

Hidden in Plain Sight

How Corporate Secrecy Facilitates Human Trafficking in Illicit Massage Parlors

Illicit massage businesses, commonly known as “massage parlors,” have been ubiquitous in the American landscape for decades. Today, new research finds an estimated 9,000-plus of these businesses are operating in every state in the country, with earnings totaling nearly \$2.5 billion a year across the industry.¹ These businesses dot the sides of highways and are tucked into suburban strip malls between fast food restaurants and dollar stores and behind darkened windows in storefronts in some of America’s biggest cities. There may be women who choose to sell sex either along with or under the guise of massage therapy, but evidence suggests that behind these bland facades, many of the thousands of women engaging in commercial sex in illicit massage parlors are victims of human trafficking. And for the most part, thanks to corporate secrecy, their traffickers cannot be traced.

About massage parlor trafficking

Contrary to popular portrayals, human trafficking does not always or even often involve force or the threat of force.

To be considered sex trafficking in any venue, a situation must include one of the following:

- **Force:** Violence or the threat of violence
- **Fraud:** Such as deceitful recruitment practices or fraudulent debt accumulation
- **Coercion:** Including emotional manipulation, document confiscation, or threats using legal processes like deportation

Labor trafficking is defined as force, restraint, threats of harm, abuse or threatened abuse of the legal system, or any scheme, plan, or pattern intended to cause the person to believe that if they did not perform labor, they would suffer serious harm or restraint.²

The victims of massage parlor trafficking in the United States almost all:

- Recently arrived from China or South Korea
- Carry debts or are otherwise under extreme financial pressure
- Speak little or no English
- Have no more than a high school education
- Are mothers in their mid 30s to late 50s

Force is rarely an element of massage parlor trafficking. Instead, victims are controlled by traffickers through a complex mixture of cultural manipulation, fraud, and coercion. Key among these are telling the women that the police are in the pockets of the traffickers and will simply arrest them, that the rest of society views the women as worthless, and that they have no real options but to stay at the massage parlor and do what the traffickers say.

¹ Keyhan, Rochelle et al, “Trafficking in Illicit Massage Businesses.” Polaris, (January 17, 2018)
² U.S. Code Chapt. 77 Peonage, Slavery and Trafficking in Persons. <http://uscode.house.gov/view.xhtml?path=/prelim@title18/part1/chapter77&edition=prelim>



Illicit Massage Parlors and Corporate Secrecy

What is unique about this form of trafficking is that massage parlor traffickers actually go through the process of registering their businesses as if they were legitimate.

Conceivably then, it should be relatively simple to determine the basics about these businesses — such as what products or services they provide and who ultimately controls and makes money from the business. The actual or “beneficial” owner would then in most cases be the trafficker and could be prosecuted as such.

In reality, the laws governing business registration are almost tailor-made for massage parlor traffickers to hide behind. Neither states nor the federal government require people setting up companies to include the name of the actual owner of the business in the registration paperwork. What is actually required depends on the jurisdiction. Sometimes the owner’s name is left blank. Sometimes it is filled in with the name of a registered agent or someone else paid to be the front person or point of contact. Sometimes the business is registered under the name of an anonymous shell company — another business that exists in name only but has no actual assets.³ All of this obfuscation is perfectly legal.

In reality, the laws governing business registration are almost tailor-made for massage parlor traffickers to hide behind.

The figure of 9,000 illicit massage businesses operating across the country, first reported in Polaris’s recently released report, “[Human Trafficking in Illicit Massage Businesses](#),” was difficult to come by because of these lax or nonexistent corporate transparency laws. It took extensive research, including cross-referencing publicly available datasets with websites on which commercial sex purchasers leave reviews of their sexual experiences at these illicit businesses, to arrive at this minimum figure.

It is hard to escape the irony here: Someone looking to purchase commercial sex from an illicit massage parlor can log in to any number of review boards and, sometimes for a small fee, get graphic descriptions of individual women’s bodies and specific sexual experiences with those women. Meanwhile, while the businesses themselves are easy to find, the privacy of the actual owners of the businesses where these sexual acts take place is scrupulously protected by U.S. law.

Irony aside, the fact that the United States is among the easiest country in the world in which to hide who actually owns and benefits from a business⁴ is part of the reason why massage parlor trafficking is so difficult to prosecute criminally. There are legitimate reasons why some businesses use anonymous shell companies and there is no reason why they cannot continue to do so. But if we are to end human trafficking in massage parlors, we must begin by lifting the veil of secrecy that protects the criminals who profit from it.

³ Staff, I. (2003, November 26). Shell Corporation. *Investopedia*. Retrieved from <http://www.investopedia.com/terms/s/shellcorporation.asp#ixzz4vPwXidD>

⁴ Findley, Michael et al. “Global Shell Games: Experiments in Transnational Relations, Crime, and Terrorism.” *Cambridge University Press* (March 24, 2014), Page 74. <http://bit.ly/2uTLptQ> .



Who Actually Owns Massage Parlors

Polaris analysts used open-source data⁵ to examine over 9,000 illicit massage parlors and their networks across the country to find ownership information.

- Of the more than 6,000 illicit massage businesses for which Polaris found business records, only 28 percent of these illicit massage businesses have an actual person listed on the business registration records at all.
- Only 21 percent of all the business records found for illicit massage parlors actually specifically name the owner — although even in those cases, there is no way to know for sure if that information is legitimate.

Why corporate transparency matters in massage parlor trafficking

Most illicit massage parlors are part of an organized crime network. Generally, these networks include at least one other illicit massage parlor as well as non-massage venues such as nail salons, restaurants, grocery stores, and cleaners.

Criminal networks are necessary in large part for laundering money from the illicit massage parlors. These businesses generally operate out in the open, paying taxes and otherwise taking steps to avoid drawing attention to the true nature of the operation. A hallmark of an illicit massage business is that it advertises services at significantly lower rates than is the standard. For example, an illicit massage parlor will charge \$40 for a one hour massage in a jurisdiction where a therapeutic massage performed by a licensed massage practitioner averages between \$80 and \$100 an hour. Of course, the \$40 advertised price is just a baseline price. The real price is negotiated and paid based on the specific sexual act requested and performed.

A tax auditor would notice the discrepancy between what the business charges and the far higher amount the business actually brings in. To avoid detection, the business owner spreads the suspicious profits out to other businesses in the network.

If the businesses were all registered under the name of the person who actually owned them — for example, “John Q. Smith,” the connections would be clear and the money laundering operations obvious. Because many of the businesses are registered anonymously, as shell companies (“Massage LLC” for example), or in the name of someone other than the actual owner, these connections are often missed, along with the opportunity to prosecute and shut down these human trafficking venues.

Historically, victims of massage parlor trafficking have been the main target of law enforcement activity, while the owners of the businesses — the traffickers — fly under the radar. Typical law enforcement activity around illicit massage parlors has involved raids in which officers sweep into the facility and arrest everyone on the premises. These raids are highly unlikely to net the actual owners of the businesses, as they are rarely on site or even necessarily involved in the day-to-day operations of the massage venues. That is left to managers (often referred to as “mamasan”), and sometimes a manager-in-training (someone who is still primarily selling sex, but who has begun assisting management in controlling victims).

Raids focusing on employees are antithetical to efforts to shut down human trafficking. First of all, vice raids don’t do much to slow profits from these businesses. If a single venue in a criminal network is shut down, the trafficker is still pulling in profits from the other venues, and can simply

⁵ For a full list of open-source data used, please see methodologies section of full report at <https://polarisproject.org/message-parlor-trafficking>



transfer the victims to another massage parlor. Rotating victims between businesses in the network, or within other networks in sharing agreements, is routine in massage parlor trafficking. This rotation process keeps the victims disoriented and makes them therefore easier to control while also ensuring buyers at a particular location have a steady supply of new women to choose from. On average, traffickers rotate victims between the businesses every 2-6 weeks.⁶

The frequent arrests of victims — not owners — strengthens the traffickers hold on the women, demonstrating their power while underlining the vulnerability of the victims they control and rotate at will. The traffickers routinely tell the women under their control that they have no options for seeking assistance once they become involved in the massage parlor world. They are told that police see them as prostitutes, not as victims, that they are considered trash, and that no one will help them out of their situations. When the women are then swept up in police raids, the traffickers are proven right.

To effectively and sustainably target massage parlor trafficking, law enforcement must undertake organized crime investigations, which focus on ownership by looking into money laundering or tax evasion. This would shut down entire networks, meaning that the women could not simply be moved around until the police interest had calmed down. Such prosecutions would not only punish perpetrators, but also send a strong signal that human trafficking in massage parlors is no longer a low-risk, high-profit venture, as it is widely seen today. Flipping the perception of the risk versus the reward of human trafficking in these and other venues is key to ending the proliferation of the crime.

Unfortunately, the ability of businesses to obscure ownership and therefore network ties, makes it incredibly time-consuming and resource-intensive, and sometimes impossible, for law enforcement to undertake such investigations.

San Francisco Spa Obscures Ownership⁷

Shell companies are intended to make it difficult to discover true business ownership. One spa in San Francisco, CA, provides a good example of how confusing a purposely obscured business organization can be. The phone number and address for the spa, listed on the massage parlor review site RubMaps, also belong to a business bearing an individual's name. That business is classified under the Standard Industrial Classification: Religious Organizations (pretty unusual for a religious organization to be linked to a spa!). And it isn't the only linked business. The spa's phone number is also connected to another business in Los Angeles with a name advertising sexual products (classified under Miscellaneous Retail Stores), as well as a residential address in LA.

While there is no listed point of contact for the shell company, the address and phone number are that of the original advertised illicit massage business. The business name is also an alias for the name of the owner of the illicit massage business listed on RubMaps. Having a shell company registered at the same address as an illicit massage business facilitates the movement of illicitly gained funds, and allows the spa to keep its reported annual income under a figure that would raise red flags. Additionally, any income the shell company earns that exceeds the reported annual income can be passed off as donations, and because the spa is registered under Religious Organizations, the business owners can qualify for different tax breaks that normal small businesses do not receive.

⁷ Keyhan, Rochelle et al, "Trafficking in Illicit Massage Businesses." Polaris, (January 17, 2018)

⁶ Rotation can vary by geographic region. This figure is based on conversations between Polaris and partner city law enforcement and prosecutors between January 2015 and April 2016. (See Methodology, p. 87 of this report).



Code Enforcement and Human Trafficking in Massage Parlors



Along with organized crime investigations and prosecutions, the most powerful tools for shutting down massage parlor trafficking are strong state and local civil laws that regulate how the businesses operate. For example, laws that require massage businesses to have front-door entrances can deter customers, who are often accustomed to frequenting illicit massage parlors with rear entrances, if they think they might be seen or noticed entering such an establishment by others in their community.

Enacting and enforcing such laws is among the most effective ways to shut down massage parlor trafficking and incorporation transparency is a necessary element. It is difficult to enforce civil code if the enforcing agency cannot identify the person who is actually responsible for paying a fine, or remediating a building issue.

Also worth noting is that effective enforcement requires that businesses actually register that they are, in fact, massage businesses. Today, massage parlors can — and do — register as nail salons, modeling studios — whatever they want. This dishonest self-classification allows them to avoid regulations that would make it difficult for them to conduct illicit business.

For example, in Houston, many illicit massage parlors registered as modeling studios until the city rewrote its local ordinance to close this loophole.⁸ In particularly egregious cases, traffickers register under unrelated industries such as religious organizations or educational institutions, making them eligible for tax breaks.

Again, it is hard to enforce rules requiring honest and accuracy in business registration if there is not a human being responsible for the business that anyone can find and hold accountable.

Unfortunately, even after a city or county closes the loopholes in its ordinance, traffickers have options. They can — and do — simply move to the next town over, where the regulations are still lax. Preventing regulation shopping will take a concerted, nationwide effort at the state and local level.

⁸ Massage Establishment Ordinance « Human Trafficking Houston. (n.d.). Retrieved November 12, 2017, from <http://humantraffickinghouston.org/toolkits/massage-establishment-ordinance-toolkit/>



Recommendations

Requiring transparency around business ownership for law enforcement purposes is key to ending traffickers' ability to hide their networks and cash flow.

Both state and federal laws should:

- **Require businesses to register official operators and primary owners** (aka as the beneficial owner, partner, etc.), all of whom should be required to provide a valid phone number and address and a unique identifying number from a non-expired U.S. passport, a non-expired U.S. state identification card or driver's license, or a non-expired passport issued by a foreign government.
- **Require that covered entities file annual reports of beneficial owners** and provide updates to the government within 60 days of any change in the name or other information previously disclosed about a beneficial owner or in the list of people who are beneficial owners.
- **Provide state, local and federal law enforcement** with direct access to this information
- **Impose criminal and civil liability for failure to report** beneficial ownership information.
- **Hold the official operator listed on all registration records legally liable** for the business, unless it can be confirmed that the listed operator is a victim who was compelled to list herself as an operator.

The U.S. Congress is currently considering several bipartisan pieces of legislation that meet these standards.⁹

Pending proposals differ on how information on beneficial ownership would be collected and stored. Options include having states collect the information or putting the responsibility on FinCen, the Financial Crimes Enforcement Network, a bureau of the U.S. Department of the Treasury. There are pros and cons to each approach. States already have forms for corporate registration so the transition would be somewhat smoother. The FinCEN approach would house all the information in a single place, which could potentially make it easier for law enforcement to access in a timely manner.

With comprehensive federal legislation setting the standards for incorporation by which federal laws and tax liability are applied, state and local law enforcement investigating massage parlor trafficking networks will have the ability to more easily follow the money and build strong organized crime cases. And most importantly, traffickers will no longer have the strong incentive of a system that allows them to obscure their illicit activities.

⁹ Legislation pending as of 4/1/2018 that meets these standards includes [H.R.3089](#), introduced 6/28/2017 by Reps. Carolyn Maloney (D-N.Y.) and Pete King (R-N.Y.) and [S.1454](#), introduced 2/6/2018 by Sens. Sheldon Whitehouse (D-R.I.) and Chuck Grassley (R-IA)