunately, with the exception of Commissioner Lino V. Lizama, each of the Commissioners bring significant baggage to their positions.

1) Chairman Joseph M. Mendiola was stopped by U.S. Customs in Guam on or about December 15, 1990 for narcotics possession. He had in his possession about one ounce of marijuana which was apparently for personal use. Chairman Mendiola pled no contest and was fined \$100. On many occasions I have seen Chairman Mendiola appear to be under the influence of drugs, possibly marijuana in the office. His eyes were glazed and his attention span was short.

Secondly, Chairman Mendiola is under the influence and control of his brother James, the Mayor of Tinian. This has undermined the independent nature of the Commission and all we have strived for over the course of the last year. As noted in previous memos, the Mayor's conduct itself is questionable or possibly illegal. Our investigation of ASA revealed that the Mayor was attempting to shake down a partner of ASA. The mayor then attempted to influence the Commissioners on their decision in that case. Given the totality of the circumstances, including the strong role of family especially an older brother, it is difficult to imagine that the Chairman is not being controlled by the Mayor. Moreover, there was a clear change in the office when Joseph took over from the late John U. Hofschneider.

2) Vice Chairman Cruz has been compromised by his acceptance of free and reduced services by casino applicant ASA on two trips to the Philippines (Oct. and Dec. 1991). Cruz travels to the Philippines for extra marital affairs that he brags about in the office. On both trips to the Philippines the CEO of ASA, Mr. Asia, just happened to be on the plane. On the first trip, the Mayor was present. On both trips

Cruz accepted hotel rooms, air flights, meals and other comps from the proposed casino operator for ASA and PAGCOR. It is not known if Cruz received money or other services from ASA or PAGCOR. Cruz failed to reveal these conflicts in violation of the Commission's Code of Ethics and according to General Counsel Lame Bull and others fought hard to have ASA licensed despite overwhelming evidence regarding their unsuitability. Commissioner Lizama has requested that an internal investigation be conducted. Chairman Mendiola told Cruz of this and gave him weeks to erase his tracks. Cruz has resisted an internal investigation. (see other memos)

3) Commissioner Reynaldo Cing is rarely in the office (2 to 4 hours per week) and has instructed the clerical staff to have time sheets reflect his full attendance at work. This is a serious matter that reflects upon his integrity. When one secretary refused to sign inaccurate time sheets, Executive William Cing (Commissioner's Cing's brother) had that function transferred to another clerical who would do so. In addition, I suspect that Commissioner Cing is into illegal drugs.

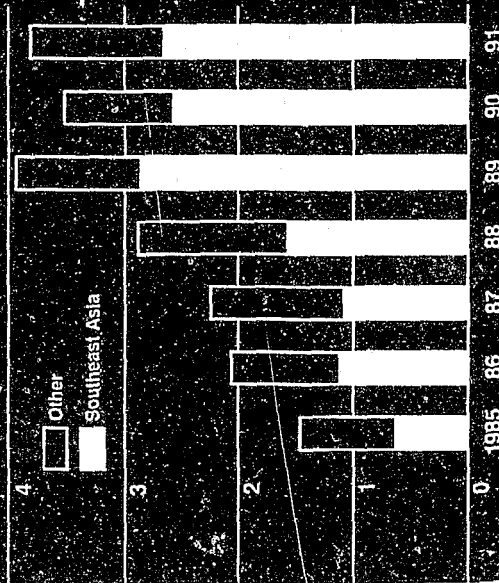
4) It has recently been brought to my attention that Commissioner Freddy Hofschneider was involved in some type of embezzlement while he was employed by Micmar in Guam. I have learned that the amount of money involved was \$600,000. On March 12, 1992 a civil law suit was initiated by the victim alleging that he converted for his own purposes funds and inventories and it is possible that the matter may be pursued criminally. The total amount involved in the suit is 1.6 million dollars including punitive damages. If sustained, these charges and the conduct that led up to it are wholly inappropriate for a casino commissioner. Nevertheless Hofschneider has written the other Commissioners that these charges will not impede his ability to do his job.

5) The Executive Director William Cing is suspected by law enforcement of being into illegal drug use and distribution. Because Tinian is so isolated and insular, it is extremely difficult to make these type of cases. Additionally I am convinced that Cing has released investigative information to at least one casino applicant namely, James Flemming (TCR). Cing previously worked for Flemming and holds frequent meetings with him in the office. Moreover, Flemming has received favorable treatment from the Commission regarding of his investigative fees.

The activities of the Commissioners and Executive Director seriously call into question whether the Commission has the integrity to perform its functions. How can they act in their quasi-judicial capacity when their own conduct and ethics is so questionable? Some of the Commissioners could probably not qualify for licensure under their own statute.

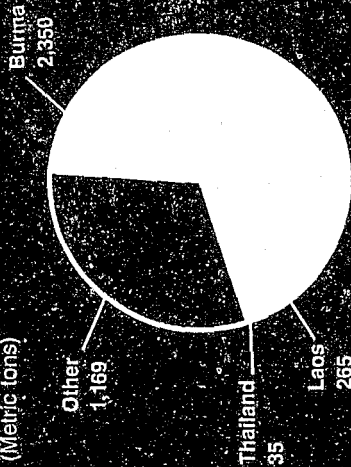
Worldwide Opium Production

Trends in Opium Production, 1985-91
(Thousand metric tons)



Opium Production, 1991

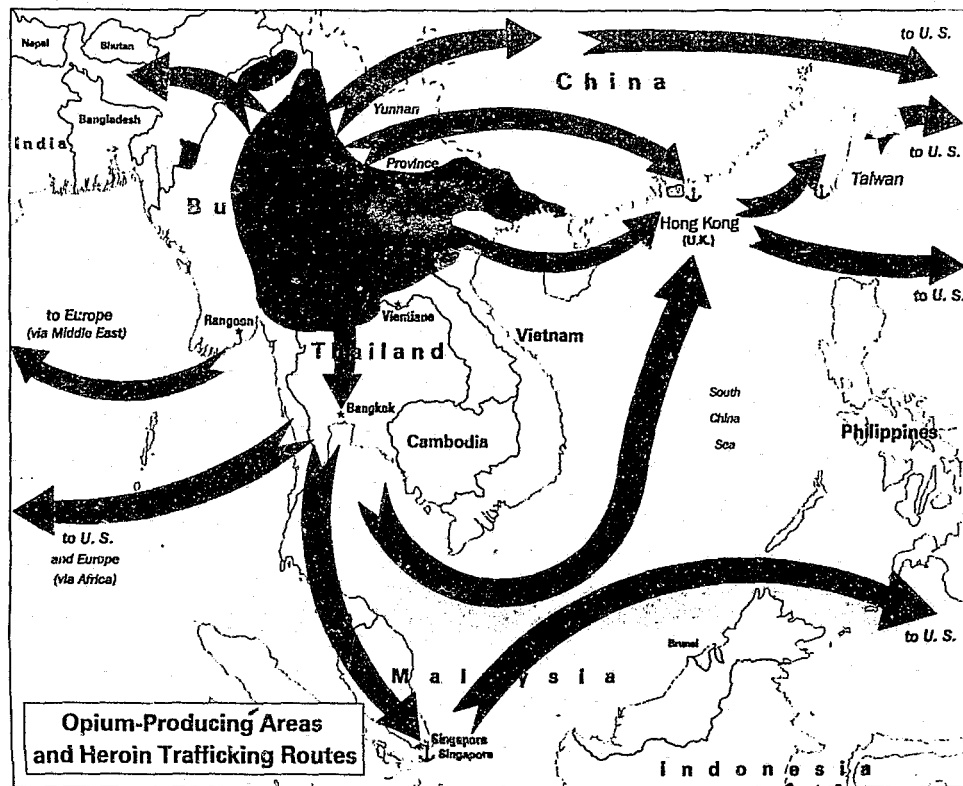
(Metric tons)



Total: 3,819

Senate Permanent Subcommittee
on Investigations

EXHIBIT # 107



**Opium-Producing Areas
and Heroin Trafficking Routes**

Senate Permanent Subcommittee
on Investigations

EXHIBIT # 108

**TOTAL OUTBOUND AND INBOUND CURRENCY ACTIVITY
AS REPORTED ON CMIRs
1988 - 1991**

DOLLARS (IN BILLIONS)

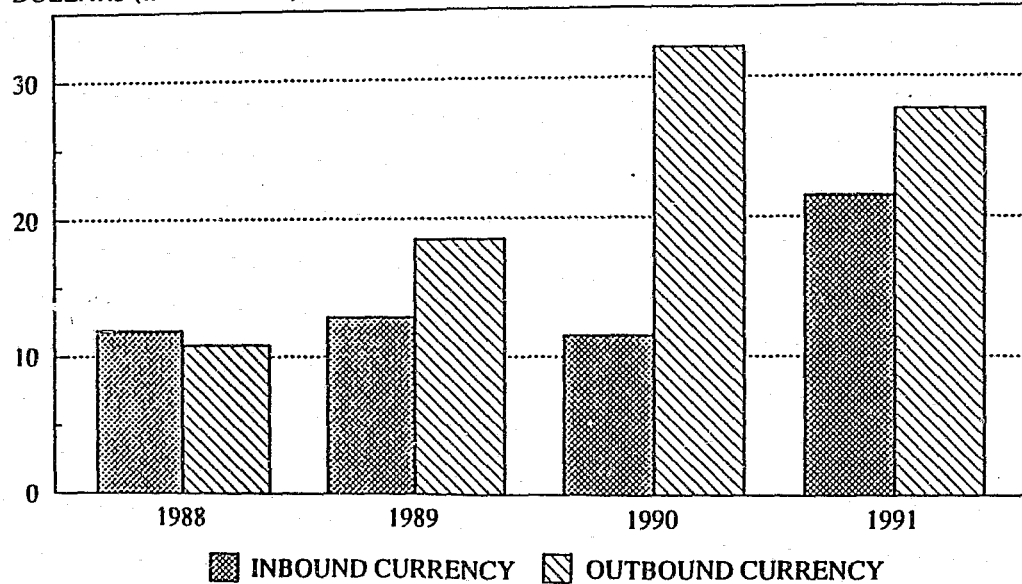


CHART 1

Senate Permanent Subcommittee
on Investigations
EXHIBIT # 109

**OUTBOUND AND INBOUND REPORTED CURRENCY ACTIVITY
TO / FROM HONG KONG
1988 - 1991**

DOLLARS (IN MILLIONS)

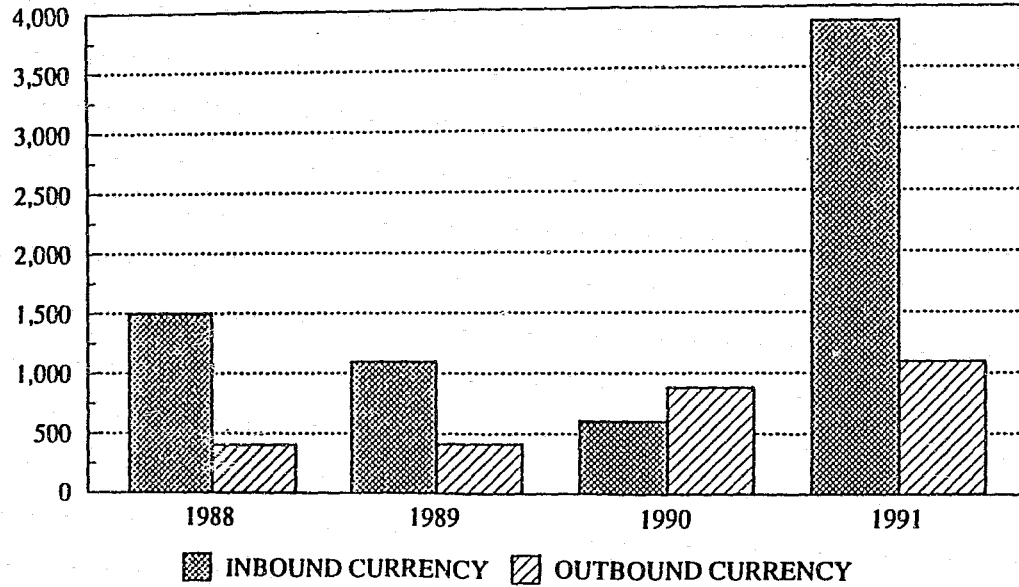


CHART 2

Senate Permanent Subcommittee
on Investigations
EXHIBIT # 110

TOP FOUR COUNTRIES RETURNING U.S. CURRENCY 1988 - 1991

DOLLARS (IN BILLIONS)

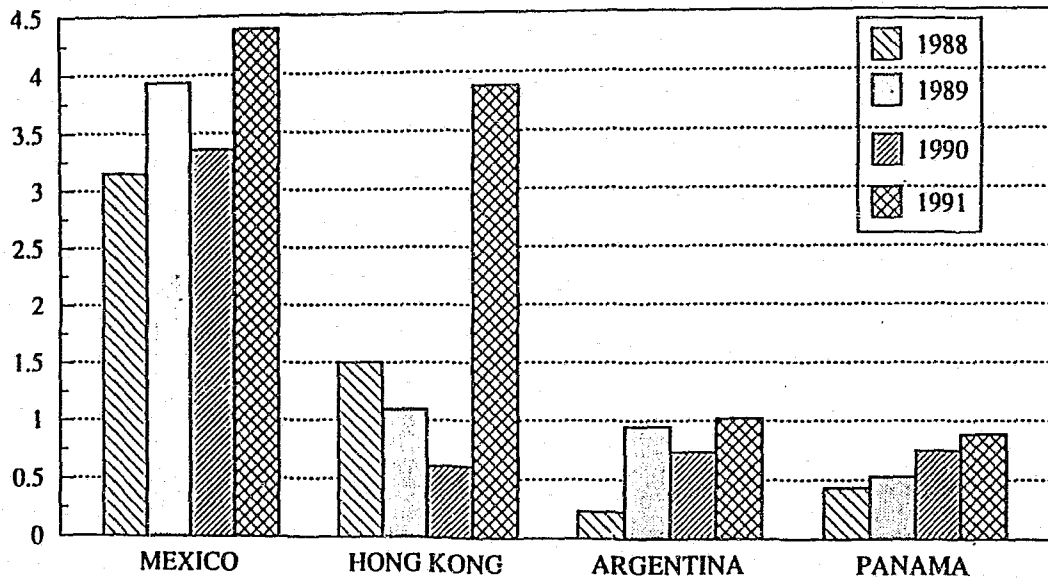


CHART 3