Forward

FAST FORWARD

Casino Boom Spotlights Adelson's Chinese Links

By Reuters
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For Nevada gaming companies grappling with a weak economy and a splintering market at home, the Asian casino boom has been a godsend. But it has left the Nevada Gaming Control Board facing difficult questions about how to confront the influence of Asian organized crime, both overseas and inside the state.

With no full-time staff in Asia and a mission that includes nurturing an industry increasingly dependent on China-controlled Macau, the granddaddy of U.S. gambling regulators may ultimately prove powerless to police a global business of which Las Vegas is no longer the capital, industry veterans said.

Though the Control Board can levy fines, ban employees and even revoke corporate licenses to operate gambling facilities in Las Vegas for misdeeds abroad, it has done little in the face of mounting evidence that Las Vegas Sands, Wynn Resorts and MGM Resorts International are relying on problematic business partners in Macau – and importing some of the region's crime issues to the United States.

Jewish billionaire Sheldon Adelson controls Las Vegas Sands. He has made headlines by spending tens of millions of dollars on Republican efforts to unseat President Barack Obama.

At the heart of both matters are the so-called junket operators, who recruit, transport and offer credit to high rollers, mostly from China. Some control rooms for the VIPs inside the Macau casinos, and many have links to the Chinese criminal gangs known as triads, according to U.S. diplomats, intelligence officials and court testimony.

Nevada has allowed three people with ties to one Hong Kong junket company – which Hong Kong Stock Exchange documents show was partly financed by an alleged triad leader – to bring gamblers to Las Vegas casinos on commission. Those people, named in individual Nevada records, include the chairman of the company, Neptune Group Ltd.

Though such Asian recruiters are increasingly important to the casinos looking to lure Chinese big spenders, Nevada investigators privately concede that they are having a hard time establishing which of them have criminal connections. The casinos say all their business partners are approved by Macau or Nevada and that they eschew deals with proven criminals.

In one sign of mounting concern at home, Nevada Gaming Control Board member A.G. Burnett told Reuters that the panel is "exploring reinventing the whole junket representative process" because of concerns about its lack of transparency.

The expansion of the junkets prompted the U.S. Treasury Department's Financial Crimes Enforcement Network to issue guidance in August asking the casinos to record the identities of everyone gambling from a junket operator's account.

Separately, U.S. prosecutors are investigating whether Sands has broken money-laundering or bribery laws. Wynn also has disclosed that it is the subject of an informal Securities and Exchange Commission inquiry into possible Foreign Corrupt Practices Act violations.

“We’re getting to understand the junkets and how the VIP rooms operate,” Burnett said. “We haven’t decided whether that’s offensive to the way we operate.”

But former Nevada officials and industry experts said that the Control Board’s close ties to the industry, and Macau’s rapid emergence as the key driver of growth for the big gaming companies, suggest that oversight is unlikely to strengthen.

“The trend is the other way,” said Nelson Rose, a Whittier Law School professor and frequent expert witness on gambling rules. “To some extent the Nevada regulators are just crossing their fingers.”

IS NEVADA EVEN NECESSARY?

Macau now provides more profit to Sands and Wynn than Las Vegas does; if forced to choose between Nevada and Asia, they might well decide to leave Nevada behind, as MGM chose to abandon Atlantic City. It did that rather than fight New Jersey investigators’ findings that its joint venture partner, Macau businesswoman Pansy Ho, had unsuitable links to triads. Nevada approved the venture after ruling that MGM had ultimate control of it.

“The way (the casinos) have been structured, they can hive off the companies” that operate in Asia, said former Control Board chairman Mike Rumbolz, who later became a casino executive at the Trump Organization and elsewhere. “Years ago companies were very concerned to get the blessings of Nevada regulators. Today I don’t think you’d see that kind of concern.”

Sands, Wynn and MGM have already put their Macau operations into distinct subsidiaries, which could eventually be spun off entirely. They declined to speculate on what they might do in the future beyond saying they want to be everywhere. “We work closely with our regulators in all of our markets,” said Sands spokesman Ron Reese.

Peter Bernhard, chairman of the Nevada Gaming Commission, said that “the value of a Nevada license is still going to be critical” and that the casinos “are going to make sure they are going to comply with all of our requirements.” The Commission weighs regulation changes and acts as a judge in hearing complaints and licensing recommendations brought to it by the Control Board. Burnett likewise said that Nevada would remain crucial.

But since 2005, MGM’s revenue has more than doubled, Wynn’s has tripled, and Sands’ more than quadrupled, thanks to the Macau boom. Macau is on track to produce $62 billion in gambling revenue overall by 2015, according to PricewaterhouseCoopers, while Nevada’s contribution will remain flat at $13 billion. Singapore and other countries are also expanding their casino licensing rapidly, further eroding Nevada’s once-central role.

The Control Board’s three members are appointed by the Nevada governor for four-year terms. If all agree, they can bring formal complaints against companies or individuals before the five governor-appointed members of the Gaming Commission, who serve as part-time judges.

Over the decades the Control Board has conducted countless background investigations of casino investors and executives, rarely rejecting any licenses in public. (When it does, the Gaming Commission typically supports the decision.)

The rules warn against conduct or associations “which might reflect on the repute of the State of Nevada and act as a detriment to the development of the industry.” The policing is designed not mainly to help consumers or investors but to help the industry itself.

“Nevada’s approach has really been very business-friendly,” said Patrick Wynn, who retired in 2010 after 19 years at the Control Board, finishing as deputy chief of investigations. “They’ve always looked toward what can

it do for the state, what can it do for the economy."

A majority of the current Commission members or their firms have worked for casinos in the past, and many Control Board veterans go on to work directly for those they have overseen. The laws grant wide discretion to the regulators as to whether or not to act on any particular issue.

Nevada's regulations, combined with the rise of corporate investment in the gaming business, have fulfilled their principal mandate of blocking outright mob control of the casinos. But even though Nevada demands the right to approve its licensees' ventures elsewhere, gambling's surge abroad has made the state's job much more difficult, investigators and industry executives said.

That's especially true in Macau, the former Portuguese colony that reverted to Chinese dominion in 1999. The only place in China where gambling is legal, Macau opened its doors to Western casinos nearly a decade ago.

Sands, Wynn and MGM all plunged in, and soon found themselves in close association with junket operators — middlemen that organize trips to the casinos, largely from Hong Kong and the Chinese mainland. Collectively they're responsible for some 70 percent of the Macau gambling trade.

Mainland residents legally can move only $50,000 per year out of China, but the junkets advance credit well above that level to their clients. They also collect payments due within China's old borders, where casinos can't advertise or use the legal system to recover debts.

The U.S. State Department has repeatedly identified Macau as a jurisdiction of "primary concern" for money-laundering, largely because of the junkets.

Macau regulators have limited experience with the modern market and have yet to establish "robust oversight of junket operators" or an anti-money-laundering system "that meets international standards," according to a March report by the State Department's Bureau of International Narcotics and Law Enforcement Affairs.

Macau requires the junkets to list their directors, but triads have grown adept at disguising their investments, just as the Mafia once did in Las Vegas.

"If criminals are employing the best attorneys and accountants and setting up more elegant ways of hiding ownership, it's possible that Nevada won't be able to find them easily," Rumbolz said.

Even as Nevada has declined to crimp U.S. casinos' behavior in Macau, federal authorities have grown more concerned about the companies' bringing Macau cash and techniques to Las Vegas.

Junkets have advanced millions of dollars in credit from Macau to their clients' accounts at Sands and MGM properties in Las Vegas, according to casino officials and ledgers recently exposed in a lawsuit between Sands and the fired head of its Macau operations, Steve Jacobs.

As previously reported, one of the beneficiaries of a $100,000 Sands transfer was Charles Heung Wah Keung, named in a 1992 Senate committee's investigation as an officer of the Sun Yee On triad. [h t tp://link.reuters.com/xep53t]

Other junket affiliates have registered as "independent agents" commissioned to bring high rollers to Las Vegas. In one sign of how important the Asian trade has become, baccarat, long the game of choice in Macau, has displaced its cousin blackjack as the most lucrative Nevada card game. Revenue from baccarat is now growing 10 times faster than any other form of gambling in Vegas.

A particular weakness in Nevada's regulatory approach appears to be oversight of the agents. Applicants fill in an 11-page form with their business and legal histories, and casino sponsors pass them on to the state; no full suitability review is required, as would be the case for key employees at casinos.

Virtually every time the Control Board has asked aspiring agents for more data, the applicants have simply withdrawn, suggesting a systemic problem, one state investigator told Reuters. Regulators fear that shadowy backers of the agents simply submit new names with cleaner records, he said.

Registered agents, including junket representatives, can get credit from the casinos and re-lend to their clients, raising the prospect of loan-sharking.

"Once (an agent) has chips, it's hard to have control. He could hand $50,000 to his friend," said one former Sands executive.

Tracking agent histories is not easy, and some with questionable associations have gotten through the process.

At least three people with ties to just one of the many junket companies, publicly traded Hong Kong firm Neptune, became agents in Nevada for Sands, Wynn, MGM and Caesars Entertainment , which owns Las Vegas baccarat hub Caesars Palace, according to public records.

A key former backer of Neptune is Cheung Chi Tai, named in the same 1992 Senate report as a top lieutenant of the Wo Hop To triad. In a more recent Hong Kong criminal trial, an informant testified that Cheung was a triad leader and in 2008 ordered him to murder a card dealer suspected of cheating at a Sands VIP room in Macau where Cheung had an ownership interest. Lower-level triad members were convicted in the case, while Cheung was not charged and could not be reached for comment.

Cheung helped underwrite Neptune's purchase of a stake in junket operator Hou Wan in 2007 and for a time owned 8 percent of Neptune. Though Cheung disposed of his stake, he has maintained other connections to Neptune, corporate records in Hong Kong and Macau show.

For example, his 50-50 partner in a company begun in 2003, Lei In Peng, also owns a firm that has more than 18 percent of Neptune's stock. Lei couldn't be reached for comment.

Neptune's chairman, Lin Cheuk Fung, served as an independent agent from 2005 to 2009, signing up to bring gamblers to Wynn and MGM casinos in Las Vegas. Neptune didn't respond to requests for comment, while Lin couldn't be reached.

Wynn acknowledged using Lin as an agent but declined to comment further. MGM spokesman Alan Feldman said only that his company had "a comprehensive and robust compliance program that involves several former regulators and law enforcement officials who review all of our junket operators."

Though Neptune's links are complex, they are easier to untangle than most junket operators because the company is publicly traded. Investigators in both Las Vegas and Macau say they simply don't know who stands behind many of the other junkets.

Overall, said casino consultant and author Jim Kilby, the junket issue "may be too big for gaming regulations."