

# **ORGANIZED CRIME IMPACT STUDY**

## **HIGHLIGHTS**

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This document highlights key findings of the Organized Crime Impact Study. The views expressed are those of the author and do not necessarily represent those of the Ministry of the Solicitor General of Canada or other federal government departments or agencies.

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## **EXECUTIVE SUMMARY**

Over the past few years in Canada and around the world the topic of organized crime (OC) has attracted increased concern and attention. With this concern has come the need to better understand the phenomenon in its entirety. While many OC studies have been produced that describe or examine a particular OC activity or OC group, relatively little attention has been focused in any systematic way on the impact of OC on Canada, Canadians and their communities. The Organized Crime Impact Study (OCIS) addresses this issue. It does so not by focusing on OC groups but rather on the impact of key activities, such as the illicit drug trade, that organized criminals participate in and help sustain.

### **WHAT IS CONFIRMED:**

- With its combined social, economic and violence generating effects the illicit drug trade has the greatest impact on Canada of all OC-related activities. Studies attempting to quantify, in dollar terms, the cost imposed by illicit drugs on Canada range from 'conservative' estimates of \$1.4 billion per year to cost estimates of close to \$4 billion per year for the three most populous provinces, Quebec, Ontario and British Columbia. These studies are admittedly only partial impact estimates. They focus on cost factors such as health care, reduced labour productivity and direct enforcement costs. If other costs associated with the illicit drug market were included, such as costs stemming from the unmet potential of youth targeted by the drug trade, drug related property or street crimes and declining property values of neighbourhoods plagued by drugs, these figures would be even larger.
- Each year contraband smuggling and distribution cost both federal and provincial governments billions in foregone revenue. Using 1995 estimates, the annual losses to both governments and the public from tobacco, alcohol and jewellery smuggling alone are approximately \$1.5 billion per year. In the case of tobacco contraband the impact is more than financial. By thwarting a high tobacco tax policy smuggling groups encourage consumption and all the negative health repercussions and health care costs that come with it.

### **WHAT IS NEW:**

- OC in Canada is not just something engaged in by 'Mafia' style groups in specific sectors. Its impact goes far beyond the terror felt and casualties incurred during such high profile events as the biker war. The organized criminal pursuit of profit needs to be recognized in all its forms along with its varied consequences. These consequences range from readily recognized violence and economic loss to the less easily quantified but no less important environmental, social and health and safety implications of some OC-related activities.

- OC-related environmental crime, particularly the improper storage or disposal of hazardous waste, is assessed as second only to illicit drugs in impact on Canada. The primary impacts of this OC-related activity are on the health of Canadians and the environment in general. Much more effort needs to be directed towards assessing the scope and impact of this OC-related activity.
- Economic crime, including securities and telemarketing fraud, is estimated to cost Canadians at least \$5 billion per year, yet it appears to be a relatively low priority for enforcement. Potential rewards for engaging in economic crime greatly outweigh the risks attached to the activity, including apprehension by the criminal justice system.
- An estimated 8,000 to 16,000 people per year arrive in Canada with the assistance of people smugglers. In only a minority of cases do OC groups continue to exercise control over an individual after they have been smuggled into Canada. It is likely that the economic and commercial impact of migrant trafficking on Canada is between \$120 million to \$400 million per year.
- OC groups involved in the highly profitable counterfeit products trade do not limit themselves to counterfeit clothing or software. Other counterfeit products, including pharmaceuticals and strategic parts are of increasing interest to OC groups. Governments and enforcement agencies are just beginning to assess the importance of this burgeoning OC activity, that may cost the Canadian economy over \$1 billion per year.
- Some OC groups involved in motor vehicle theft in Canada are highly internationalized and sophisticated. Vehicles stolen in Canada are now routinely shipped in large numbers to destinations in Africa, Asia, Eastern Europe and the Middle East. Canada, the US and European nations of affluence are the main victims of this growing criminal activity.
- Between \$5 billion and \$17 billion are estimated to be laundered in Canada each year. In Canada, the process of money laundering likely generates relatively little macroeconomic distortion. However, money laundering has an enormous impact on basic values within our society since, to the extent it is allowed to continue, it is a clear signal that crime does indeed pay. Ultimately, money laundering must be regulated and controlled not because of economic distortion but because it is morally unacceptable that individuals profit from criminal activities. Furthermore, taking the profit out of crime is a key way to disrupt criminal enterprises and networks.

## IMPACT RANKING OF OC-RELATED ACTIVITIES

	<b>Social-Political</b>	<b>Economic-Commercial</b>	<b>Health &amp; Safety</b>	<b>Violence Generation</b>	<b>Environmental</b>
<b>OC Activity</b>					
Money Laundering <sup>1</sup>	***	*	-	-	-
Illicit Drugs	***	***	**	***	*
Environmental Crime	*	***	***	-	***
Selected Contraband	***	**	**	*	-
Economic Crime	**	***	-	*	-
Migrant Trafficking	**	*	*	*	-
Counterfeit Products	*	**	*	*	-
Motor Vehicle Theft	-	**	-	*	-

**Legend:**

- **Little or no impact**
- \* **Some impact**
- \*\* **Significant Impact**
- \*\*\* **Very Significant Impact**

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<sup>1</sup> If a broad interpretation of the impact of ML were taken it could encompass all the impacts of the other OC-related activities analyzed in the report, because criminal proceeds must be laundered in order for criminals to continue their illegal enterprises. Attacking the proceeds of crime is a core part of anti-organized crime enforcement. The analysis of ML in this study does not address this issue but is primarily concerned with the nature of the impact of the ML process itself (i.e., whether it is capable of creating economic distortions or other impacts of significance to Canada).

# **HIGHLIGHTS FROM THE ORGANIZED CRIME IMPACT STUDY (OCIS)**

## **INTRODUCTION**

Over the past few years in Canada and around the world the topic of organized crime (OC) has attracted increased concern and attention. With this concern has come the need to better understand the phenomenon in its entirety. While many OC studies have been produced that describe or examine OC activities or groups, relatively little attention has been focused in any systematic way on the impact of OC on Canada. The Organized Crime Impact Study (OCIS) attempts to address this issue. It does so by focusing not on OC groups but rather on the impact of OC-related activities, such as the illicit drug trade which these groups participate in and help sustain.

The goal of the OCIS was to assemble and aggregate the best information available on the impact of selected OC activities on Canada. While it is far from the last word on the subject, the OCIS represents the first major attempt to examine OC activities in Canada in both individual and relative terms. Drawing upon original research, interviews, and classified and unclassified materials, the OCIS first considered the scope of each selected OC activity and then attempted to assess its impact. It concluded with a relative impact ranking of the OC activities considered. Ideally, the OCIS will deepen the understanding of senior decision makers in the policy and enforcement fields and serve as a point of departure for much needed further research and study in this area.

The OC activities selected for examination, in order of assessed impact (greater to lesser), were illicit drugs, environmental crime, selected contraband, economic crime, migrant trafficking, counterfeit products, motor vehicle theft and money laundering. These activities were selected due to their known or believed importance and association with OC. Each was examined for impacts of an economic and commercial, social-political, violence generation, health and safety and environmental nature. This document highlights key findings of the OCIS.

## **DEFINING ORGANIZED CRIME (OC)**

Some prefer to limit the concept of OC within the boundaries of a model organization with a specific type of organizational structure engaged in a fixed set of activities. This study takes a different approach. There is increasing evidence that some of the more familiar OC groups and many of the so-called "emerging" OC groups stubbornly refuse to confine their behaviour to any "standard" list of OC activities or to adhere to any "prescribed" organizational structure. This study sides with those who feel that OC, in order to reflect the reality of modern criminal behaviour, is best defined broadly. For the purposes of this study, therefore, the working definition of organized crime is:

economically motivated illicit activity undertaken by any group, association or other body consisting of two or more individuals, whether formally or informally organized, where the negative impact of said activity could be considered significant from an economic, social, violence generation, health and safety and/or environmental perspective.

The focus of this definition is on economically motivated activities. Other criminal activities which are arguably “organized”, but which have other principal objectives (e.g., political ones), are not dealt with in the study. The definition mirrors the current Criminal Code definition of a criminal organization in important ways: action by a number of individuals, pursuit of benefit and crimes of a serious nature. It is, however, broader in requiring (consistent with the European Union approach) that only two persons need be involved in a criminal enterprise. The purpose of the OCIS’s broad approach to defining organized crime is to capture as wide a spectrum of illegal activity as possible, thus shifting the focus of the organized crime debate from questions of form to issues of substance.

The conclusion from the above should not be that organized crime is really not that organized: rather, it acknowledges that many OC groups tend not to have centrally controlled rigid organizational structures. An OC activity can be highly organized despite the fact those engaged in the activity are acting in fluid groups and alliances. This is the lesson of market economics. The organization of the activity is not the result of some directing genius in human form, but the work of Adam Smith’s invisible hand transmuting the pursuit of individual gain into highly complex structures. It is important to note, however, that this fluidity of structure in no way discounts the enormous impact OC groups, through their activities, can have on a society.

# **THE IMPACT OF SELECTED OC-RELATED ACTIVITIES**

## **1. THE IMPACT OF ILLICIT DRUGS**

### **Size of the Market**

Estimates of the size of the global illicit drug market range between US \$100 billion to US \$500 billion. The most reliable Canadian government estimate of the Canadian illicit drug market is between \$7 billion to \$10 billion, based on seizure data and interdiction estimates. One of the best estimates of the size of the US market is the figure of US \$57 billion calculated by the US National Drug Intelligence Center (NDIC).

### **Consumer Patterns**

Cannabis is the most popular illicit drug among Canadians with 7.4% of the population 15 years of age or older reporting using the drug at least once in the past year. Cocaine is the second most popular illicit drug in Canada with approximately 1% reporting consumption in the past year. Heroin is used so rarely by the general population that the best estimate is for usage over a lifetime, not just the past year. Only 0.5% of Canadians have used heroin at least once. Not surprisingly, given this percentage, in 1993, offences involving cannabis accounted for 63% of all drug-related offences while cocaine accounted for 22% and heroin 2.8%.

### **OC Involvement**

A wide variety of OC groups are heavily involved in the illicit drugs market.

The RCMP states that drug trafficking in Canada still constitutes a primary source of revenue for so-called traditional organized crime groups. These include groups and collections of groups referred to as Asian Organized Crime, Outlaw Bikers, Italian Organized Crime and Colombian-based Organized Crime. However, the RCMP acknowledges that entrepreneurs not aligned with such traditional major crime groups are also important suppliers and exporters of drugs to the Canadian market.

### **Outlook Indicators**

Despite record seizures worldwide, the production of illicit drugs continues to increase.

Estimates are that over the next few years the heroin trade in Canada will continue to escalate. There also appears to be potential for a significant increase in cocaine use in non-traditional areas as dealers are reportedly creating crack cocaine distribution networks in Southern Ontario. This conforms to a Canadian study indicating that crack use among adolescent students increased significantly from 0.5% in 1993 to 1.9% in 1995.

Cannabis use among adolescents has also reportedly increased substantially in recent years and Canadian production of cannabis products appears to be increasing. In 1985, Canadian marijuana comprised 10% of total Canadian availability. By 1995 it had reached 50%.

## **SOCIAL-POLITICAL IMPACT OF ILLICIT DRUGS**

### **i) Targeting of Vulnerable Groups**

In Canada, as in other countries, illicit drug usage tends to be concentrated among the young and the disadvantaged, particularly street youth. For example, according to a 1997 epidemiology study, reported cocaine usage rates among street youth in Canada range from a low of 31% in Toronto to 85% in Vancouver. The reported usage rate among Canadian adolescents in general is 2-4%.

By targeting youth, the illicit drug trade undermines Canada's future. Economic and commercial indicators cannot adequately measure the lost lives or unmet potential attributable to illicit drug use and what society as a result has lost. These losses radiate out from the individual impacting on his or her family and friends and society as a whole. Ultimately, it may be these intangible impacts that reflect the greatest harm of the illicit drug trade on Canada and our communities.

### **ii) Corruption of Government and Key Private Sector Officials**

Corruption remains a key tool among those involved in the cash-rich world of illicit drugs. Recently in Canada, both police and private sector actors have been targeted for co-option by those involved in the drug industry. While there have been no recent cases of senior Canadian public officials being targeted for co-option by illicit drug traffickers, the practice is common elsewhere and there is no reason to believe that those involved would not use the tactic in Canada.

### **iii) Interference with the Rehabilitation Process within Canadian Correctional Facilities**

Illicit drug activity has a strong impact in Canada's correctional institutions. In a 1997 urine analysis program conducted by Correctional Services Canada, 12% of inmates tested positive for illicit drugs. According to Correctional Services Canada, OC groups largely control the drug market in these institutions.

The activity surrounding illicit drugs impacts negatively on the rehabilitation process, which is one of the major goals of incarceration. At all stages of the rehabilitation process OC groups involved in illicit drugs interfere with inmate rehabilitation. The presence of these illicit drug OC groups in the institutions also reduces the opportunity for criminals to eliminate their dependency on illicit drugs, which is one of the major reasons they continue to be a threat to society upon their release

#### **iv) Impact on Foreign Policy Goals**

The illicit drug market interferes with Canada's foreign policy goals in many ways. For example, it complicates relations with the US when Canada becomes a source country for cannabis products or a transit country for cocaine and heroin. The illicit drug trade can also lead to corruption within governments that Canada must work with in its international efforts to combat the drug problem.

#### **ECONOMIC AND COMMERCIAL IMPACT OF ILLICIT DRUGS**

Studies attempting to quantify, in dollar terms, the cost imposed by illicit drugs on Canada range from “conservative” estimates of \$1.4 billion per year to cost estimates of close to \$4 billion per year for just the three most populous provinces, Quebec, Ontario and British Columbia. These studies are admittedly only partial impact estimates. They focus on cost factors such as health care, reduced labour productivity and direct enforcement costs. If other costs associated with the illicit drug market such as costs stemming from the unmet potential of youth targeted by the drug trade, drug-related property or street crimes and declining property values of neighbourhoods plagued by drugs were included, these figures would be even larger.

#### **VIOLENCE GENERATION IMPACT OF ILLICIT DRUGS**

Studies focusing on urban areas, not surprisingly, find a stronger association between drug offences and other crimes than studies examining the country as a whole. One such study done in Vancouver, which is facing one of the worst illicit drug problems in Canada, found 70% of non-drug crime in that city to be associated with the illicit drug market. Another recent study examining the impact of illicit drugs on Canada and the narrower issue of their association with violent crime "conservatively" estimated that only 8% of violent crime nation-wide was associated with illicit drugs.

While research opinion varies as to the precise share of non-drug crimes connected to the illicit drugs market, anecdotal evidence arguing for a strong link between illicit drugs and crime is plentiful. Of all the OC activities examined in this study the illicit drugs trade has the strongest association with violence. The illicit drug trade in Canada fuels violence within this country and abroad. It fuels violence between criminals, fighting over market share and turf and against enforcement personnel seeking to bring them to justice. In addition, there is violence directed towards the public, motivated by the consumers' need for money to purchase drugs. Finally, there is violence that results not from the desire to obtain money but simply from the disoriented state of the drug consumer.

## **HEALTH AND SAFETY IMPACT OF ILLICIT DRUGS**

Injection drug use is an increasingly important risk factor for HIV/AIDs and hepatitis C in Canadian cities, particularly Vancouver, Toronto and Montreal. One 1996 study done in Vancouver suggests an HIV seroprevalence of 25% and a hepatitis C seroprevalence of 85% among 700 individuals tested. Injectable cocaine is also considered to be a major public health issue in these cities, and an emerging issue in many others. A 1997 study estimates that Vancouver alone has an injection drug user population of between 5,000 and 15,000.

## **2. THE IMPACT OF ENVIRONMENTAL CRIME**

In Canada in the area of environmental crime there have been three main areas of concern: illicit trade in ozone depleting substances (ODS), illicit hazardous waste treatment and disposal and illicit trade in endangered species.

### **Trade in Endangered Species**

Interpol estimates the illegal trafficking in endangered species to be a market worth \$US 6 billion annually with profit margins second only to the illegal drug trade. Canada's activity to counter the illicit trade in endangered species stems not so much from direct threat to Canadian species but from wider concern with the global environment of which Canada is part and recognition of our duty as a good international citizen.

### **Ozone Depleting Substances**

Canada purportedly supplies a substantial portion of the US black market in chlorofluorocarbons with most of the rest being supplied from Mexico.

### **Hazardous Waste**

It is estimated there are some 3,200 substances including mining waste, biomedical waste, chemical waste and metal scrap that are potentially hazardous waste. Canada produces approximately 5.9 million tonnes of these substances each year and 3.2 million tonnes are sent to off-site disposal facilities for specialized treatment and recycling.

The treatment and disposal of hazardous waste is a highly profitable sector and one that is exceptionally vulnerable to fraudulent practices engaged in by OC groups. The existence of OC in the hazardous waste disposal industry has been acknowledged internationally for some time. The head of Interpol states that this is a serious OC activity that is "increasing dramatically". American analyses have revealed a link between organized crime and the illicit movement and disposal of hazardous waste. It is highly likely that organized criminals are involved in the Canadian industry as well. Typically, this involvement consists of OC groups setting themselves up as 'treaters' and 'traders' in toxic waste.

However, once the hazardous waste is in the hands of an OC group the necessary treatment is rarely if ever performed, and the toxic waste is either dumped illegally in Canada or taken out of the country and dumped elsewhere.

The Auditor General of Canada recently concluded that within the Canadian legislative regime there are real incentives for the illegal traffic in hazardous waste. The chances of getting caught are remote and for those apprehended the prospect of serious penalties being imposed is unlikely. Some Canadian authorities argue that, given the current lack of any intelligence infrastructure directed at the problem, the scope of the illicit trade in hazardous waste, while a concern, is practically impossible to determine.

## **ECONOMIC AND COMMERCIAL IMPACT OF ENVIRONMENTAL CRIME**

### **Hazardous Waste**

As the insurer of last resort, government is left with the substantial clean up costs associated with the illegally treated hazardous waste, when this activity is discovered.

According to a 1990 study the estimated health care and loss of life costs associated with one tonne of improperly treated or handled hazardous waste on Canadian soil averages out to approximately \$9,000 per tonne and amounts to several billion dollars per year. These estimates do not include clean up costs.

Given the imperfect nature of the information available, the economic and commercial costs of environmental crime are difficult to assess. There is uncertainty regarding both the extent of the activity and its impact. It seems likely, however, that the combined impact of the illicit trade in endangered species, ODS and hazardous waste including associated health care, clean up and unfair competition costs of the activity amounts to several billions of dollars a year. Much more effort needs to be directed towards assessing the scope and impact of this OC-related activity.

## **HEALTH AND SAFETY IMPACT OF ENVIRONMENTAL CRIME**

### **ODS**

The depletion of the ozone layer is considered to be one of the most serious human health threats facing the planet. A portion of the observed threefold increase in melanoma cancer rates in Canada between 1969 and 1992 is believed to be the result of ozone depletion. It is estimated that in 1997, 61,000 Canadians will have developed skin cancer; 3,200 will have developed melanoma. Of these, 660 are expected to die as a result.

## **Hazardous Waste**

As difficult as they are to isolate and recognize at times, the health implications of hazardous waste are serious. For example, the improper disposal of hazardous waste can have serious implications for the safety of groundwater supplies. When toxic materials are dumped upon or seep into the earth they mix with rainwater or other forms of precipitation and percolate through the soil entering the water supply. Toxic drinking water has been linked to cancer, kidney disorders, chronic headaches, blurred vision, and digestive problems. Children reportedly are more vulnerable to contamination caused by hazardous waste than are adults.

## **ENVIRONMENTAL IMPACT OF ENVIRONMENTAL CRIME**

### **ODS**

Because of its northern location, Canada is one of the countries most at risk from the harmful effects of ozone depletion. By 1997, the ozone layer over the mid latitude regions of Canada was depleted by as much as 7% averaged over the entire year, compared with pre-1980 levels. This was accompanied by an increase in ultraviolet-B radiation of approximately 8%. Increased UV-B radiation affects the growth of plants, has the potential to disrupt the biodiversity of terrestrial ecosystems, and is harmful to aquatic ecosystems.

### **Hazardous Waste**

As regards the illicit treatment of hazardous waste and its deleterious and long term effects on the environment, the concern this issue raises is best conveyed by a recommendation made in a 1994 UN report dealing with the role of criminal law in the protection of the environment. It called for environmental crimes such as the illicit trade in hazardous waste to be treated as a crime on the same level as genocide.

### **Trade in Endangered Species**

Poaching and the subsequent illegal trade in wild animals and plants, their parts and derivatives poses potential risks to the conservation of Canadian and foreign wild species, and to the protection of Canadian ecosystems from the introduction of undesirable non-native species. These activities are considered leading causes of species extinction or endangerment.

## **3. THE IMPACT OF SELECTED CONTRABAND**

This discussion focuses primarily on the impact of tobacco, alcohol and jewellery smuggling on Canada.

## **OC Involvement**

The smuggling and sale of these three contraband commodities is largely attributable to commercial-scale contraband operations rather than individuals engaged in smuggling for personal use. Furthermore, according to the Criminal Intelligence Service Canada, many of the major organized crime groups in Canada have engaged in smuggling activity at some time, either individually or in cooperation with other groups.

## **SOCIAL-POLITICAL IMPACT OF SELECTED CONTRABAND**

The sheer volume and scale of smuggling activities taking place in the early 1990s undermined both respect for and confidence in law enforcement. This was particularly evident at the height of the tobacco crisis when the illicit tobacco trade resulted in the large-scale criminalization of average citizens. At the height of the tobacco smuggling crisis in 1993, it was estimated that one in every three cigarettes smoked was contraband. In Quebec, the ratio was up to two out of three.

Alcohol may present a similar potential for large-scale criminalization of the population; according to a Peat Marwick survey of the early 1990s, done on behalf of the industry, approximately 26% of the Canadian drinking age population are reportedly willing to buy smuggled liquor.

## **ECONOMIC AND COMMERCIAL IMPACT OF SELECTED CONTRABAND**

Using 1995 estimates the annual losses to government from alcohol, tobacco, and jewellery smuggling amount to approximately \$1.4 billion. This contraband activity also has a pervasive negative impact on the business practices and profitability of legitimate industries and small businesses involved in these commodities. In addition, the negative impact of contraband falls largely on those businesses unwilling to trade in contraband. For example, owners and operators of convenience stores and other retailers who refuse to participate in illicit markets can lose a very lucrative element of their business.

## **HEALTH AND SAFETY IMPACT OF SELECTED CONTRABAND**

Beyond physical violence, contraband liquor and tobacco also raise health concerns. Cheaper contraband products can encourage youth to take up the smoking habit or to abuse liquor. Some consider smuggled alcohol to be a public health risk. Perceived problems arise mostly in post-production handling of the product, for example, transporting the alcohol across borders hidden in improperly cleansed automobile anti-freeze containers or the use of other unsanitary containers for transport. There is no quality control.

Health concerns in this context go beyond 'bad' alcohol. Part of the rationale behind high taxes for cigarettes was to act as a deterrent to the consumption of what is acknowledged to be a carcinogenic substance. Using data from the Canadian Centre for Health Information at Statistics Canada, it is estimated that over 40,000 deaths were attributable to smoking in 1991.

By thwarting this tax policy, smuggling groups not only increase the potential health problems associated with smoking by encouraging consumption; by forcing a reduction in tax revenue they also reduce the government's financial ability to address the health care cost consequences of the smuggled product.

#### **4. THE IMPACT OF ECONOMIC CRIME**

Recognizing economic or “white collar” crime as a significant OC activity acknowledges that organized criminal activity is not confined to traditional “Mafia” or visible and ethnic minorities. Organized crime encompasses any organized profit-motivated criminal activities that have a serious impact. While recognizing the importance and corruptive influence of economic crimes such as bid rigging and price-fixing, this section focuses primarily on the subset of economic crime known as fraud.

##### **OC Involvement**

Both traditional organized crime groups and other organized criminal elements are involved in economic crime. The bulk of major economic crimes are committed by non traditional OC groups such as Russian Organized Crime or two or more corrupt business people typically with no connection to traditional organized crime groups.

##### **The Situation in Canada**

There has been a general decline over the past five years in the number of law enforcement investigations and charges related to economic crime, particularly fraud. One conclusion that should not be drawn from this trend is that economic crime itself is on the decline. Official data only covers reported frauds. Many experts in the area of economic crime believe that many frauds go unreported and that economic crime in this country is actually increasing. Enforcement officials agree that the decline in investigations and charges relating to economic crime does not reflect a decline in criminal activity; rather it is a result of declining enforcement resources and capacity directed towards the problem.

#### **ECONOMIC AND COMMERCIAL IMPACT OF ECONOMIC CRIME**

Most estimates of the costs of economic crime are calculated on an industry or fraud type approach. The table below assembles the various annual estimates available for economic crime in Canada.

<b>Type of Economic Crime</b>	<b>Year</b>	<b>Estimated Cost</b>
Insurance Fraud	1996	\$1 – 2.5 billion
Cellular Phone Fraud	1995	\$650 million
Credit Card Fraud	1997	\$127 million
Stock Market Fraud	1997	> \$3 billion
Telemarketing Fraud	1997	\$4 billion
Motive Fuel Fraud	1996	\$55 million

Totalling these figures provides a partial estimate of the cost of economic crime to Canada of, at minimum, between \$5 billion and \$9 billion for 1995 to 1997. While it is very unlikely that the stock market will encounter a stock fraud of Bre-X's magnitude annually, it is important to note that this figure was attained without including estimates for medical insurance fraud or tax fraud.

## **SOCIAL-POLITICAL IMPACT OF ECONOMIC CRIME**

### **i) Impact on Basic Values**

Canada's relatively low rate of prosecution of economic crimes may have an effect on more than the financial state of the immediate victims of the crimes. Persistent, unpunished economic crime encourages cynicism among the public, damages the legitimacy of political and enforcement institutions and promotes disrespect for the legal system. This cynicism could be encouraged by the perceived shift in responsibility for policing economic crime from the public to private sector.

A major concern regarding economic crime is that currently the risk-reward ratio is out of balance. Potential rewards for engaging in economic crime greatly outweigh the remote risks attached to the activity. This has led to a situation in the United States and Canada where economic crime, in the view of many, has become a "rational" course of action.

### **ii) Targeting of Vulnerable Groups**

In the past there was a perception that the victims of economic crime were either large impersonal institutions or greedy individuals who got what they deserved. As economic crime and its impacts are better understood these attitudes are changing.

Project Phonebusters found that between January and May 1997 over half of the reported victims of telemarketing fraud were over 60 and those over 60 accounted for 73% of those defrauded for more than \$5,000. It is the experience of Industry Canada's Competition Bureau that deceptive telemarketers target so-called 'vulnerable' segments of society such as the elderly.

Even large impersonal institutions have employees and shareholders, both of whom suffer when their company is the target of fraud or other economic crime. With the wider participation of the public in the equities markets either individually or through mutual funds or pension plans, the capacity for harm to the general public has increased. Now more than ever, the impact of securities frauds extends beyond the wealthy.

## **5. THE IMPACT OF MIGRANT TRAFFICKING**

Each year hundreds of thousands of people out of desperation or economic desire employ the services of OC groups to take them to what they hope is a better life in a new country. This massive illicit movement of people has created a black market for people smuggling services estimated by the International Organization for Migration to be up to U.S. \$ 7 billion globally. This activity has seriously tested the "absorptive capacity," both economic and social, of the target countries.

The projected population growth in third world countries over the next decade, coupled with increasing income gaps between the developed and developing worlds, appears to ensure that the problem of migrant trafficking will worsen.

### **OC Involvement**

Migrant trafficking is a profitable activity attractive to both 'traditional' organized crime groups and OC groups specifically devoted to this activity. Some provide complete service, including the provision of false documents and the delivery of persons into the target country.

Others may handle just one stage of the journey. Three types of OC involvement in migrant trafficking can be discerned: simple delivery, delivery of persons plus exploitation, and finally migrant trafficking that primarily facilitates other criminal activities (such as credit card fraud, drug smuggling and motor vehicle theft).

With simple delivery the OC group's role ends with the delivery of the individual safely within the target country or the successful attainment of whatever stage of the journey they are handling. The vast majority of migrant trafficking transactions are understood to involve simple delivery. In a minority of cases the OC group continues to exercise control over the individual once the target country is reached due to an outstanding debt for the service still owed the smugglers. In these cases, the individual's continuing association with the OC group is involuntary and he or she must work off the debt owed to the OC group in some manner. This can take the form of anything from a period of indentured servitude in a restaurant or sweatshop to actual involvement in criminal activities.

### **The Situation in Canada**

According to experts, given our close to 70% refugee acceptance rate, there is little incentive for those brought to Canada with the assistance of people smugglers to go "underground" and live clandestinely in Canada. Accordingly, the vast majority of persons entering Canada with the assistance of people smugglers claim refugee status. In 1996, approximately 26,000 persons claimed refugee status in Canada.

By assuming that 30% of these claimants ultimately will be determined to be “undeserving” refugee claimants and using this number as a surrogate for those who would have used the services of people smugglers at some stage in their journey to Canada, one can establish a base figure of persons smuggled into Canada of approximately 8,000 per year. This 8,000 figure could be considered a conservative estimate of the number of persons employing people smugglers at some stage prior to their entry to Canada.

For an upper-range estimate one could assume the percentage of refugee claimants classified as “undocumented” to be approximately 60%, as reported by the Auditor General in 1997. Accepting expert opinion that considers undocumented persons likely to be linked to people smugglers, it can then be calculated that approximately 16,000 persons arrive in Canada annually with the assistance of people smugglers prior to making a claim for refugee status.

This would result in a rough estimate of between 8,000 and 16,000 persons arriving with the assistance of people smugglers.

## **ECONOMIC AND COMMERCIAL IMPACT OF MIGRANT TRAFFICKING**

According to the Auditor General the total spent by Ontario and Quebec, who receive the majority of refugee claimants, on social benefits to potential refugees was \$100 million each per year. Costs to the federal government involving the ‘process’ were determined to be approximately \$100 million. A large share of the cost imposed by refused refugee claimants assisted by smugglers is some portion of this \$300 million a year spent by the federal government, Ontario and Quebec on the refugee process.

The figure used to represent both the costs of the process of refugee determination and costs incurred in the care and keeping of the claimant has been estimated to be between \$15,000 to \$25,000 per year. Using these figures with the estimate of 8,000 to 16,000 persons smuggled into Canada with the assistance of people smugglers yields costs to Canada that range between \$120 million and \$400 million per year.

## **SOCIAL-POLITICAL IMPACT OF MIGRANT TRAFFICKING**

### **i) Impact on Respect for and Confidence in the Canadian Immigration System**

Canadians' support for a major immigration program is linked to their opinion of how well it is managed and how well it serves Canada's interests. Migrant trafficking abuses the openness of Canadian society, as reflected in its refugee program, and threatens to seriously undermine public support for the process.

Migrant trafficking can also lead to xenophobic sentiments from the larger community and fuel racial prejudices. However, even the ethnic community within which the smuggled migrant hopes to integrate is sometimes disrupted by his or her presence. According to some studies an influx of illegal migrants within an ethnic community can create unrest.

## **ii) Corruption of Government Officials**

Corruption appears to be a particularly prevalent activity of illegal people smugglers. The activities of these groups can be greatly eased by co-operative government officials who supply documents or look the other way at opportune times. There have been several incidents within Canada of Canadian immigration officials or individuals in the transportation industry being targeted for co-option by people smugglers.

## **iii) Targeting of Vulnerable Groups**

Unchecked migrant trafficking can result in the creation of a community of second-class citizens ripe for exploitation and forced to engage in illegal activity in order to survive. "Sweatshop" labour performed by illegal aliens does not appear to be as great a problem in Canada as it is in Europe or the United States.

## **iv) Canada as a Transit Country en route to the United States**

The recent tightening up of border checks on travellers by the US authorities, that has inconvenienced so many Canadians, is partially motivated by a concern over migrant trafficking. For example, in the early 1990s, in one major case of 1,200 people smuggled into Canada by an OC group, 450 went to the US while 750 remained in Canada.

# **6. THE IMPACT OF COUNTERFEIT PRODUCTS**

'Counterfeit products' are knock-off, bootleg, pirated and other illicitly produced items that are produced and sold in violation of the intellectual property rights of others or in a manner that fraudulently represents their quality or origin.

The problem of counterfeit products is pervasive and growing. The range of counterfeit products extends well beyond designer clothing and consumer goods. Today, everything from bootleg copies of Microsoft's Windows 95 to improperly produced baby formula, pharmaceuticals and aircraft parts are available. The trade is exceptionally profitable, prompting some to call it "the crime of the 21st century."

## **OC Involvement**

Organized crime groups are believed to be heavily involved in the counterfeit products trade. The OC head of Interpol has recently expressed concern over the activities of OC in this area. Often those involved in counterfeit products are involved in myriad other forms of criminality including, tax fraud, money laundering, and violations of labour, health and safety rules as well as immigration laws.

## **ECONOMIC AND COMMERCIAL IMPACT OF COUNTERFEIT PRODUCTS**

### **Software**

According to the Canadian Alliance Against Software Theft (CAAST) software piracy in Canada cost legitimate producers over \$500 million in 1996. Pirated software damages manufacturers who invest time and money developing products and can only make a profit if their products are purchased. Pirated software also carries the risk to purchasers of viruses, poor quality and no technical support or warranties. Canada's software piracy rate has dropped from an estimated 58% in 1992 to 44% in 1994 and 42% in 1996. Essentially this means that for every 100 software programs in use, 42 were pirated.

### **The Entertainment & Music Industries**

According to the Canadian Recording Industry Association, approximately \$30 million per year in sales is lost to counterfeiters of sound recordings in Canada and at least 80% of the counterfeit recordings sold in this country are produced outside the country. The impact on the Canadian film and video industry is not quite as great. Counterfeits of film and video recordings in the Canadian market result in costs of approximately \$10 million per year according to the Canadian Film and Video Security Office.

### **Pharmaceuticals and Strategic Parts (Auto & Aircraft)**

While there is evidence of some counterfeit activity in these areas, particularly auto parts, more research on the prevalence of counterfeit products of this nature in the Canadian market is required.

The overall economic and commercial impact of counterfeit products on Canada, including entertainment products, auto parts, pharmaceuticals, and software likely exceeds \$1 billion per year.

## **HEALTH AND SAFETY IMPACT OF COUNTERFEIT PRODUCTS**

While the economic impact of counterfeit products may be high, it is the health and safety implications that worry many. Counterfeiters need not follow any government safety or health regulations.

## **7. THE IMPACT OF MOTOR VEHICLE THEFT (MVT)**

### **Scope of the Problem**

According to the Canadian Centre for Justice Statistics, motor vehicle thefts have increased steadily in Canada for almost a decade. In 1996, there were 1,043 thefts for every 100,000

vehicles compared to only 573 per 100,000 reported in 1988. Despite these increases, as recently as 1995 Canada ranked behind England, France and the United States in the rate of vehicle owners who experienced a motor vehicle theft.

### **OC Involvement**

Officials with Canada's Insurance Crime Prevention Bureau (ICPB) claim that organized auto theft is increasing in this country. One good indicator of the increasing involvement of OC in MVT may be the declining recovery rates experienced by Canadian insurance companies. A recovery rate is the percentage of vehicles reported stolen that are eventually located. Unrecovered vehicles are not likely to have been the target of a joy rider; automobiles taken in this manner are generally quickly recovered after being abandoned. Vehicles not located are generally assumed to have been targeted by OC groups to be re-sold or cannibalized for parts. According to the ICPB, in 1996, 74% of vehicles stolen in Canada were recovered, a decrease from 79% in 1995. Ontario's recovery rate currently stands at 74% down from 80-85% while Quebec has the worst recovery rate in Canada at 68%.

### **Increasing Internationalization**

Vehicles stolen in Canada are routinely shipped to destinations in Africa, Asia, Europe, and the Middle East. The international scope of the OC groups involved in MVT is illustrated by the destinations of stolen vehicles returned to Montreal and Toronto between January 1, 1997 and December 31, 1997. In that one year 266 vehicles, valued at approximately \$9 million, were returned to these two cities. Eighty-six were destined for Africa (primarily Ghana), 47 for Asia (primarily Cambodia and Vietnam), 37 for Western Europe (primarily Holland and Germany), 35 for the United States (in this instance, the US is most likely a transit country), 25 for Eastern Europe and Russia, and 18 for the Middle East (primarily Lebanon).

### **Increasing Sophistication**

As MVT has internationalized, the sophistication of some of the OC groups involved has grown. In 1997 investigators in Charlemagne, Quebec came across a MVT ring of surprising complexity. When raided by police, the organization was in possession of \$1,600,000 in U.S. and Canadian counterfeit currency, fabricated sales receipts and other commercial documents along with sophisticated equipment to fabricate the identification numbers for the stolen vehicles. This MVT group reportedly sent at least 300 vehicles, mostly late model luxury and 4X4 trucks and sport utility vehicles, overseas, primarily to Russia. Their Russian partners apparently paid in cocaine. Most interestingly, this OC group had, through a contact in the auto industry, managed to obtain books containing the special codes used by various auto manufacturers. Knowing where hidden serial numbers on vehicles were located permitted the criminals to make keys for the targeted vehicles.

## **ECONOMIC AND COMMERCIAL IMPACT OF MOTOR VEHICLE THEFT**

### **Auto Insurers**

The Canadian insurance industry reports that motor vehicle theft cost Canadian insurers \$500 million in 1995 and \$600 million in 1996. These costs were expected to have increased for 1997.

### **Auto Manufacturers**

The burgeoning international market in contraband vehicles has affected the expansion plans of major auto makers. For example, Ford and General Motors invested in Russian automobile factories under the assumption that they would be benefiting from a market protected by high import tariffs, not realizing the significant impact on the Russian market of contraband cars. Consequently, many of their marketing and profitability projections for these markets were thrown off.

### **Impact on Consumers**

The most obvious impact of MVT on consumers is increasing insurance premiums. The average amount paid by a motorist in his or her premium to cover theft claims of all insured vehicles is now approximately \$43.00 or 11% more than it cost in 1995.

## **8. THE IMPACT OF MONEY LAUNDERING (ML)**

Money laundering is any act or attempted act to conceal or disguise the identity of illegally obtained proceeds so that they appear to have originated from legitimate sources.

If a broad interpretation of the impact of ML were taken it could encompass all the impacts of the other OC-related activities analysed in the report since criminal proceeds must be laundered in order for organized criminals to continue their illegal enterprises. Attacking the proceeds of crime is a core part of anti-organized crime enforcement. The analysis of ML in this study does not address this issue but focuses primarily on the nature of the impact of the ML process itself (i.e., whether it creates economic distortions or other impacts of significance to Canada).

### **OC Involvement**

Both traditional organized crime groups and other organized criminal elements are involved in money laundering. Historically the focus with money laundering has been on the enormous sums of cash generated by the illicit narcotics trade. Over the past few years, however, more and more governments have recognized that the substantial illicit proceeds generated by economic crime form an increasingly important share of the illicit funds laundered each year.

## **How Much is Laundered?**

According to the Financial Action Task Force (FATF), estimates of the amount of money laundered annually worldwide from the illicit drug trade alone range between \$US 300 billion and \$US 500 billion. The inclusion of laundered illicit funds from economic and other non-drug crime could potentially double these figures.

The size of the illicit drug market in Canada has been estimated to be between \$7 billion to \$10 billion. Expert opinion holds that between 50-70% of drug sales revenues are available for laundering and subsequent investment. Assuming in addition, as has been argued, that 50-70% of the funds laundered in Canada are derived from illicit drugs, then the amount of illicit funds laundered in Canada per year is between \$5 billion and \$14 billion.

Another simpler method to estimate the amount of ML taking place is to employ a 'rule of thumb' advocated by some ML authorities, which estimates that the amount laundered in a country is on average equal to approximately 2% of that country's GDP. This calculation is drawn from International Monetary Fund estimates that global ML is equal to approximately 2% of global GDP. Using this rule of thumb, the estimate of the amount of money laundered in Canada annually would be approximately \$17 billion.

Combining the two approaches results in a rough estimate of the amount of illicit funds laundered in Canada per year of between \$5 billion and \$17 billion.

## **Proceeds of Crime**

The value of seizures authorized under Canada's proceeds of crime legislation suggests that investigators have only begun to scratch the surface of these ill-gotten billions. A report on the functioning of the Integrated Proceeds of Crime (IPOC) units set up to facilitate the seizure and forfeiture of illicitly obtained assets recognized that the dollar value of the seizures of proceeds units are "minuscule" in comparison to the extent of the practice.

Canada's Integrated Proceeds of Crime (IPOC) units continue to focus primarily on proceeds from illicit drug activity, although their mandate is considerably wider.

## **ECONOMIC AND COMMERCIAL IMPACT OF MONEY LAUNDERING**

It is important to understand that this \$5 billion to \$17 billion range in no way represents the "cost" or impact of ML on Canada. It is simply a figure much like the estimates given for the size of the illicit drug market in Canada. These figures, large as they are, themselves reveal little about the impact of the activity.

## **Does the Money Remain in, or Flow Through, Canada?**

In assessing the impact of ML on Canada one of the first issues that has to be addressed regarding the \$5-\$17 billion estimate is what portion of these illicit funds laundered in Canada actually remains in the country. Clearly, laundered funds that simply flow through Canada's financial system mixed in with hundreds of billions of legitimate funds en route to another country and another economy will have less economic impact on Canada than those funds that remain within the domestic system.

## **Concentrated in a Few Hands or Widely Dispersed?**

Another important factor in determining the economic and commercial impact of ML is whether the large sums estimated to be laundered remain under the control of relatively few hands (and thus have greater potential impact) or are widely dispersed amongst myriad criminal actors. Some argue that there are large stocks of illicit funds that are closely held and point to organizations like Mexico's and Colombia's drug 'cartels'. Others point to OC kingpins with relatively little net worth and question whether the wealth generated by illicit activities is concentrated in any significant manner.

## **From an Economic and Commercial Perspective do Funds Being Laundered Behave Differently Than Licit Funds?**

Even assuming that laundered funds were concentrated in a few hands, it would be necessary to establish that illicit funds that are laundered behave differently than licit funds in order to establish that they have a negative economic impact. This again is a subject where there is no clear agreement.

It has been demonstrated that those involved in the illicit drug trade, when engaged in ML, do not always follow what would seem on the surface to be economically sound logic in introducing their profits into the licit economy. Burdened with large amounts of cash, launderers of illicit drug revenues appear to seek the easiest way to recycle the money rather than the best rate of return.

Proceeds of crime are often laundered through small and medium sized businesses. This has an impact at the local level. While not likely having a macroeconomic impact, retailers or other service providers who do not "support" their business with proceeds of crime are at a competitive disadvantage.

Economic criminals may have a far easier time laundering their profits. Those involved in economic crime tend not to be burdened with receipts in the form of attention-getting, bulky, low denomination bills. The introduction of their illicit funds into the economy would therefore be less likely to be done in an economically inefficient manner.

## **Tax Impact**

With regard to the Canadian economy, it appears that a significant impact of money laundering might be in the area of tax collection, due to misreporting and underreporting of OC income. Yet it is still not clear how moving funds from the illicit economy, where they would not be taxed, into the licit economy where by definition they would be declared and liable for taxes, would result in tax losses. One exception to this situation would be instances in which illicit proceeds are moved out of the country, surface elsewhere as licit funds and are taxed in that jurisdiction. However, it is not certain that moving funds out of the country in this fashion could be described as money laundering 'in' Canada.

## **Overall Economic and Commercial Impact**

The uncertainty regarding the magnitude of illicit funds laundered in Canada and the precise nature of the economic and commercial impact of the money laundering process renders a true assessment of the economic and commercial impact of ML extremely difficult. Given the current uncertainties surrounding the impact of the process, ML cannot be assessed to have more than some economic and commercial impact on Canada.

## **SOCIAL-POLITICAL IMPACT OF MONEY LAUNDERING**

Money laundering has an enormous impact on the basic values of a society because, to the extent that it is allowed to continue, it is a clear signal that crime does indeed pay. Ultimately money laundering must be controlled not because it causes significant economic distortions (in many cases it may not) but because it is recognized as morally unacceptable that individuals profit from criminal activities. A key component of effective anti-organized crime enforcement is removing profits from the criminals.

As noted in the introduction of this section, a strong argument could be made that the indirect impact of ML encompasses all the impacts of the other OC-related activities assessed in this report. All are motivated by the desire for illicit profit which, to be enjoyed, typically needs to be laundered in some fashion. If this argument is accepted, then ML might be assessed as having a greater impact on Canada than any individual activity.

## **CONCLUSION**

OC in Canada is not just something engaged in by 'Mafia' style groups in specific sectors. It is not just “drugs and thugs”, and its impact goes far beyond the terror and casualties incurred during such high profile events as the 'biker war'. The organized criminal pursuit of profit needs to be recognized in all its forms along with its varied consequences. These consequences range from readily recognized violence and economic loss to the less easily quantified but no less important environmental, social and health and safety implications of some OC-related activities.

The assessment of the illicit drug market as having the greatest impact on Canada was expected. Likewise, the very significant impacts associated with contraband smuggling and distribution were confirmed. Environmental crime and economic crime also stand out as OC-related activities with very significant impact, and there may be a need for more resources, analytical or enforcement, devoted to these areas. The OCIS will be only the first step in a thorough examination of the impact of these and other OC-related activities and will serve as a point of departure for much needed further research and study in this area.