Canada struggles to curb money laundering

Multiple reports on money laundering in Canada have shed new light on the magnitude and key characteristics of the issue. Benoît Gomis analyses new developments and factors related to the problem and likely future evolutions

Key Points

- The scale of money laundering in Canada is highly likely to be greater than historically reported, disproportionately affecting sectors such as real estate, luxury retail, and money lending.
- Despite recent reports, data on the scale and nature of money laundering is still lacking and government resources dedicated to tackling money laundering have been relatively limited.
- The Canadian federal government has announced new anti-money-laundering measures that are unlikely to have a major effect without further initiatives relating to transparency, accountability, and political commitment.

Canada’s status as a hub for money laundering in the West has long been recognised among practitioners. A 23 October 1989 article in current-affairs magazine Maclean’s highlighted “Canada’s emergence as a haven for international drug smugglers trying to clean their dirty drug money”. It claimed that US Drug Enforcement Administration agents referred to Canada as the “Maytag” (referencing a washing machine) of the money-laundering industry.

In 2000–01, Canada formally established its anti-money-laundering (AML) legislation through the National Initiative to Combat Money Laundering (now Canada’s anti-money laundering and anti-terrorist financing regime), the Proceeds of Crime (Money Laundering) Act (PCMLA). The legislation created mandatory reporting requirements for certain suspicious transactions as well as the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC). Following the 11 September 2001 terrorist attacks on the US, the PCMLA was amended to include measures against terrorist financing and renamed the Proceeds of Crime (Money Laundering) and Terrorist Financing Act.

However, money laundering remains a major issue. On 25 January 2017, as part of the Panama Papers investigations, a media investigation by Canadian newspaper Toronto Star and national broadcaster Canadian Broadcasting Corporation (branded as CBC/Radio-Canada) claimed that overseas intermediaries had been “using Canada’s prudent reputation and solid economy to make suspect transactions seem legitimate”. The ‘Canada
Papers’ investigation, as an offshoot of the Panama Papers, dubbed this “snow washing”, or turning dirty money into ‘pure white snow’.

Money laundering has nevertheless received scant media attention and generated relatively little public and political reaction across Canada. However, this may be changing. A series of media investigations in late 2017, notably by the Vancouver Sun newspaper on casinos in British Columbia, prompted government officials and academics to launch in-depth examinations of the problem in the province.

A conceptual representation of money laundering in the form of Canadian dollar notes that have been altered from their original appearance. The total cost of money laundering in Canada is likely to be under-estimated. (Getty Images/chrisboy2004)

Recent investigations into Canadian money laundering include two reports by former Royal Canadian Mounted Police (RCMP) deputy commissioner Peter German on money laundering in casinos, real estate, luxury vehicle sales, and horse racing in British Columbia (one released on 31 March 2018 and the other on 31 March 2019); an expert panel report led by Simon Fraser University professor Maureen Maloney on money laundering in real estate in British Columbia (released on 31 March 2019); a House of Commons Standing Committee on Finance report on money laundering and terrorist financing in Canada (adopted on 6 November 2018); and several reports by civil society organisations, including Transparency International Canada, Canadians for Tax Fairness, and Publish What You Pay Canada (PWYP). The PWYP report focused on opacity in beneficial ownership in Canada.
Jessica Davis, the president and principal consultant at security and intelligence consulting firm Insight Threat Intelligence and a former government analyst on intelligence and security issues, told Jane’s on 11 June 2019, “It’s new that we’re learning about the problem, but the problem itself isn’t new.” Vanessa Iafolla, a lecturer in sociology and legal studies at the University of Waterloo, wrote in an email interview with Jane’s on 12 June, “The value of the reports is that they reveal to us the extent and scope of the problem in ways we hadn’t previously considered… It is one thing to suspect that money laundering is a problem that adversely impacts the price of real estate; it’s another to demonstrate using a well-regarded model that shows what the flow of capital might be.” The model referenced by Iafolla was the Utrecht gravity model that the expert panel led by Maloney had employed to estimate money laundering in real estate across Canada.

The expert panel report noted that the model involved “estimating how much of the proceeds of crime in a given country are laundered within that country and how much flows to each other country in the model … based on characteristics that measure how attractive a given country is to money launderers”.

**Notable findings**

Three findings are notable from Jane’s analysis of the reports and expert interviews. First, the scale of money laundering in Canada is highly likely to be greater than historically reported. The expert panel estimated the total amount of money laundered in 2018 at CAD46.7 billion (USD36 billion). IHS Markit economics estimated that Canada’s nominal GDP was USD1,712 billion in 2018. The 2018 money-laundering figure represented an increase; a 2011 RCMP study had put the total figure at CAD5–15 billion.

Second, several sectors are disproportionately affected by money laundering. The expert panel estimated that CAD5 billion was laundered through British Columbia’s real estate sector in 2018, increasing house prices by approximately 5%. A Vancouver-based realtor claimed to Jane’s on 4 June 2019 on condition of anonymity that the reports gave “a simple answer to high real estate prices: foreign criminals”. In contrast, the realtor argued, “Real estate prices are high in Vancouver not because of widespread criminality, but because of high demand and limited supply.”

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(796 of 3090 words)