

U.S. Probes Banks' North Korea Ties

By Glenn R. Simpson in Brussels, Gordon Fairclough in Macau and Jay Solomon in Washington, The Wall Street Journal, 1160 words

Sep 8, 2005

Bank of China and two banks based in Macau are under U.S. scrutiny for possible connections to North Korea's sprawling, illicit fund-raising network, which U.S. officials believe finances Pyongyang's nuclear program.

The banks, which could face stiff sanctions, are caught up in a major new U.S. operation to shut down lucrative North Korean enterprises producing narcotics, counterfeit U.S. currency and fake cigarettes. Law-enforcement officials from several countries described the wide-ranging U.S. operation, while several North Korean defectors gave accounts of Pyongyang's financial network.

The operation comes as delicate multilateral negotiations aimed at dismantling North Korea's nuclear-weapons program are set to resume next week, with China playing a key role. It also comes amid plans for an initial public offering next year by Bank of China, which recently hired Goldman Sachs Group Inc., of New York, to prepare the move. Recently, Bank of China secured a pledge of \$3.1 billion in investment from a consortium that includes Royal Bank of Scotland Group PLC, Merrill Lynch & Co. and Hong Kong billionaire Li Ka-shing.

The affair also is likely to reverberate in Asia because of the wealthy players behind the two Macau banks. One of the Macau lenders, Banco Delta Asia SARL, is controlled by Stanley Au, a major player in the Hong Kong financial markets who is also a legislator in Macau and serves as an adviser to the Chinese government. The other bank, Seng Heng Bank Ltd., is controlled by billionaire gambling mogul Stanley Ho, who started a casino in Pyongyang and has close ties to Pyongyang and Beijing.

Banco Delta Asia SARL, a unit of Delta Asia Financial Group, has been under scrutiny by the Secret Service and other U.S. agencies since a publicly disclosed 1994 counterfeiting case by the Secret Service and Macau police that led to the arrests of North Korean officials in Macau. The bank is a top candidate for being placed on a Treasury Department blacklist of entities allegedly involved in money laundering, people familiar with the matter said. Inclusion on the blacklist, which could be proposed shortly, could make it difficult for the bank to do business internationally. The Secret Service, the Justice Department, Immigration and Customs Enforcement and other U.S. agencies are

investigating the banks as part of a new initiative against nuclear proliferation that the White House unveiled in June.

The underlying object of the inquiry is Zokwang Trading Co., a Macau firm run by North Koreans that law-enforcement officials say does business with Banco Delta Asia. In the mid-1990s, Zokwang officials were arrested by Macau police on suspicion of attempting to pass a large number of counterfeit U.S. bills, some of which were traced to Banco Delta Asia. The officials, who had diplomatic immunity, were sent home to North Korea, but Zokwang has remained in business. South Korean officials say that the firm has been involved in raising funds by selling gold and other commodities. The officials believe Zokwang has worked to obtain parts for North Korean weapons programs.

An inquiry at Zokwang's office received no response. Zokwang has said it was only involved in legitimate businesses. Executives at Banco Delta Asia had no comment. In a written response to faxed questions, Clarina Man, a spokeswoman for Bank of China in Hong Kong, said "we have no knowledge of any such investigation." She added that the bank has "always been attaching great importance to anti-money- laundering activities." A spokesman for Seng Heng Bank said: "We have nothing to provide you. We have no comment."

Criminal syndicates working with the government of North Korea are flooding the U.S., Japan and other countries with counterfeit currency, fake cigarettes and methamphetamines, according to law- enforcement officials in several countries and North Korean defectors. The ventures produce the hard currency North Korea's cash-strapped regime needs to procure weapons technology abroad. The North Korean currency, the won, is virtually worthless outside North Korea.

In recent weeks, Secret Service, Federal Bureau of Investigation and Immigration and Customs Enforcement agents and other American law- enforcement officers have confiscated bogus currency with a face value of more than \$5 million, known as super notes, in raids in the U.S. and Taiwan. Nearly all of the knockoff \$100 bills are believed to be produced by North Korean state-owned entities, say senior U.S. officials involved in the crackdown. More than 80 people have been arrested in recent weeks, and large amounts of narcotics and cigarettes also have been seized.

The FBI and Justice Department haven't publicly acknowledged that the operation is aimed at North Korea. Law-enforcement officials say they believe this silence is tied to the State Department's concern that the crackdown could undercut attempts to disarm Pyongyang.

Former North Korean traders and financiers who have fled their country say North Korean banks and commercial enterprises must rely on foreign banks, especially Bank of China, to conduct nearly all international transactions. "Every North Korean bank has accounts at the Bank of China," through which money is moved, said one former North Korean businessman. Much of the business goes through Bank of China (Hong Kong) Ltd., which functions as a semiautonomous unit of the mainland China bank. Gao

Desheng, deputy director of the main bank's overseas business-management department in Beijing, said the bank keeps close tabs on North Korean customers.

Seng Heng Bank is owned by a conglomerate, Sociedade de Turismo e Diversoes de Macau, controlled by the gambling tycoon Mr. Ho, who has longstanding ties to North Korea and its ruling Kim clan, according to South Korean and U.S. officials. Mr. Ho's organization opened a casino in a Pyongyang hotel in 1999.

A number of U.S. officials said they are frustrated by the decision not to publicly name North Korea and China as the sources for much of the contraband. The 10 indictments the Justice Department unsealed only referred to the countries by numbers, and FBI officials declined to publicly confirm that North Korea was the source of the super notes.

U.S. law-enforcement officials say they expect more busts, focused particularly on North Korea's counterfeit-currency operations, which threaten to undercut the integrity of the U.S. dollar. The crackdown is the fruit of more than three years of studying North Korea's smuggling networks and involved cooperation between police in South Korea, Japan and Taiwan and roughly 14 U.S. government agencies, including units of the State Department, Pentagon, Justice Department, and Department of Homeland Security.

The sweep was anticipated to begin as early as February, according to one official involved in the investigation, but the Justice Department felt it needed to continue to build its case. Federal officials began taking down the network -- indicting nearly 100 officials last month -- when some of its leaders offered to sell undercover agents mobile surface-to-air missiles. "There was fear these gangsters could try and sell them to terrorists," said the official involved in the investigation.