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The Growing Harms of Cross-Border Illicit Trade Vectors and Threat Convergence to Canada's National Security

Urgent Attention and Action are Needed

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Introduction

In recent months, Canadian corporate leaders, investigative journalists, politicians, defense and intelligence officials, law enforcement agencies and global NGO's have been raising concerns about the increasing national security threats, inclusive of economic ones, posed by illicit trade vectors emanating from within Canada and externally. Illicit trade in Canada, and globally, is booming. Illicit markets are not harmless and can have tremendous human, economic, societal and security costs and consequences. Illicit economies come with vulnerabilities to peace and security — including corruption, violence, chaos, organized crime, terrorist financing and instability. Illicit economies are the lifeblood of today's bad actors, enabling kleptocrats to loot and destabilize their countries, criminal organizations to co-opt states and export violence, and terrorist groups to finance their attacks against our societies. Across today's global threat convergence environment, criminals and threat networks enable and fuel the multi-trillion dollar illicit economies. This includes the smuggling and trafficking of narcotics, opioids, weapons, humans, counterfeit and pirated goods; illegal tobacco and alcohol products; illegally harvested timber, wildlife and fish; pillaged oil, diamonds, gold, natural resources and precious minerals; and other contraband commodities.

Such threats have raised heightened awareness among public safety, security and intelligence communities on domestic and foreign illicit activities within Canada including transnational organized crime and other foreign influence activities with links to China, Iran and Russia. Concerns have also focused on how Canada continues to be a thriving hub for nefarious criminal and terrorist networks. Recent headlines have spotlighted Mexican cartels not only exploiting Canada as a profitable market, but also as a convergence zone and operational criminal hub with Iranian, Chinese, and other extremely concerning threat networks. In November 2023, the head of the Royal Canadian Mounted Police (RCMP) for border security and fighting serious organized crime underscored that Canada is not just a significant producer of fentanyl, but that the country exports it along with other illicit goods.¹ As we conclude in our ICAIE Policy Brief, Canada has become a safe zone for the world's most notorious crime groups and threat networks that are harming Canada's national security and imperiling the security of other nations. To strengthen the political will and stimulate greater actions across impacted Canadian communities, ICAIE provides new insights into the harms of cross-border illicit trade vectors and threat convergence to Canada's national security, including providing numerous concrete recommendations found at the end of this report.

Across Canada, organized crime networks continue to profit handsomely from an array of illicit activities that are endangering the health and safety of its citizens, and are imperiling the country's national security, threatening global peace, and financing greater insecurity around the world through the criminality of Mexican cartels, Chinese Triads, and Iranian-backed illicit finance networks. Today, Canada is not merely a consumer of illicit goods and contraband, but increasingly serves as a hub of illicit trade,



production and distribution of illicit goods, an exporter of such contraband, and a money laundering safe haven for a potpourri of criminal networks.² Additionally, these activities also have a disrupting and distracting impact on the Canadian political, governance, security, and business climate.

As exposed by the hearings of the Cullen Commission in recent years, Canada has become a major global refuge for transnational crime networks and their dirty money, including the world's most notorious networks and their leaders like Joaquín 'El Chapo' Guzmán and the Sinaloa cartel, Chinese drug kingpin Tse Chi Lop, Hezbollah Financier Altaf Khanani, and other bad actors.

While the heads of these criminal syndicates have been arrested, their illicit networks continue to exploit Canada's liberal legal frameworks and security structures which have historically focused on imminent domestic and regional crime versus the more complex transnational and sophisticated security threats. However, criminals with great national security significance have eluded Canada's penal system, including Iranian Kingpin Omid Tahvili – among the FBI's most wanted fugitives – who virtually walked out of the front door of prison. Others such as mobster Robbie Alkhalil have escaped from prison and is considered one of Canada's most significant public safety and organized crime threats.³

In the past, Canadians have focused on mid-level threat actors driven by profit (e.g., Hells Angels) in lieu of more lethal transnational criminal networks that have blended with geopolitical global interests (for example, networks from China, Iran, and Russia). Canada has also housed nefarious technologies and encryption companies (Esoteric, Phantom, Sky, et al) that have not only advanced illicit transactions in the country of such criminal networks, but have also provided a shield to criminal activity in convergence hubs such as Vancouver, Toronto, and other Canadian cities, as pinpointed by Western security, intelligence, military and law enforcement communities. And things are not getting any better. Just last week, Toronto Police, as part of Operation Project Finito, had the largest seizure of cocaine and crystal meth in the Service's history including 551 kilos of cocaine and 441 kilos of crystal methamphetamine with a total estimated street value of \$90 million.

Equally concerning, these same Canadian-based technologies have been key global facilitators and have not only hampered investigations by international law enforcement and intelligence agencies, but have been instrumental in facilitating transnational crime networks, illicit trade and threat finance amongst Five Eyes members,⁴ NATO partners and developing countries already struggling with a host of security, economic and social instability challenges.

Existing illicit trade hazards in Canada pose serious threats across economic, social, environmental, health, and political interests. These hazards include key governance, regulatory, and law enforcement gaps that are exploited by a convergence of foreign-state actors and associated transnational crime networks involved in illicit trade, cross-border criminality, human trafficking, money laundering, and terrorist financing. Headlines in the last decade alone include money laundering concerns facilitated by transnational criminal organizations deriving profits from the illicit sale of fentanyl and other synthetic drugs resulting in the death of tens of thousands of children and other citizens across vulnerable populations, and associated corruption that has undermined the integrity of political systems in Canada.

INTRODUCTION

Canadian policy makers at the municipal, provincial and federal levels need to recognize the scale of today's interconnected illicit threats in Canada and take urgent action against the significant harms being done daily by kleptocrats, criminals, and terrorist networks and their enablers before communities degrade further into normalized patterns of insecurity, violence, and criminality.

The general malaise and historic dismissal of transnational crime threats by Canadian policy, law enforcement and security communities have helped to institutionalize criminality in the country, and represent a profound security concern not only to Canadians but also to other countries. As recently exposed by media reports, the reality is that global criminal networks are finding a safe haven in Canada, as will be highlighted in this paper. This includes strategic deployment of the world's encryption systems in Canada to add additional layers of protection and anonymity for bad actors, complementing the existing weak legal system and systemic impediments to countering these threats impacting both Canadians and other global markets.

A contemporary example of these concerns is the recent investigations into the former head of RCMP's Intelligence Program, Cameron Ortis, and the role of Pakistani national Altaf Khanani in Canada.⁵ It is alleged that Khanani used money mules and currency exchanges across six continents to launder dirty money for drug cartels in Toronto, Montreal, Vancouver, and other cities. Such exporting of terrorist-laundered funds has led to further destabilizing of peace in the Middle East, and helped to arm and finance Hezbollah, Hamas, Al-Qaeda, and other terrorist groups for their barbaric attacks on Israel, as witnessed on October 7, 2023. The criminality of the money financiers for Hezbollah and other Iranian-backed "Axis of Resistance" militias in Canada reinforces earlier investigations the U.S. Drug Enforcement Administration (DEA) in Project Cassandra that unearthed evidence that these organizations were conducting illicit activities worth billions of dollars, including money laundering, trafficking in drugs and weapons, and other contraband from North and South America to West Africa, Europe, and the Middle East.⁶ On November 22, 2023, Ortis was found guilty of providing sensitive operational intelligence and secrets to criminals in violation of the Security of Information Act.⁷

The close ties to Iranian crime networks in Canada are well known globally and have been previously reported in a host of forums including open-source information. Ortis is also accused of profiting from criminals by providing highly encrypted communication technologies to drug cartel bosses.⁸ The combination of Iranian crime networks which Canada is well known to house, amplified by dismissing their importance for decades, is a deadly blend. As per the testimony⁹ of RCMP (Dan Morris), Canadian global encryption companies were identified as illicit trade facilitators, and were highlighted even by defense counsel as potentially contributing to global insecurity and supporting national security threats such as Hezbollah, Hamas, and other Iranian-financed militias in the Middle East. Not only were these threat networks active in Canada, but they infiltrated critical industries, banking systems, and collaborated with the Mexican cartels and other TCOs. Recent reports have shown that the Canadian security and intelligence services were not sufficiently recognizing these threat networks a national security priority, nor recognizing these activities as interwoven threat vectors of foreign malign influence.

In outlining the policy recommendations below, we believe that to effectively fight



illicit trade, critical stakeholders must adopt holistic, all-of-society approaches, cross-border cooperation and information-sharing, and more dynamic public-private partnerships. This will strengthen seamless coordination across sectors and enhance disruptions of criminal and terrorist networks and their enablers, as well as strengthen the ability to tackle cross-border illicit trade and related illicit finance and trade-based money laundering (TBML). While there is evidence of increased situational awareness in the non-securitized sector, a lack of strategic coordination runs the risk of producing more fragmented professional silos, and ultimately, sub-optimal outcomes. The objective must be to break down bureaucratic structures designed to govern, and adopt new structures with an operational focus on threat mitigation.

Illicit Trade Across Canada: Nexus to Global Illegal Economy

Illicit trade is a global phenomenon and has been a key driver in undermining the financial and economic integrity of Canada. Transnational organized crime has been described as one of the pre-eminent criminal threats to Canada and its global partners.¹⁰ Transnational organized crime groups and professional money launderers are key threat actors helping to expand illicit markets and corruptive influence across Canada. The networks involved in laundering of dirty money associated with illicit trade undoubtedly tap the same criminal pipelines used by foreign adversaries and other national security threats, including terrorists and other criminals. In fact, Chapo Guzmán and the Sinaloa cartel were attracted to Canada owing to its weak judicial and regulatory systems with regard to financial crimes, which made it a safe haven for money laundering.¹¹

In June 2023, Goldy Hyder, President of the Canadian Business Council, in a letter to the Minister of Public Safety underscored the need to prioritize measures to detect, deter, and disrupt national security threats: “Canada’s leading employers are deeply concerned by the efforts of hostile states to undermine our democratic institutions, military preparedness, and economic security. Such disruptions present significant risk to all Canadians, be they employers, employees, consumers, or communities.”¹² In response, it was acknowledged that transnational organized crime networks are the proxies for these state-sponsored threats and foreign interference activities, and that they will have a devastating impact on not only Canada but all trading partners and allies.

These illicit trade activities include the surge in the illegal importation, production, exportation, and trafficking of fentanyl and opioids in Canada leading to rising deaths, and malign influence operations against government ministries and Parliament. In recent months, terrorist financing information has also surfaced that illuminates how sympathizers to terrorist groups such as Hezbollah have exploited commercial and banking sectors to move funds around the world to finance violence and related criminality. As recently as November 2023, concerns were raised in the high-profile trial of Cameron Ortis, which we suggest should undergo further scrutiny from intelligence agencies in the near future in order to examine threat convergence, including countering Hamas, Hezbollah, transnational criminal networks, and future threat finance networks in Canada.

As threat multipliers, illicit markets impede communities’ ability to make the required investments to support economic growth, particularly during difficult economic times. Instead of being used to create roads to facilitate commerce, hospitals to combat pandemics, homes to raise and protect families, or schools to



educate children, revenue is siphoned away for private gain and hidden in financial secrecy jurisdictions to fuel greater crimes. Illicit trade also hurts legal and business enterprises through theft of intellectual property and trade secrets, counterfeiting, cybercrime, and digital piracy, among other frauds and criminal activities.

Globally, the kaleidoscope-like convergence of illicit networks and economies serves to destabilize governments, impede legitimate commerce, negatively impact supply chain security and market integrity, erode democratic processes, and reduce economic competitiveness. The same concerns are observed in Canada, where transnational criminal entrepreneurs and illicit networks leverage gaps in governance and outdated legal frameworks, exploit long, porous borders, and take advantage of corruption to infiltrate institutions and plunder Canada's resources. Port centers in Vancouver and Montreal, or key financial centers such as Toronto, are particularly vulnerable and are targeted by an array of organized crime networks who seek to build resiliency in their operations by diversification and investment of their proceeds into an array of legitimate ventures.

It should be noted, that the increased criminal diversification observed in Canada indicates a clear and present existential threat that is consistent with reporting from several countries in the global south (Africa), as well as South America. In the absence of a national strategy, this form of criminal insurgency may severely weaken or alienate Canada within the current international system. As seen elsewhere, this continuum can lead to capital flight, increased state-hollowing, narco-states, or even ultimately, state-capture.

Similar to other markets in North and South America, Canada has experienced the harms posed by illicit markets and a convergence of criminality, including an increase in illicit goods, counterfeits, and contraband in recent years that has resulted in enduring harms to Canadian national security. Such illicit trade includes narcotics such as opioids, illegal alcohol and tobacco products, counterfeit pharmaceuticals, weapons, other illicit trade, and related money laundering and trade-based money laundering (TBML).

Tens of billions of dollars are laundered through the Canadian financial system annually from the trafficking of humans, drugs, weapons, counterfeits, stolen assets, and other illicit trade proceeds and terrorist financing funds. The dirty money that is generated by illicit wealth also endangers the national security of Canada as Latin drug cartels, Asian Triads gangs, and other indigenous and transnational criminals bribe law enforcement and security officials – including the RCMP – to glean intelligence on sensitive operations or undermine political processes in the country.

Canada remains a financial haven for kingpins, kleptocrats, oligarchs, and corrupt officials to reinvest stolen funds from their countries in real estate, energy, mining, and other sectors.

Hubs for Transnational Criminals and Terrorist Financiers

As journalist Sam Cooper, and others, have reported, there is a convergence of organized crime in Canada with complicity from state actors in Mexico, China, Iran, and even Russia that are profiting from the booming multi-billion-dollar illicit markets in Canada. Increasingly, international law enforcement agencies have noted the key role Canada plays in facilitating threat actors.

Among the transnational criminal organizations active in Canada, the Sinaloa cartel has been expanding its drug trafficking footprint in the country and has control of cocaine and fentanyl shipments in and out of Canada. Chinese and Iranian organized groups are similarly very active in Canada, including involvement in money laundering, arms-trading, counter-proliferations threats, illegal gambling, sex trafficking, armed robberies, kidnappings, extortion, gun violence, and other serious crimes. Arms trafficking has increased mostly through criminal networks smuggling and illicit sales of guns from the United States. Chinese criminal syndicates based in Toronto and Vancouver continue to increase their illicit trade in counterfeits in Canada, and since legalization, have continued to consolidate control of the illicit cannabis trade.

Organized criminal groups in Canada often launder a significant amount of illicit proceeds derived from the illegal sale of numerous illicit goods and contraband and will reinvest this revenue in both legal and illegal sectors of the national economy. Money laundering and the reinvestments of dirty money occurs across numerous sectors such as real estate, gaming and casinos, sports, restaurants, agriculture, mining, illegal hunting, fishing, and other industries.

Volumes of reporting has tied major money laundering operations in Vancouver and Toronto to the Big Circle Boys, Chi Lop Tse, and other Chinese criminal syndicates. In Canada, as the U.S. Drug Enforcement Agency has noted, Chinese money launderers such as Xizhi Li have been able to wash the dirty proceeds of the Mexican cartels through numerous illicit finance “mirror swaps” methodologies that have evaded law enforcement, including Trade-Based Money Laundering (TBML), essentially moving billions of dollars between Canada, Mexico, the United States, and China.

As widely reported in Canadian media, the ongoing collaboration between Asian organized crime (AOC) networks and Peoples Republic of China (PRC) government officials continues to raise security and intelligence concerns. Operatives affiliated with the People’s Liberation Army (PLA), Ministry of State Security (MSS), and Ministry of Public Security (MPS) live in several Canadian cities and liaise locally, and



nationally, with AOC networks. China's political warfare arm, the united front, is believed to be supported, in part, by proceeds from a variety of criminal enterprises and receive guidance and direction through the Chinese Embassy and consulates in Canada. AOC, and United Front networks are observed operationally through a myriad of benevolent business and friendship associations; and are commonly linked to Canada's indigenous communities, universities, TV and media, municipal, provincial and national political and business circles. Key involvement in the illicit cannabis trade, wineries and mining sector¹³ are also noted.

Illicit tobacco manufacturing and cigarette smuggling remain a challenge for Canadian law enforcement agencies, especially centered around indigenous communities in First Nations territories.

Canada's First Nations

also find themselves in the path of crime convergence with other illicit markets including illegal tobacco, alcohol, cannabis, and weapons. While cultural legacy issues have contributed to specific tobacco use, illegally produced tobacco products (e.g., selling of tax-exempt cigarettes to non-indigenous consumers outside of reserves), and counterfeit tobacco products remain a market challenge in First Nations reserves, including along the northeast U.S.-Canadian border corridors (Quebec, Ontario), which often converge with organized crime and other illicit trade.



Specific Illicit Markets

A deeper dive into specific illicit markets across Canada manifests a sharper panorama of the inter-connections among complicit criminal networks and professional enablers and highlights the scale and impact of criminalized markets to the country's economy, demonstrating how Canada's illicit environments help to export the financing of terrorism and criminality globally.

Example of the illicit consumer goods and contraband include products that are:

- illegally imported or smuggled into Canada via cross-border transportation via sea, land, or air;
- unlawfully or lawfully manufactured or sold in the United States and then smuggled into Canada;
- unlawfully manufactured in Canada, mainly on First Nations reserves and territories;
- unlawfully manufactured or sold in China, Mexico or any other imputed jurisdiction of derivative-sourced counterfeits or contraband sold in the country or other significant illicit markets, free trade zones (FTZs), or trans-shipment jurisdictions related to Canada;
- diverted tax-exempt products; or,
- stolen illicit products (e.g., cybercrime, organized retail crime; cargo thefts or hijackings), and across the digital world and e-commerce marketplaces.

The illicit trade related to narcotics, fentanyl and other opioids, fake medicines, guns, illegal alcohol and tobacco products, consumer counterfeits and other illicit goods and contraband is having grave consequences to communities and to Canada's national security.

These challenges are exacerbated by loopholes in the Non-Resident Importer (NRI) program, which is an initiative of the Canada Border Services Agency (CBSA) that allows international exporters to sell products to Canadian customers directly on a delivered-price basis, without the need for a physical presence in Canada. Designed to enhance trade efficiency and competitiveness, the program has also been targeted by nefarious organized crime networks who take advantage of additional layers of anonymity, insulation, and a lack of governance to evade detection.¹⁴

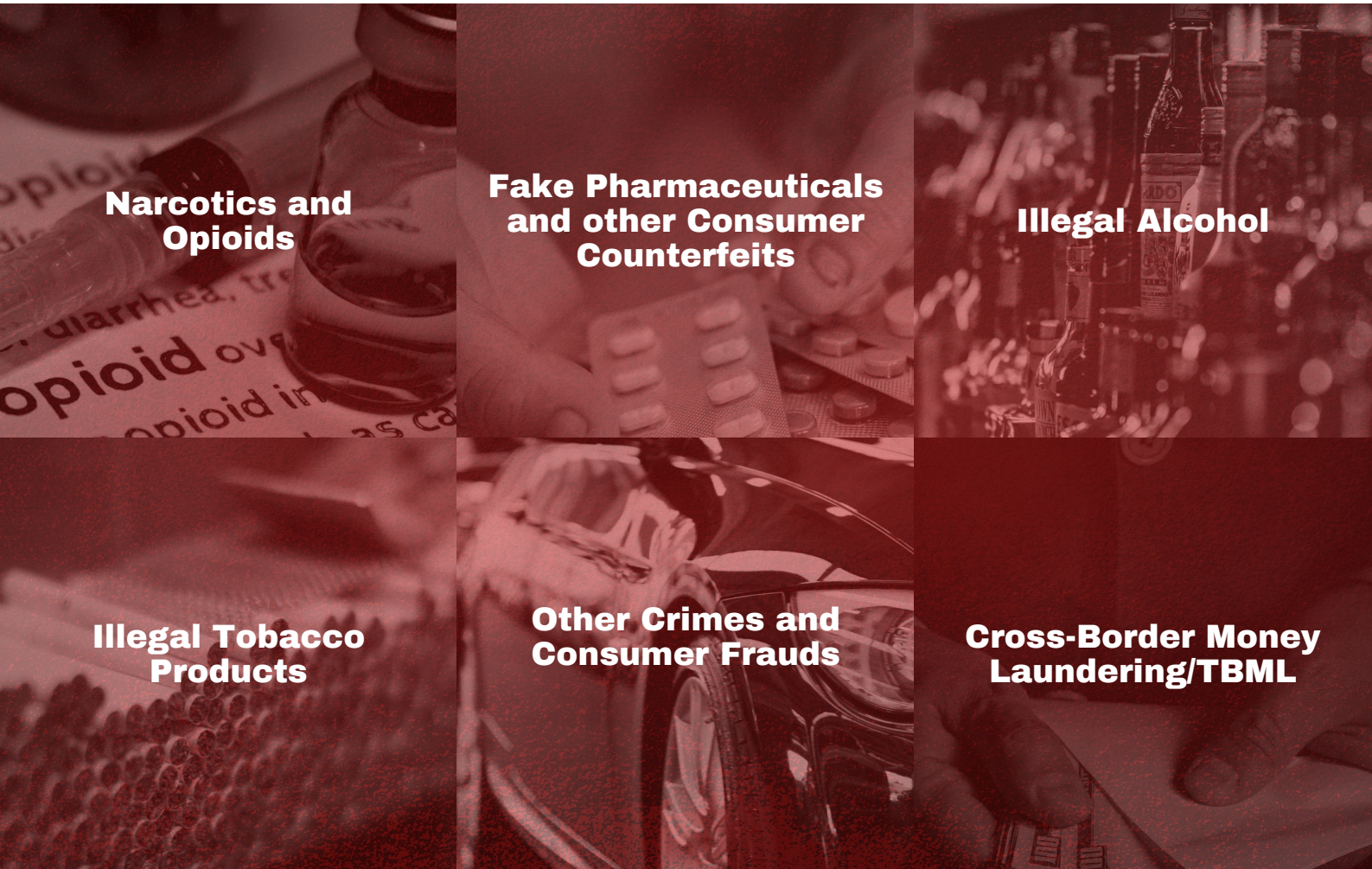
Commercial courier companies are also streamlining operations by utilizing key consolidation warehouses, particularly in Asia, where freight is delivered from suppliers, labelled, and then transported to Canada. This presents significant challenges for CBSA's national targeting center, as visibility into the supply chain is cut off at the consolidation point – there is little to no visibility into the origin of the goods.

Multiple international threat assessments have also raised concerns over the rapid



growth of Chinese security company Nuctech – a provider of stationary and mobile commercial scanning equipment. Chinese government agencies and state-funded businesses have been implicated in economic espionage, intellectual property theft, personal data breaches, and cybersecurity attacks - frequently through state-connected companies. Nuctech maintains a close relationship with the Chinese government, and have been accused of unethical business practices. As such, they are identified as an eminent threat to both Canadian and international security. Nuctech is accused of providing poor quality, low-cost scanning equipment to many key airports and port nodes, throughout Asia, Europe and Africa, where nefarious import and export activities are also observed. According to public reporting, based on Nuctech’s history of disreputable business dealings, and their involvement in alleged Chinese espionage operations, the United States (U.S.) Department of Commerce placed Nuctech on the Bureau of Industry and Security (BIS) Entity List for specific scrutiny and licensing requirements.

The Federal Bureau of Investigation (FBI) has expressed grave concerns over broader information security within systems using Chinese technology, and general interest into unforeseen future developments that could negatively impact the security of western nations as Chinese influence grows worldwide.¹⁵



Narcotics and Opioids

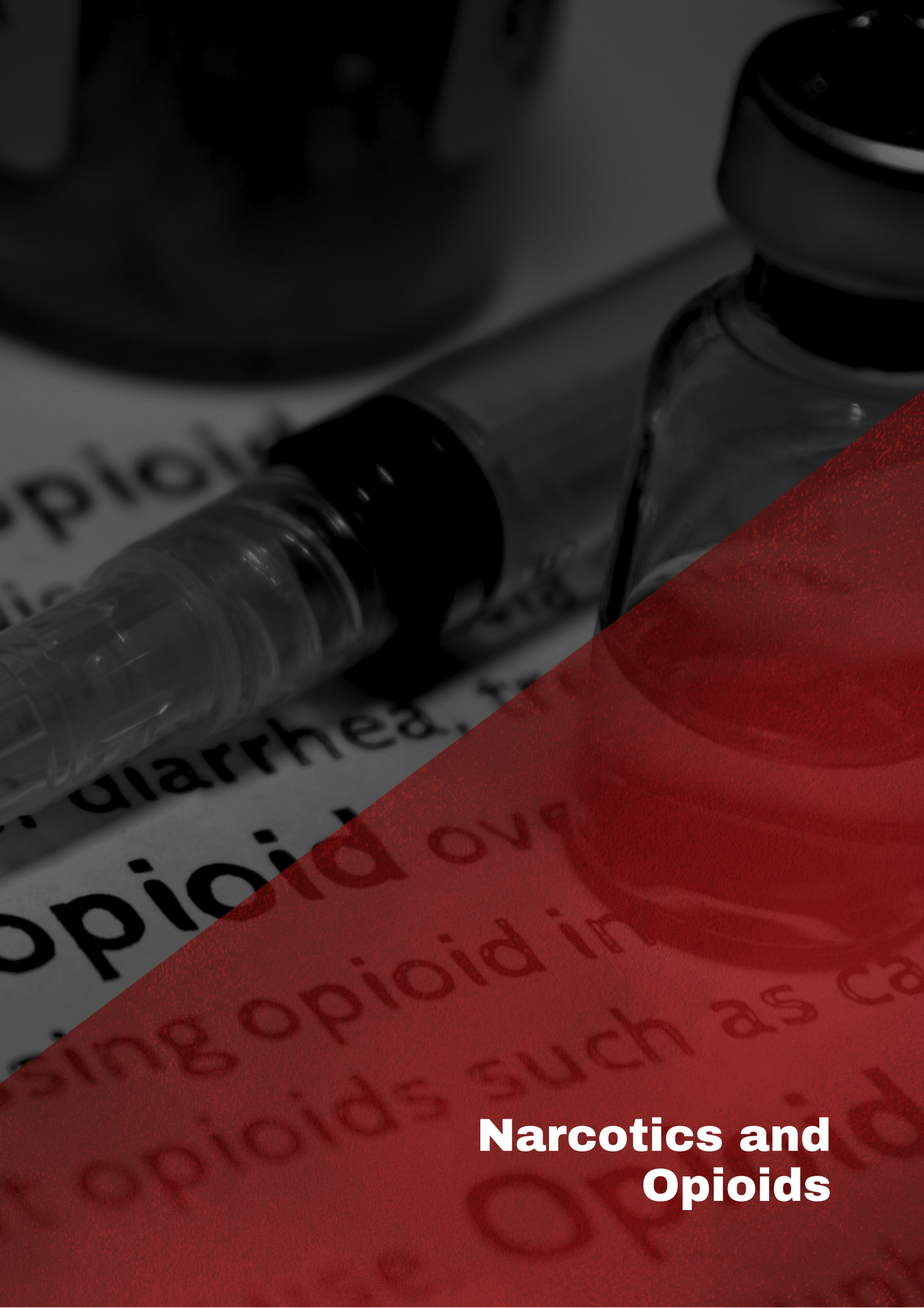
Fake Pharmaceuticals and other Consumer Counterfeits

Illegal Alcohol

Illegal Tobacco Products

Other Crimes and Consumer Frauds

Cross-Border Money Laundering/TBML



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Narcotics and Opioids



Illicit drugs represent the largest criminal market in Canada. In the 2000’s and 2010’s, Canada was known to international law enforcement agencies as a major producer, supplier, and exporter of synthetic drugs.

According to a 2023 report by the U.S. Department of State,¹⁶ transnational criminal organizations continue to traffic cocaine, opium, methamphetamine, other synthetic drugs, and prescription drugs to Canada for domestic consumption. In addition, some of these drugs are transited to the United States, Australia, New Zealand, Japan, and other countries. Canada is also a source of synthetic drugs, including synthetic opioids, cannabis, methamphetamines, and MDMA, trafficked to the United States. Canada and the United States cooperate on drug control efforts through federal arrangements and interactions between provincial, municipal, and tribal entities. Canada is the world’s second largest consumer of prescription opioids per capita.

The top five countries known generally to Canadian law enforcement as sources for precursor chemicals in the production of synthetic drugs, as well as source and transit countries for illicit drugs including cocaine, heroin, fentanyl, other contraband and illicit goods, as well as related cross-border financial and money laundering schemes are: the United States, Mexico, Colombia, China, and UAE.¹⁷

Canada's Key Sources for Drugs and Precursors

				
US	Mexico	Colombia	China	UAE

Known Criminal Actors in Opioid Trade

<p style="text-align: center;">Mexican Cartels</p> <p>Key players in lethal fentanyl trade; Sinaloa dominates cocaine and fentanyl trade in and out of Canada.</p>	<p style="text-align: center;">Chinese Syndicates</p> <p>Primary source of fentanyl, heroin, and precursors; involved in smuggling on Canada's western coast and launder criminal cartels' dirty money</p>	<p style="text-align: center;">Big Circle Boys</p> <p>Powerful network in multi-billion-dollar fentanyl trade, active in China, linked to manufacturers.</p>
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Among the most serious harms to Canada’s homeland and to the health and safety of Canadian citizens is the lethal trade in fentanyl, carfentanil, synthetic opioids, and precursor chemicals from China, the United States, and other provenance markets.

Mexican cartels, with support of Iranian and Chinese criminal networks, supply cocaine and methamphetamine to criminal biker gangs in Canada for local distribution. Chinese syndicates help smuggle fentanyl and heroin on Canada’s western coast, although some illegal opioids are also coming from Mexico, Colombia, and Guatemala. Over the years, investigators in Canada have learned that part of the multi-billion-dollar burgeoning fentanyl trade revolves around the Big Circle Boys,¹⁸ a powerful crime network directed from the Chinese mainland. What makes them so dangerous and powerful is their ability to corrupt Chinese officials, which allows them to control chemical factories in southern China and transport fentanyl through Chinese customs and to North America. In one case of a single actor, Douglas Pare of Vancouver, was alleged to have imported over 90 metric tons of precursors for illicit purposes, including for meth, MDMA, and fentanyl production in a 1–2-year period.¹⁹

NARCOTICS AND OPIOIDS

In 2022, the CBSA National Targeting Centre²⁰ prevented an estimated two billion doses of often lethal fentanyl and millions of doses of MDMA from reaching communities. In some recent cases, officers examined shipments in the Metro Vancouver District from China that were declared as:

- **toys:** discovered to be 1,133 kilograms of a fentanyl precursor called Propionyl chloride, with the potential to produce over a billion doses of fentanyl;
- **various household goods:** discovered to be 1,100 kilograms of a MDMA precursor called PMK Methyl Glycidate, with the potential to produce over 3 million doses of MDMA;
- **children's protective gear:** discovered to be 338.5 kilograms of PMK Ethyl Glycidate, enough to produce over a million doses of MDMA; and
- **household goods:** discovered to be 303 kilograms of PMK Ethyl Glycidate, with the potential to produce over a million doses of MDMA.

Similar to the fentanyl epidemic in the United States, Canada is impacted by opioid-related mortality reaching close to 7,500 deaths in 2022 (30,000-35,000 deaths since 2016). These death tolls generally align with the rates in the United States, given that Canada has an estimated 1/9 the population that of its North American neighbor.

On October 5, 2022, the Government of Alberta announced that it would begin offering hydromorphone, diacetylmorphine, and fentanyl in licensed clinics and would license the use of psychedelic drugs, including psilocybin, psilocin, MDMA, LSD, mescaline, DMT, and ketamine.

The Canada Border Services Agency seized 2.7 metric tons (MT) of opioids in the first three months of 2022, compared to 1.1 MT in the first three months of 2021. This amount raises concerns again about the nexus of Asian organized criminals and middle eastern threat networks, threat convergence activities and harms to Canada's national security.

Over the years, Canadian law enforcement agencies have disrupted organized criminal networks importing large volumes of heroin from Southeast Asia.²¹ In Project E-Phototaxis, RCMP worked with other law enforcement agencies across borders to interdict heroin ships originating in Afghanistan and transiting through Africa and Europe before arriving for distribution in major cities in Canada. Ali Khatib Haji Hassan (a.k.a. "Shkuba") and the Hassan Drug Trafficking Organization were one of these transnational criminal networks. The Canadian warship HMCS Toronto seized over \$100M of heroin off the coast of Tanzania in the Indian Ocean. "Shkuba" associated networks in Canada were known to have funded heroin purchases in Tanzania from the proceeds of used vehicles and an array of consumer goods procured in Canada, shipped in sea containers, and sold in markets in Dar es Salaam. This TBML scheme utilized an Iranian warehouse complex in Vancouver to consolidate goods for transit to Tanzania. The Iranian network was also shipping vehicles and goods to Afghanistan to fund opium and heroin purchases.²² The concerning criminal actors associated with the trafficking of Afghanistan heroin include supporting Iranian illicit networks, using Canada as base of operations should raise additional security concerns for the global community.

But perhaps one of the biggest heroin drug dealers in the world was Canadian national and leader of the Sam Gor syndicate Tse Chi Lop. Some have compared Lop – who built his crime syndicate out of an alliance of five of Asia's triad groups – to El Chapo Guzman or Pablo Escobar.²³ The United Nations Office on Drugs and Crime (UNODC) at point estimated the Sam Gor syndicate's meth revenue at \$8-17 billion a year (2018).²⁴



In the past several years, Canadian officials have also disrupted some major narcotics trafficking operations including a 2022 drug shipment, which was deeply hidden behind the thick steel walls of a hydraulic door press machine that landed in Saint John, NB, destined for KP Heavy Equipment at a Mohawk Street warehouse. The Canada Border Service Agency (CBSA) found the concealed drugs, which were valued at between \$60 million and \$181 million, depending on whether they would have been sold to dealers or those on the street. That investigation found the same warehouse received a shipment of submersible pumps the previous year from the same source in Costa Rica.²⁵

In June 2023, investigations unearthed criminals smuggling tons of methamphetamine from Canada to Australia and New Zealand, worth \$1.7 billion, by hiding drugs in shipments of maple syrup and canola oil.²⁶

In December 2022, the CBSA seized nearly 2,500 kilograms of opium in Vancouver, British Columbia – the largest opium seizure to date for the CBSA.²⁷ Using a wide range of detection tools and technology, including X-ray technology, officers discovered irregularities in the shipping pallets as part of a deep concealment method. Further physical examination confirmed approximately 2,486 kilograms of opium within 247 shipping pallets. Earlier in 2022, about 265 kilograms in suspected heroin, pink cocaine, and methamphetamines was seized at the Blue Water Bridge. CBSA estimated the value of the drugs seized at \$47 million.²⁸

In the past decade, hundreds of millions of dollars in drugs have been confiscated by law enforcement operations, along with cash and other contraband in Canada. In January 2023, the RCMP charged three suspected members of a transnational drug trafficking ring linked to a 2022 seizure of 1.5 tons of cocaine worth US\$149 million.²⁹

Aside from the impact on Canada, Canadian bad actors and criminal activities impact other jurisdictions which are also struggling with the pressures of national security and foreign threats. For example, in November 2023, Australia sentenced a Canadian national to 18 years for the illegal importation of crystal meth into the country valued at \$15 million from Mexico. In August 2023, Australia also seized \$50 million of crystal meth. In May 2023, another Canadian was sentenced to 11 years behind Australia's largest fentanyl seizure which also came from Canada. Lastly, \$135 million worth of cocaine and crystal meth was seized this summer, all originating from Canada. Historically, Canada has been the source in Australia of the importation of illegal drugs and contraband, placing additional burdens on security and intelligence systems within the FVEY community, especially the role of ports in manifesting such cross-border illicit trade vectors and threat convergence.³⁰

Canada legalized the production, distribution, sale, and possession of cannabis for non-medical purposes in 2018 but maintains criminal penalties for the possession of unlicensed goods. The transition to licensed sources of cannabis has improved over time since legalization. From the fourth quarter of 2018 to the second quarter of 2022, it is estimated that the legal share of household consumption expenditures on cannabis increased from 21.6% to 69.1%.

However, illicit cannabis which is less expensive than legally sold cannabis, and of higher quality, incentivizes criminal entrepreneurs to traffic such lucrative contraband in black markets. In fact, according to Canada's Department of Public Safety, five years after Ottawa legalized marijuana, 33% of the market is still controlled by drug dealers who discount their illicit cannabis more than 50% below prices of licensed retailers.³¹ The U.S. Department of Homeland Security has been able to seize numerous tons of cannabis being illegally imported into the United States from Canada, including by waterways in

the great lakes or concealed inside inbound trailers among numerous consumer goods such as auto tires.

Motorcycle gangs are quite active in the country in the trafficking of cannabis, narcotics, and other contraband. In fact, RCMP has recognized that the legalization of cannabis in Canada has, thus far, not reduced the involvement of organized crime networks in this sector with the Hells Angels, for example, applying for licenses to dispense legal medical marijuana (MM) while being active across illicit markets. Higher costs associated with the regulated cannabis sector, and reduced penalties for illicit production, create ideal market opportunities for organized crime networks to expand. The center of gravity for control of the cannabis sector in Canada continues to move towards AOC – who work collaboratively with other organized crime networks. Sam Gor associates are active at the brokering level, frequently utilizing foreign nationals as production and packaging workers. Additionally, short-term rental homes are noted to be highly favored for these criminal activities.

Illicit financial flows from illegal drugs have helped fuel other crimes across Canada in numerous strategic sectors such as real estate and gaming. To date, the Government of Canada continues to ramp up law enforcement responses against the illicit drug trade resulting in the deadly opioid crisis as is necessary to dismantle transnational criminal networks and to address related money laundering challenges that are fueling other crimes such as weapons trafficking.

Impacts along U.S.-Canada Border:

According to the United States, drug smuggling has increased by almost 600 percent along the Northern border with Canada since 2021, including a 26 percent increase in fentanyl. In August 2023, a Canadian national was arrested in New York trying to smuggle 850 pounds of cocaine along the U.S.-Canada border.³² Asian drug trafficking networks that operate in Canada also smuggle synthetic drugs into the United States across the Northern Border.³³ Chinese Triads have also been quite active in smuggling cocaine and heroin into Canada from the United States.³⁴

Canada should enhance information sharing and cross-border cooperation on investigations into drug trafficking rings and possible seizures with the United States and other jurisdictions in the Western Hemisphere as well as increase collaborations on money laundering investigations to target the illicit proceeds of drug traffickers and illicit trade networks. These efforts should include the targeting of real estate and cryptocurrencies used in criminal transactions and increased cyber investigation of dark net vendors of narcotics and other contraband. As previously noted, this includes initiating innovative operational structures that are aligned with threat streams.





Fake Pharmaceuticals and other Consumer Counterfeits: Global to Local

Global

In 2016, international trade in counterfeit pharmaceuticals reached USD 4.4 billion. These dangerous products threatening public health and safety while enriching criminals and organized crime.³⁵ Not included in this number is a large volume of domestically produced and consumed illicit pharmaceuticals. Counterfeit medicines not only cause economic damage, but are also a significant threat to public health since they are often not properly formulated, stored, or transported and may contain substandard and dangerous ingredients. Criminals engaged in the trade in counterfeit medicines and misbranded pharmaceuticals are not only operating in Canada but are also targeting vulnerable communities in the United States. A growing concern includes Canadian professional pharmacists using their positions as licensed pharmacists to target US citizens by repackaging and mislabeling medicines.³⁶

From 2014-2016, seized counterfeits included medicines for serious diseases including malaria, HIV/AIDS, and cancer. They also included antibiotics, lifestyle treatments, pain killers, diabetes treatments, and central nervous system medicines.

As the OECD has highlighted in recent years, especially during the COVID-19 pandemic, the trade in fake pharmaceuticals is a lucrative industry for criminal entrepreneurs given that it is a low-risk and high reward activity. The main source countries for counterfeit medicines are the People's Republic of China, Hong Kong (China), Singapore, and India.³⁷ China and India are the primary producers of fake medicines in Canada based on law enforcement seizures. Counterfeit pharmaceuticals, which historically were largely manufactured and distributed within developing countries, have increasingly emerged in industrialized countries in recent years.

Globally, organized crime groups are involved in the production and distribution of counterfeit or grey market pharmaceuticals, using multiple countries as manufacture, transit, and destination locations. Several recent U.S.-led law enforcement projects demonstrate that organized counterfeit pharmaceutical operations traffic multiple types of controlled medications simultaneously.

Anti-retroviral drugs are used to treat retroviruses, primarily HIV. In grey markets, branded products have been diverted from the authorized distribution channel within a country or are imported into a country for sale without the consent or knowledge of the manufacturer. Medication is an attractive target for counterfeiting because the profits generated are high in relation to the volume and cost of the ingredients or raw materials needed for its production.

Counterfeit pharmaceuticals are typically inexpensive to produce: non-medicinal or sub-potent ingredients can be substituted for the correct active medicinal ingredients. An additional public health concern is that criminal groups disregard regulatory standards for the production, distribution and storage of medication because this greatly reduces the costs of illicit manufacturing.³⁸

On the advertising side, most counterfeit medicines are sold via online pharmacies. Internet pharmacies operate in multiple countries. Over 95% of online pharmacies operating with no regard for U.S. laws.³⁹ These illicit online pharmacies (IOPs) are key facilitators of illicit pharmaceutical supply chains as they help connect source, supplier, and end users.



Canada

The scope and magnitude of counterfeit pharmaceuticals in Canada remains relatively small in comparison to other industrialized countries. Currently, only a small number of criminal groups in Canada are involved in smuggling and manufacturing counterfeit medication.⁴⁰

Other Canadian criminal groups that have experience in the illicit synthetic drug market and have established smuggling routes domestically and internationally are well-placed to expand into the illicit importation, manufacture or distribution of counterfeit pharmaceuticals. Intelligence gleaned from Canadian investigations, also indicates that AOC networks are adept at attracting and retaining key contacts within the pharmaceutical sector with expertise to liaise with suppliers in China.

According to the Government of Canada, a growing area of concern is IOPs that sell dangerous fake or counterfeit medicines, or dispense licit or illicit medications without prescriptions including drugs (“miracle cures”) that are not approved for use in Canada, or that may be popular with opioid addicts or others seeking experimental or unapproved medications.⁴¹ These businesses provide medication of uncertain provenance and authenticity, often times without guidance to consumers on correct use, dosage, drug interactions, or harmful side effects. As with other illicit websites, it is difficult to track IOPs that do not provide contact information or physical addresses and examine the provenance and activity of their merchandise. These sites open and close easily, frequently change their names, and may operate from servers based in other countries.

Buying drugs on the Internet may also pose financial risks. In some cases, the product may not be shipped at all (often referred to as non-delivery scams), or if the product is coming from another country, it could be stopped at the border by Canadian authorities and never reach the end user or consumer.

Impacts along U.S.-Canada Border:

RCMP and the U.S. Homeland Security Investigations (HSI) have conducted joint investigations of criminal networks responsible for trafficking and exporting hundreds of thousands of counterfeit pharmaceutical products to the United States from Canada.⁴² As law enforcement in both the U.S. and Canada have observed, some IOPs mimic the appearance of licensed sites or disguise themselves as originating from Canada to take advantage of U.S. consumers seeking Canadian pharmaceuticals.

Canada’s reputation for providing easy access to low-cost medical care has given it legitimacy as a source country for pharmaceuticals. This includes instances in which many vendors mislabel product as

having Canadian provenance to provide the illusion of authenticity. Many of these drugs are not approved by Health Canada, the national regulatory body. During a single week in 2017, Health Canada seized \$2.5 million worth of fake pharmaceuticals at the border.⁴³ These unapproved and unregulated drugs are not safe or effective as they may have too much or not enough of the correct medical ingredients or APIs. They can also contain harmful chemicals and other drugs such as fentanyl and carfentanil. The prevalence of Canadian drugs on the global market makes the country a key player in the counterfeit and substandard drug trade.



Illegal Alcohol



It is estimated that billions of dollars from the trafficking and illegal trade in alcohol flow through the global economy each year. These illicit funds distort local economies, diminish government and legitimate business revenue, and in some cases pose serious health risks to consumers.

It is estimated that illicit sources account for 25% of total worldwide adult alcoholic consumption.⁴⁴ Like the illegal tobacco trade, contributing factors in fake alcohol include the higher cost of legal products from taxes, weak laws, lack of enforcement, and social acceptance of contraband in some countries.

Illicit alcohol also presents a serious public health problem. As the OECD has reported, fatal cases of poisoning occur around the world every year due to the ingestion of illicit alcohol, and tests of seized illicit alcohol very often reveal that it does not meet regulatory standards.

Consumption of illicit alcohol also varies across countries. Low-income countries, where illicit alcohol beverages are often priced below market value, have a higher proportion of unrecorded alcohol consumption than countries where prices are higher.

Billions of dollars in sales are lost every year due to the counterfeiting of spirits, wine, and beer. The sale of beer and wine is big business globally, as some organizations have reported that between 20- 25 percent of all wine in the world is fake, including bottles bearing labels of famous brands from Canada, Australia, France, the United States, and other countries.

In China, due to high demand, up to 50 percent of wines sold in the country are considered counterfeited or contraband. A common criminal practice is to fraudulently mislabel inferior wines as finer, more expensive ones. In 2016 owners of the Lulu Winery in Richmond, British Columbia were arrested in China, accused of smuggling millions of dollars of under-valued ice wine into China.⁴⁵

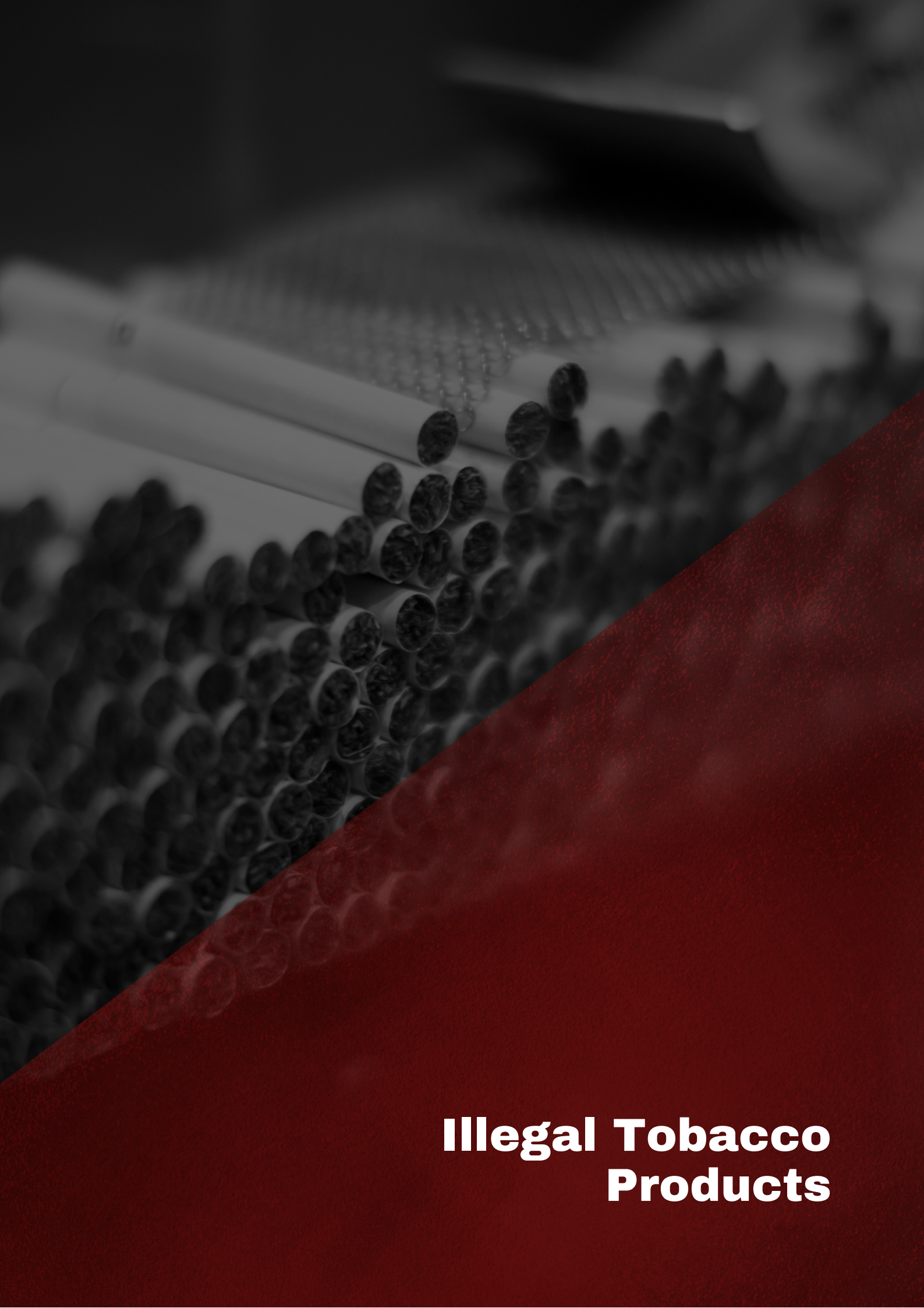
In Canada, there have been cases where criminals have adulterated cheaper wine by buying it in bulk from Europe, mixing it with various “flavoring and additives”, and subsequently marketing and selling it as fakes of higher-priced Chianti brands.⁴⁶ The fine wine industry has been hit hard by many counterfeiters, including the notorious Rudy Kurniawan, an Indonesian-Chinese fraudster living in California, who re-labelled inexpensive wines and sold them as finer, more prestigious vintages, making tens of millions of dollars in the process.⁴⁷ Kurniawan spent seven years in prison before he was released in November 2020 and later deported to his native country of Indonesia.



Across 24 countries in Eastern Europe, Africa, & LA:



OECD, Illicit Trade in High-Risk Sectors: Implications of Illicit Alcohol for Public Health and Criminal Networks.



Illegal Tobacco Products



Global

Globally, the illicit trade in tobacco is perhaps one of the most widespread and most well-documented sectors in the shadow economy. It offers extremely high profit margins to corrupt regimes, criminals, and terrorist groups, and is among the most commonly traded products on the black market due to the relative ease of production and movement, along with low detection rates and penalties. Similar to the illicit trade in other contraband previously examined, such as illicit pharmaceuticals, the trade in illicit tobacco is also high reward and low risk, making it an attractive market for criminal actors.

Illicit trade in tobacco represents a multifaceted crime which may involve counterfeiting, cross-border smuggling, and tax evasion as criminals take the opportunity for tax arbitrage by smuggling cigarettes from one jurisdiction to another. According to the World Health Organization (WHO), between 10-12% of all cigarettes consumed are part of the global illicit trade. This is equivalent to 600 billion illicit cigarettes.⁴⁸ The OECD estimates that loss of revenue to governments from illicit cigarettes is estimated at \$40-50 billion dollars annually.

In Latin America and the Caribbean, lost government tax revenue is almost \$6 billion dollars every year. An estimated 12-16% of all cigarettes in the region are illicit, representing a volume of almost 40 billion illicit cigarettes. Illicit cigarettes are so profitable in the Americas that violent criminal gangs, drug cartels, and terrorist groups including the PCC in Brazil, Maras in El Salvador, the Zetas and Sinaloa in Mexico, and Hezbollah actively traffic illegal tobacco.⁴⁹

Illicit or informal tobacco markets in tobacco in Latin America and the Caribbean, and internationally, involve huge and profitable opportunities for criminal entrepreneurs, terrorist groups, and trafficking organizations to produce counterfeit and “cheap” cigarettes; smuggle illegal tobacco products across borders; and engage in large-scale contraband operations that arbitrage the difference in excise tax from one jurisdiction to another. For example, there have been numerous reports on how Hezbollah has profited from the smuggling and trafficking of illicit cigarettes in the Tri-Border Area of South America.

The illicit tobacco trade actively exploits weak sanctions and penalties for active criminals, poor border controls, corruption, and taxes that create consumer price disparity between neighboring countries. A lack of transparency and oversight in FTZs combined with weak customs enforcement contributes to the challenges in many unregulated markets.

Canada

In Canada, tobacco is a \$10-billion-a-year industry. It only costs around 24 cents to make a pack of 20 illegal cigarettes, and that same pack sells for 50 times that amount.⁵⁰

According to the Criminal Intelligence Service of Canada, illegal tobacco contributes to over 12 billion CAD of lost government revenues. Over 83 contraband brands produced in Canada are distributed and sold nationally and internationally. More than 73 illicit factories have been operational over the past 20 years. 173 Organized Crime Groups

ILLEGAL TOBACCO PRODUCTS

have an active role in the illegal production, distribution, and sale of illegal tobacco products. Some unofficial estimates of illegally produced tobacco in Canada found that it accounts for 24% of the total market. Additionally, the Criminal Intelligence Service Canada has also reported that there are links between Mexican cartels and illicit tobacco producers in Canada, with cartels bringing drugs and guns into Canada in exchange for cigarettes.

According to the Mackinac Center for Public Policy, there is a significant volume of illegal trade in cigarettes from Canada to the USA, and from low-to-high tax states within the country. Reports reveal that 53% of all cigarettes consumed in New York, a high-tax state, are illicit. Numerous studies conducted over the past decade, including one funded by the U.S. Food and Drug Administration, have shown that there are significant cigarette-tax avoidance and evasion practices in New York, often contributed to by criminal groups.⁵¹ As noted below, Canada and its provinces have lost billions of Canadian dollars in tax revenue as illegal tobacco products are smuggled into the country or exported without excise tax being paid.

Annually, federal and provincial governments in Canada lose over \$2 billion in tax revenues to illegal cigarettes. In Ontario alone, 1 in 3 cigarettes are illegal. Mexican authorities have also stated that that Canada is responsible for 12% of all the lost tax revenue for the Mexican Government from illicit cigarettes, amounting to \$53.2 million. It is alleged that companies established in Six Nations have introduced up to 500 million cigarettes a year illegally into Mexico without paying taxes in either country.⁵² Reports from other Central American countries have also found links to Canada's illegal tobacco trade.

There remain growing concerns about the illegal tobacco trade in Canada's First Nations. Under Section 87 of the Indian Act, goods made and sold on reserves, including cigarettes, are exempt from taxation. This exemption keeps costs significantly lower than the competition, giving sellers of Indigenous cigarettes a huge financial advantage over every other tobacco company doing business in Canada.⁵³ Illegal trade in tobacco products also undermines Canada's public health objectives, including to ensure that legal cigarettes have health warnings on label stickers on packs. The plain packaging which illicit cigarette producers use does not follow such national requirements and regulations.

On reservations, cigarettes sell for about \$30 a carton, each of which contains 200 cigarettes. The average price for the same number of cigarettes in the rest of Canada is roughly four times this amount. Criminals have embarked on numerous U.S.-Canada cross illicit trafficking operations over the years involving the importation and distributing of illegal tobacco, drug trafficking and money laundering in both North American economies. The U.S. Drug Enforcement Administration (DEA) has noted First Nations' involvement in such cross-border illicit trade in drugs and tobacco through reservations in Ontario and Quebec. Reservations near Mexico will also likely continue to be exploited for their location along transnational smuggling routes.⁵⁴ Illegal tobacco products in Canada have always been huge law enforcement and policy challenge, with a mix of organized criminals and complicit tribal regimes producing illicit cigarettes, baggies (plastic bag of 200 cigarettes), and loosies (single cigarette).

Some reports have highlighted how Chinese criminal Triads are also involved in the production of illicit tobacco on Indigenous reserves in Canada, where they arbitrage price, leverage tax-duty free exemptions, and sell cheaper illegal cigarettes through black markets across the country.⁵⁵



Tax-free native cigarettes, especially from Kahnawake Mohawk-owned Rainbow Tobacco Brands, have been a policy challenge for Canadian provinces.⁵⁶ Provincial Police departments have had numerous investigations into the trafficking of contraband tobacco from manufacturing facilities within First Nations Territories to different regions across Canada.⁵⁷

In late 2022 it was reported that between 30 and 50 percent of tobacco sales in British Columbia were contraband cigarettes.⁵⁸ Similarly, in September 2023, a report by the Convenience Industry Council of Canada found that the governments of British Columbia, Ontario and Newfoundland and Labrador lost up to CAN\$2.47 billion in tax revenues over four years due to the growth in illegal tobacco sales.⁵⁹ The Report cited organized crime groups that exploit the demand for low-cost cigarettes manufactured on reserve and traffic and illegally sell these products, tax and duty free, to non-status individuals. "The major driver of the explosive growth of illegal cigarettes in Canada: the significant price difference between tax-paid legal cigarettes and contraband cigarettes," said the report. "Contraband cigarettes may be purchased for only about 40 per cent of the price of legal, tax-paid cigarettes."⁶⁰

A recently retired Manitoba investigator has described how the illegal tobacco market has grown in his province. "Ten years ago, it was big deal when we got close to seizing a million cigarettes in a year and we were losing \$1 million a month (in tax revenue). When I retired from the province last month, we're now at about \$30 million a year in lost revenue and the last fiscal year, Manitoba seized over seven million cigarettes, so it shows you how it's just growing and it's just getting worse."⁶¹

Cross-border illegal tobacco trade external to Canada is principally derived from smuggling in which no excise taxes are paid, especially illicit whites from China, the United States, Panama, and Korea in unregulated markets and via FTZs. In many cases, the smuggling through border crossings involves a complex network of professional enablers and facilitators.

A vibrant market exists in Canada for the online re-selling of duty-free cigarettes procured in China. In 2018, more than 3 million Chinese cigarettes were detected by Canadian law enforcement. The online sales comprise a combination of small volume, personal re-selling of duty-free cigarettes, to larger importations that are commonly mislabelled as a variety of household appliances leveraging TBML methodologies. Connections to AOC are noted in this growing trend.⁶²

U.S. law enforcement agency officials have also underscored how the smuggling of non-duty-free cigarettes across the southern and northern borders has links to organized crime, supplies the illicit tobacco market in Mexico and Canada, and poses oversight and enforcement challenges. U.S. Immigration and Customs Enforcement (ICE) officials have identified links between the smuggling of large quantities of duty-free cigarettes and transnational criminal organizations that use smuggled cigarettes to launder money and generate revenue.

According to a 2017 General Accounting Office (GAO) Report, "inexpensive cigarettes made in the United States are part of the trade in duty-free cigarettes along the southwest border, including brands that a Mexican official stated are prohibited for sale in Mexico. U.S. officials reported that their efforts to counter the illicit trade in duty-free cigarettes face challenges, primarily due to the ability to buy unlimited quantities of duty-free cigarettes at the land border." The GAO concluded that high-volume cigarette sales at US duty-free stores located near the border are largely sales of tobacco products smuggled into Mexico or diverted into the US market.

ILLEGAL TOBACCO PRODUCTS

In December 2004, Canada ratified the World Health Organization Framework Convention on Tobacco Control (WHO FCTC). In addition to tobacco products, in recent years, excise taxes have also been imposed on a wide range of goods and services including alcoholic beverages, energy drinks, flavored drinks, pesticides, fuels, high-calorie, non-staple foods, betting and sweepstakes games, and mobile and internet services provided through public telecommunications networks.

Reports expose and draw attention to the widespread corruption that has contributed to higher incidences of illicit trade, including illegal tobacco products across numerous markets in the Americas.

CANADA

10B

Illicit Cigarettes Consumed Annually

12B

Lost Government Revenues

GLOBAL

600B

Illicit Cigarettes Consumed Annually

40-50B

Lost Government Revenues

External Actors

Mexican Cartels

Exchange of drugs and guns for cigarettes.

Chinese Triads

Online re-selling of duty-free cigarettes procured in China.

Chinese criminals are involved in producing cigarettes on Indigenous reserves, saving money, benefiting from tax exemptions, and selling the cigarettes at lower prices.

Internal Actors

Illicit Factories

73 operational in the past 20 years

Organized Crime Groups

173 actively involved

First Nations

Tax Exemption: Section 87 of the Indian Act.

First Nations

Involvement in illegal tobacco trade & in cross-border trade.



Other Crimes and Consumer Frauds

OTHER CRIMES AND CONSUMER FRAUDS

The OECD has estimated that the international trade in counterfeit and pirated goods is over USD\$500 billion a year, representing up to 3.3% of world trade.⁶³ As highlighted above, Canada is a haven for knock-offs and counterfeits across numerous illicit industries that generate tens of billions of dollars for criminal organizations and other threat networks. In recent years, the trade in counterfeits across Canada's e-commerce platforms and online marketplaces has also exploded as shoppers have shifted to browsing for and purchasing products the digital world.

China accounts for 80% of all counterfeits seized globally. Related to Chinese IP crimes and corporate espionage, in October 2023, FBI Director Christopher Wray and the heads of Five Eyes (FVEYs) intelligence-sharing network and security services urged the world to step up efforts to shield innovation from "unprecedented" Chinese spying. In addition to counterfeits, companies around the world are facing the most sustained and sophisticated attempts ever to access intellectual property and trade secrets. "The Chinese communist party is the number one threat to innovation -- period. China has made economic espionage, stealing others work and ideas, a central component to its national strategy. And that espionage is at the expense of innovators in all five of our countries, and it's certainly true right here in Silicon Valley," Wray said.⁶⁴

According to Canadian Anti-Counterfeiting Network (CACN) – a coalition of Canadian manufacturers and exporters – counterfeiting costs Canada between \$20 billion and \$30 billion annually.⁶⁵ Canadian laws on counterfeit goods are notoriously lax, hindering effective enforcement.

The United States has put pressure on Canada to get tougher on fighting counterfeits and piracy, especially when it comes to consumer goods and cultural products that infringe trademarks and copyrights of American and other international rightsholders. Canada has been on the USTR's annual list of "Notorious Markets for Counterfeiting and Piracy", and has been called out for not doing enough to protect intellectual property.

In fact, the Office of the United States Trade Representative has placed Canada on its watchlist of countries offering the weakest intellectual property (IP) protections.⁶⁶ USTR has also complained that Canada "does not provide customs officials with the ability to detain, seize, and destroy pirated and counterfeit goods that are moving in transit or are transshipped through Canada." Comparing seizures of counterfeits between the United States and Canada demonstrates why Canadian brand holders are frustrated with the lack of effective enforcement. From 2015-2017, Canadian customs detained just 48 shipments — an average of 16 each year; whereas the United States made 34,000 seizures of alleged counterfeit goods in 2016 alone.⁶⁷

Moreover, current post-pandemic economic recovery and supply chain issues, along with harsh, inflationary economic realities, mean the incentives for consumers to be looking for cheaper products will linger for a while across numerous goods and services. Such economic austerity creates a perfect storm for organized criminal groups to exploit and meet such demand. Counterfeit consumer goods also provide another financing vehicle for criminals to launder dirty money and perpetrate other illicit activities.

Canada is currently experiencing a crisis relative to the theft of luxury vehicles; many are being shipped to Africa, Eastern Europe, Russia, the Middle East, South America, the Caribbean, Taiwan and China. In 2023 alone, CBSA has already recovered hundreds of stolen vehicles that were ready to ship overseas worth tens of millions of dollars.⁶⁸

Luxury vehicles remain a significant economic driver for money laundering and TBML in Canada, which typically involves their purchase using bags of cash from the proceeds of



crime, thereby converting the illicit cash into an asset, which will serve to disguise the origin of the money and which can later be sold.⁶⁹ Often a straw buyer could claim a sales tax refund (as much as 20 per cent) because the vehicle was exported.

High-end Mercedes Benz, BMW, and other luxury automobile brands are procured through an array of licit and illicit channels in Canada. These include banks loans obtained with fraudulent IDs, bank accounts from all the major banks in Canada, as well as legitimate vehicle sales. According to the Insurance Bureau of Canada (IBC), some stolen vehicles are targeted as part of a trade-based money laundering scheme, and the proceeds are used to fund criminal activities.

According to Henry Tso, a former RCMP superintendent in charge of financial crime operations in British Columbia, whether vehicles are purchased by straw buyers, obtained fraudulently, or stolen for export, they may be used as part of a money laundering scheme and as payment or credit for contraband, such as illicit drugs. Criminal and terrorist organizations frequently exploit global trade systems to move value around the world by employing complex and sometimes confusing schemes associated with legitimate trade transactions.

Chinese demand for luxury cars has also fueled a vast money laundering and tax avoidance scheme in Canada involving thousands of fake local buyers of vehicles that are ultimately destined for China. According to a report for the British Columbia provincial government by former RCMP officer Peter German, the “huge” and illicit grey market selling luxury cars to Chinese buyers has exploded in recent years.⁷⁰ There is known wide-spread AOC network involvement in this sector, and it believed to be a key TBML driver. CBSA and other law enforcement sources, estimate that a \$100,000 CDN Mercedes Benz may be re-sold in China for 2 to 5 times its Canadian value. The proceeds are then be used to procure precursors, tobacco, alcohol, counterfeit goods, or be funneled through underground banking channels into real estate, underground casinos, and other business ventures back in Canada. One AOC network was estimated to account for over 900 vehicle exportations annually, with an approximate value of \$120 million CDN. Vehicle sector supply chain challenges brought on by the pandemic, were exacerbated by the shortage of luxury vehicles in the Canadian market. This led to an over-heated used car market, the cost of which, was passed on to the Canadian consumer.⁷¹

At an Interpol Conference, experts ranked Canada as a major international threat, which included funds from these money laundering operations potentially being used to fund terrorism domestically, and internationally, and other illicit trade activities including drug and weapons trafficking. Several recent cases also highlight how international organized criminals fund terrorism and other cross-border crime including the trafficking of drugs and weapons through the record levels of luxury vehicle theft.⁷² In recent months, Canadian law enforcement has arrested scores of people and seized hundreds of 3D-printed “ghost guns” and other weapons across eight provinces.⁷³

Canada contains several of the largest ports in North America. These include Vancouver, Montreal, Prince Rupert and Halifax ports⁷⁴ Vancouver is considered the fourth largest port in North America and has a long history of facilitating cross-border illicit trade and illegal imports. The Port of Montreal is another hub of illicit trade in which drugs, illicit goods, and contraband are seized every year in large volumes. Numerous investigations have shown how ports across Canada are abused by transnational criminal organizations.

In operation Project Ink, evidence was intercepted via wiretap documenting well-known Iranian criminal networks with close ties to Tehran advising regional drug organizations,

OTHER CRIMES AND CONSUMER FRAUDS

including the Italian mafia and Hells Angeles, that they could facilitate access to Vancouver ports to smuggle goods into the country.⁷⁵ This network was believed to be importing 400 kilograms of cocaine a week (or 21 metric tons a year). Large shipments of heroin were also seized are part of the case. Canadian law enforcement has seen a surge in major illegal imports and illicit operations involving Middle Eastern criminals, such as opium trafficking in the Vancouver area. These include two of the largest seizures recorded in Canada, a 1.0-ton seizure; followed by a 2.5-ton seizure in the last several years.⁷⁶

The Halifax port also received notoriety from the international community when Mexican cartels and Iranian networks conducted a joint operation leveraging local biker organizations and corrupted Canadian military officials to allow for the importation of up to 15 tons of cocaine. The concerning aspect of this operation, aside from the obvious corruption of the Canadian military assets and top cartel officials, was the evidence linked to Iranian networks, the transshipping location of Marguerite Island in Venezuela and the Tri-Border Area (TBA) in South America, all known as hubs for Hezbollah's criminality and terrorist financing operations.⁷⁷

VANCOUVER



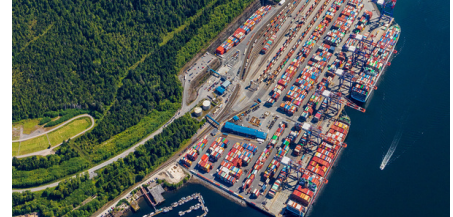
- **Largest** port in Canada by container volume.
- Handles over **3.6 million TEUs** of cargo annually
- Serves as a major gateway for trade between **Canada and Asia**

MONTREAL



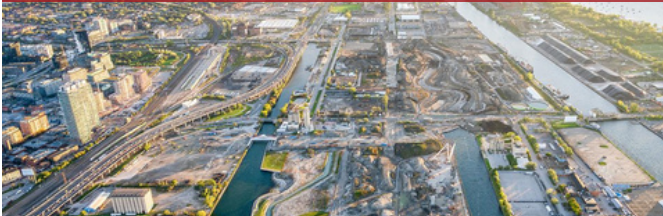
- **Second** largest port in Canada by container volume
- Handles over **1.7 million TEUs** of cargo annually
- Serves as a major gateway for trade between **Canada and Europe**

PRINCE RUPERT



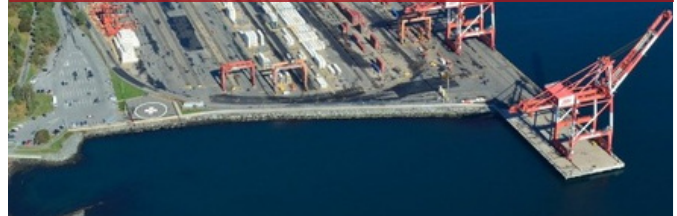
- **Third** largest port in Canada by container volume
- Handles over **1.3 million TEUs** of cargo annually
- Serves as a major gateway for trade between **Canada and Asia**

TORONTO



- **Fourth** largest port in Canada by container volume
- Handles over **1 million TEUs** of cargo annually
- Serves as a major gateway for trade between **Canada and Europe**

HALIFAX



- Strategically located on the Atlantic Coast
- Handles over **600,000 TEUs** of cargo annually
- A key gateway for trade with **Europe and the Southeast Asia**



Maritime seaports and airports have also been abused by criminals to exploit foreign and domestic victims in Canada as part of human trafficking and smuggling rings including for forced labor, sex trafficking, or illegal entry. According to the U.S. Department of State, “women and children from indigenous communities, migrants and new immigrants, LGBTQI+ persons, persons with disabilities, at risk-youth, runaway youth, and youth in the child welfare system are at high-risk for trafficking.”⁷⁸ In one prominent case, a Vancouver-based Colombian network was utilized trafficked Central Americans as drug couriers. The network also utilized Kiribati mariners, recruited in Cartagena, to drop 200-kilograms of cocaine overboard to an awaiting vessel. Identical drops are noted at several ports along the west coast of North America, Italy, and the United Kingdom.⁷⁹

During the recent COVID-19 pandemic and economic downturns, trafficking risks among marginalized populations were high, with disproportionately high rates of violence committed against indigenous women and girls. Additionally, transnational criminal networks exploited women, primary from Asia and Eastern Europe, for sex trafficking in hotels, illicit spas, massage parlors, strip clubs, unregulated casinos, and private residences. Forced labor was commonly found in the following sectors operated in some cases by criminal gangs and organized crime: agriculture, construction, food processing, restaurants, hospitality, and domestic service.⁸⁰

There have been numerous cross-border sex trafficking investigations by Canadian and U.S. law enforcement agencies over the past 15 years. For example, in June 2023, the FBI Portland’s Child Exploitation Task Force (CETF) led an investigation that resulted in the prosecution of a Canadian-Chinese criminal network that ran an international sex trafficking organization operating dozens of illegal Asian brothels in the United States, Canada and Australia.⁸¹ Women, primarily from China, were recruited to travel to the Canada, the United States, and other destinations to engage in prostitution and other sex related crimes in illegal brothels.

Of increasing concern across Canada is the nefarious online child exploitation and sex trafficking that law enforcement agencies recently reported in August 2023 that “they don’t have the resources” to investigate the growing number of reported cases as predators target children on social media.⁸²

Canada has also witnessed a significant increase in wildlife and environmental crimes in recent years. Demand for an array of exotic fish, reptiles, animal skins, tusks, and organs continues to be intrinsically linked to AOC networks, and forms part of a larger underground tourism economy. This is commonly linked to underground gaming, prostitution, human trafficking, illegal fishing, hunting, and birth tourism. Indigenous communities in Canada’s high north are linked to this sector, frequently acting as guides or brokers for animal products. National security concerns over possible cover are noted, as several actors involved in this sector are also linked to PRC government officials.⁸³

Given Canada’s history with oceans and fish industry, routine inspections of fish processing facilities in British Columbia have surfaced indicators of widespread illegal fishing, processing, and related money laundering. Inspections have noted large quantities of cash in the offices of several processing facilities in the Vancouver/Richmond area, and separate accounting ledgers. Asian organized criminal (AOC) networks are believed to reinvest proceeds of crime from other illicit sources (e.g., drugs) to pay Asian and indigenous fishers for illegally-caught fish. These fish are transported to processing plants where they are mixed with legitimately caught stocks. The lack of traceability on illicit stocks co-mingling with regulated fish, presents

significant health risks to consumers.

Additionally, Fisheries Canada struggle to investigate these complex AOC networks, owing to limited capacity and high judicial thresholds for chains of evidence. In some cases, one physical fish processing plant may be a base for as many as two dozen processing companies. Bulk fish loads may be split up, combined with, and shipped to a myriad of domestic and international clients. Due to these challenges, Fisheries Canada is compelled to address the illegal fish industry by focusing efforts on interdiction at key locations known to be targeted by illegal fishers.⁸⁴

A high-level AOC target, with links to PRC United Front associates in Canada, owns and operates a prominent fish processing plant on the west coast of Vancouver Island. This AOC target is also heavily involved in the underground tourism sector (e.g., gaming, prostitution, hunting, fishing).⁸⁵ The AOC target and his associates have been implicated in recent RCMP investigations of CCP police stations in Canada, and other countries. For several years, U.S. law enforcement partners have consistently identified and implicated fishing vessels as key facilitators in drug importations. AOC mother ships are believed to bring cocaine in paste form, and through at sea ship-to-ship transfers, offload this secreted within frozen fish. The cocaine is then removed during processing.⁸⁶

Gaining greater control of supply chains and ports, by negotiating concessions and/or obtaining enhanced bonded-warehouse licenses, and other related certifications, enables AOC and other transnational criminal groups to further obfuscate transparency into more global supply chains and increased access to Canadian markets for drugs, counterfeits, and other contraband, and similarly, to export such illicit goods. In recent years, U.S. law enforcement agencies have been concerned about criminals controlling strategic ports to engage in an array of cross-border illicit trade and criminality from one port or FTZ to another around the world.⁸⁷





Cross-Border Money Laundering/TBML

CROSS-BORDER MONEY LAUNDERING/TBML

Canada is currently a hub of illicit trade and crime convergence. It represents a weak link within the international financial system for bad actors and threat networks to make illicit profits and launder and hide their dirty money. These illicit financial flows help to fuel greater criminality and corruption.

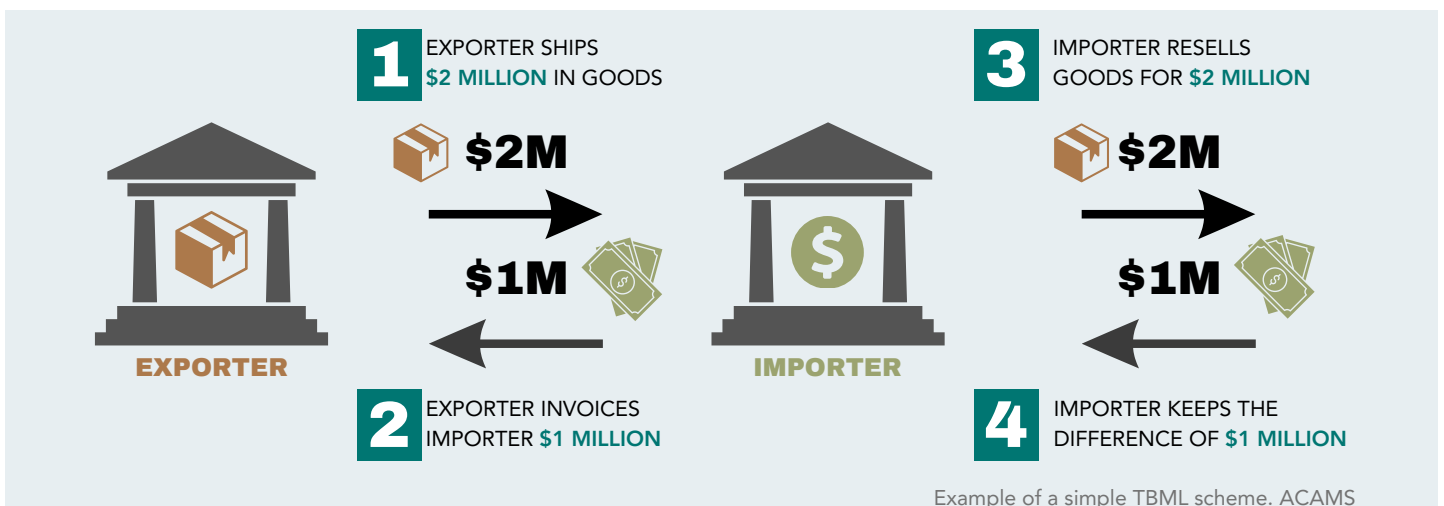
According to a 2022 report by the U.S. Department of State,⁸⁸ tens of billions of dollars are laundered every year in Canada involving the proceeds of illegal drug trafficking, fraud, corruption, counterfeiting and piracy, tobacco smuggling and trafficking, among other illicit activity. Foreign generated proceeds of crime are laundered in Canada, and professional, third-party money laundering is a significant concern.

Canada's Criminal Intelligence Service in 2020 estimated \$36 billion to \$91 billion was being laundered and fully integrated in Canada's economy annually, with over 175 organized crime gangs involved (half with international ties).⁸⁹ Law enforcement efforts to target a particular money laundering practice, such as trade-based money laundering (TBML), generally result in a shift in Transnational Organized Crime (TOC) methodology, rather than an interruption of the illicit activity.

In its primary form, TBML revolves around invoice fraud and the associated manipulation of supporting documents.⁹⁰ Money laundering and value transfer through the over-and-under invoicing of goods and services is a common practice. The key element of this technique is the misrepresentation of trade goods to transfer value between the importer and exporter or settle debts/balance accounts between trading partners. The shipment (real or fictitious) of goods and the accompanying documentation provide cover for the transfer of money. Or sometimes the goods themselves are the transfer of value. Invoice fraud is generally considered customs fraud, which is specified unlawful activity (SUA) or predicate offenses to charge money laundering.

The magnitude of TBML in Canada is not known. Given the lack of Canada Border Services Agency (CBSA) and Royal Canadian Mounted Police (RCMP) TBML enforcement and dearth of knowledge about the varied forms of TBML it is believed to be quite high. There is an unfortunate lack of reporting on TBML at both the federal and provincial levels.

The Cullen Commission found numerous connections between government casinos in British Columbia, casinos in Macau and Las Vegas, and international drug traffickers and loan sharks moving money between Vancouver, Latin America, and Asia via Chinese underground banks, alternative remittance systems, and the purchase of real estate. More serious harms related to the scale of the laundering of dirty money imputes numerous industries and professional enablers in Canada that help move money for the Mexican cartels, Asian syndicates, Chinese corrupt officials, and terrorist groups including Hamas, Hezbollah, and al-Qaeda.





Criminals launder money via several mediums, including bulk cash smuggling, money service businesses (MSBs), currency exchanges, casinos, real estate, luxury vehicles, wire transfers, offshore corporations, credit cards, gift cards, foreign accounts, funnel accounts, hawala networks, and virtual currencies.⁹¹

Among the early failures for Canadian law enforcement and regulators to tackle the growing crime convergence of illicit goods and dirty money flowing into the country, was a lack of visibility on breadth of criminality within its borders, including how criminal actors were using casinos, real estate, an encrypted financial network – and later cryptocurrency – to launder massive amounts of proceeds from narcotrafficking and other illicit trade.⁹²

Another challenge with some of bigger cases in Canada not prosecuted was due to shortcomings in the legal framework and not explicit criminalizing unlicensed Chinese-linked money service operators (E-Pirate case)⁹³ Other cases have highlighted how Canadian nationals and underground currency exchanges have helped Iran evade sanctions and assisted in the laundering of funds for money service facilitators for terrorist financing operation of militant groups such as Hezbollah and Hamas.⁹⁴ Such cases have shed light on the active presence of terrorist groups and their financiers across numerous Canadian cities. Alternative remittance systems such as hawala and Chinese fei-chien, or flying money, historically and culturally balance their books between brokers via value transfer. It is a form of TBML, and presents significant forensic auditing challenges for law enforcement.


In addition to funds laundered for criminals and terrorists, Canada has also become a financial haven for kleptocrats and corrupt officials to reinvest stolen funds from their countries including in real estate, hospitality, energy, mining, and other sectors. Roman Abramovich and other Russian oligarchs and allies of President Vladimir Putin have made numerous investments in Canada, intended to evade sanctions.⁹⁵

In addition to the high volume of Chinese misappropriated funds laundered across Canadian industries, the CCP has also used



Money Laundering





Cash is acquired through illegal activities.

PLACEMENT
Illicit cash is deposited into a financial institution.

LAYERING
Criminals use complex transfers and transactions to obscure the money's origin.

INTEGRATION
Money re-enters the economy through investments in assets and property acquisitions.

numerous shell companies for its malign influence and united front interference operations in Canada. Earlier investigations by the Canadian Security Intelligence Service unearthed efforts by Chinese embassy and consulate officials in Canada using covert funds to influence the elections of numerous senior officials and candidates in federal elections in recent years.⁹⁶ As noted above, Chinese Triads have also reinvested tens of billions of dollars of dirty money in real estate, luxury cars, artwork, and other illicit and licit enterprises across Canada.⁹⁷

While Canada has made progress in addressing money laundering deficiencies, illicit trade and terrorist financing in Canada remains a serious threat. As criminals launder their dirty profits derived across illicit markets – drug trafficking, illegal gold and timber mining, extortion, counterfeiting, illegal hunting, human trafficking and prostitution – they are reinvesting criminal proceeds in the legal economy across sectors, and further financing other forms of criminality and corruption.

Illicit funds are most commonly laundered through bulk cash smuggling and TBML. This is especially true of funds involving counterfeit and contraband goods entering through Canada's ports and FTZs. Goods are smuggled into Canada via maritime shipping, air couriers, or land transportation across the United States, or brought directly into Canada's customs-bonded warehouses in order to avoid taxes, tariffs, and customs duties.

The reality of course is that in Canada, like other jurisdictions and destinations of illicit wealth, it is very difficult to identify the real owners of companies or foreign investors when these actors hire lawyers, accountants, trust companies, and other professional enablers and facilitators to avoid detection and disruption. The Panama Papers, publicly released in 2016, exposed how criminals have exploited Canada to launder all of sorts of criminal proceeds and to evade taxes.⁹⁸

Mexican transnational criminal organizations (TCOs) use a variety of laundering methods including TBML, which involves the use of dollar denominated illicit proceeds to purchase retail items for export to and re-sale in Mexico or the United States, then routing the revenue from the sale to TCOs.

Similar to the situation in the U.S., increasingly in Canada purchasers, logistics, foreign exchange specialists and trade intermediaries are Chinese and Chinese organized crime groups. They arrange for drug dollar purchases of Chinese merchandise (much of it counterfeit). Much of it is routed to Latin America.

Another Chinese money laundering innovation is the growing use of "mirror accounts" or "mirror swaps."⁹⁹ The challenge for the cartels is how to move the drug cash in the U.S. and Canada back to the cartels in Mexico and other countries. With mirror accounts, sometimes simply called "swaps," Chinese brokers often working with Chinese organized crime groups and the cartels identify Chinese/American/Canadian businesses that are willing to cooperate. The businessman receives the drug cash from the broker.¹⁰⁰ The generally cash-intensive business later "places" the proceeds of crime into the financial system. Meanwhile, these complicit businesses are asked to transfer a designated amount of drug money through Chinese banking apps to accounts based in China.

Using a currency converter app on a smartphone, the participants agree on the exchange rate. The broker then gives the routing information of a bank account in China to the Chinese/American/Canadian businessperson. The bank data is provided by the cartels. The swap occurs when the participating businessperson takes possession of the



drug cash, while simultaneously transferring the equivalent in Chinese RMB from their own account in China to the bank account provided by the broker. Of course, the Chinese/American/Canadian also receives a commission. Once the money is offshore in China, the value can be further routed to Mexico or elsewhere per the instructions of the cartels. No money is directly wired from the U.S. or Canada to China – which stymies the use of financial intelligence our primary anti-money laundering (AML) countermeasure.

Furthering the laundering process, sometimes a follow-up swap is accomplished in Mexico. Transaction/s are completed to make the illegal drug proceeds look like a legitimate business transaction for example, the purchase of Chinese manufactured goods. Or Chinese/Mexican businesses are identified that have access to pesos and that are willing to exchange them for the RMB in China. The laundered drug dollars that started in the U.S. or Canada, then swapped for RMB, are finally in the form of clean laundered pesos in Mexico controlled by the cartels or their business representatives.

Mirror Swaps

1



A Chinese broker collaborates with narco-traffickers and finds a willing Chinese-American businessperson.

2



The businessperson receives drug cash and uses their cash-intensive business to integrate it into the financial system.

3



In exchange for a commission, the businessperson conducts transfers of equivalent amounts through Chinese phone apps.

4



Mirror swaps occur when the businessperson acquires drug cash while simultaneously transferring the equivalent in RMB from their Chinese account.

Transnational criminal groups in Canada are using cryptocurrency for criminal purposes such as laundering proceeds of crime and facilitating money transfers as payments for drugs and illegal activity.¹⁰¹ “The use of mixers and tumblers, tools to obscure transaction routing by mixing different streams of potentially identifiable cryptocurrency, increased dramatically in the past year, likely as a result of law enforcement’s increasing capabilities for forensic analysis of the cryptocurrency records keeping system known as a blockchain.”¹⁰²

Free Trade Zones (FTZs)

Canada’s 15 FTZs are generally well-regulated for AML purposes, but some remain rife with illicit trade and criminality. There are many informal markets that are connected to TBML and are operating with limited supervision and enforcement. TBML frequently involves invoice-related fraud to enable transactions.

The abuse of one FTZ in Canada can cause ripple effects globally. As noted above, Canada contains some of the largest ports in North America.

In any given year, cargo ships and maritime vessels transport hundreds of millions of containers, comprising close to 90% of the world’s goods. The global scale and volume of such trade creates vast opportunities for criminals to hide and move illicit goods to destinations across the world.

CROSS-BORDER MONEY LAUNDERING/TBML

Maritime trafficking is the favored method of smuggling illicit drugs, counterfeits, and other contraband across the Americas through routes in the Atlantic, Pacific, and the Caribbean Sea/Gulf of Mexico. There is a growing consensus that escalating security threats demand a more coordinated and unified transnational strategy to enable targeted disruptions of the logistics and fixer networks of transnational organized crime, including targeting unruly spaces in FTZs and ports.

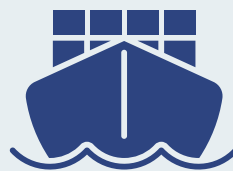
The urgency is due to the fact that cartels and organized criminals have co-opted a growing number of governments at all levels. These “criminalized states” use transnational organized criminal groups as instruments of state policy rather combatting them, fundamentally realigning the purpose and objectives of the state. The drug cartels and Chinese-backed illicit networks now control critical strategic infrastructure such as major ports and FTZs across the Americas, while expanding into agriculture, mining and pharmaceuticals.

For example, in Panama, members of the largest business family in the Colón Free Zone (CFZ) – itself the largest free trade zone in the hemisphere – have been publicly accused by the U.S. government of being among “the world’s most significant drug money launderers and criminal facilitators,” with clients ranging from Mexico’s Sinaloa Cartel to Colombia’s FARC rebels.¹⁰³ The Waked family businesses of 68 companies in the CFZ was reported to be directly involved in “trade-based money laundering schemes” using “false commercial invoicing, bulk cash smuggling, and other money laundering methods to launder drug proceeds on behalf of multiple international drug traffickers and their organizations.” The leader of the clan reached a plea deal with the U.S. government in 2020.¹⁰⁴



3,500

GLOBAL NUMBER
OF FTZS



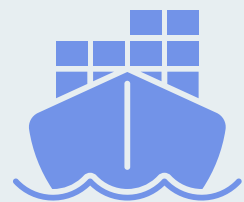
**USD 500
BILLION**

AMOUNT GENERATED IN
DIRECT TRADE-RELATED
VALUE ADDED BY FTZS
GLOBALLY



**66
MILLION**

GLOBAL NUMBER OF
WORKERS EMPLOYED BY
FTZS



5.9%

INCREASE IN TOTAL
VALUE OF FAKE GOODS
FOR EACH FTZ ADDED TO
AN ECONOMY

Trade in Counterfeit Goods and Free Trade Zones, OECD



Key Recommendations

KEY RECOMMENDATIONS

Because illicit trade has unique attributes, like many other threat convergence areas such as corruption, malign influence, money laundering, and terrorism, governments have generally tended to assess them in silos and to respond to them as unique, isolated, and independent threat activities. They are not; they are linked by other illicit vectors and supported by an inter-connected group of bad actors and networks as we have seen in the past decade in Canada -- from Chinese Triads and Mexican cartels to Iranian money launderers, Russian cyber-attackers, and other criminals. All of these activities and threat convergence networks represent a growing harm to Canadian businesses and citizens, Canada's national security, and significant multi-dimensional impacts to Canada's trading and security partners.

No longer is profit the sole motivator for these criminals, but these threat convergence activities are now being weaponized against rule of law institutions and democratic states for generating more political power, building illicit empires, and financing greater insecurity globally.

Transnational crime's corruptive influence and destabilizing security threats continue to converge in Canada and represent a significant harm to its national security and the safety and security of all Canadians. While illicit trade operates in the shadows of the legitimate global economy, the inter-connections and poly-criminality across markets in Canada and imputed jurisdictions have metastasized into a clear and present danger.

Due to its high financial payoffs and the increasing political motivations, drug cartels, gangs, and other criminal syndicates seem to gravitate to Canada from all corners of the world. With ill intentions, they collectively undermine Canada's economic and financial integrity, in addition to distracting security, intelligence and defense agencies, creating chaos and vulnerabilities to allow for further threat deliveries. Such impacts also influence Canada's trading partners and their respective homeland security.

Based on the current reality, the following are best practices and recommendations that can guide Canada to more effectively mitigate and combat challenging illicit threats and related criminality, and to more effectively safeguard numerous converging national security interests:

National Security Policy

- Elevate illicit trade as a national security priority and policy area in Canada's national security frameworks and Parliament.
- Call for a Canadian National Security Strategy that addresses the converging threats posed by organized crime, illicit trade, terrorist financing, and corruptive and malign influence, including alignment with FVEY partners and greater cross-border information-sharing and law enforcement operations.
- Examine the current effectiveness of efforts by all relevant federal, regional, municipal agencies to counter transnational crime and illicit trade and national integration, and assess the current level of Canada and US law enforcement, intelligence, and security cooperation.



- Call for the production of a National Security Annual Report on Illicit Trade and Threat Convergence Harms, Trends, Risks, Challenges, and Impediments for the Business Sector in Canada and for Federal, Provincial, Municipal and Indigenous Governments. The report should include assessment of the negative impacts of illicit threats to the homeland and a proscription of actions outlining more authorities, resources, and coordinated law enforcement responses to disrupt threat convergence and related money laundering.
- Tackle the drug-related violence stemming from the trafficking of cocaine, heroin, fentanyl and opioids, marijuana, and other contraband which consumes significant energy and resources across the policy bureaucracies, and the law enforcement and security forces of Canada, the United States, and other imputed jurisdictions.
 - Continue to detect and disrupt drug trafficking and distribution networks and their enablers within Canada to reduce the availability of illicit drugs.
 - Develop a comprehensive approach to dismantle drug-trafficking and other TCOs with connections to terrorist organizations.
- Examine in greater depths child sexual exploitation and related online sex trafficking including following the money and inter-connection with Asian and Eurasian criminal trafficking networks, and how such criminal activities finance other crimes in Canada.

Threat Intelligence

- Task the Canadian Security Intelligence Service to coordinate with CBSA, the RCMP and Global Affairs Canada to conduct a new national intelligence estimate on the breath and scale of today's criminal threats to the national economy and citizen security across key illicit markets.
 - This includes identifying key trade routes and pinpointing convergence nodes with transnational criminal networks and enablers including those related to China, Russia, Iran, and their proxies and shell companies that pose a higher risk to national security. Ensure portions of the document are declassified to inform broader communities in Canada.
 - Increase national scientific research, data collection, and analysis to assess the scope and impact of illicit trade, TOC, and money laundering and the most effective means to combat it in Canada, First Nations, and territories, including linkages to other threat convergence networks.
 - Employ data-intelligence overlays of TOC "hotspots" to pinpoint hubs of illicit trade, supply chains, and corruptive nodes in Canada, and cross-border with the United States and other imputed jurisdictions.
 - Empower federal agencies to harness innovation and leverage leading AI in the field of intelligence and illicit trade including the use of Windward and others intel databases for strategic purposes and tactical operations to disrupt criminal actors and threat networks.
 - Disrupt TOC activities at the border and at critical points across supply chains; maintain the integrity of public health, public safety, the military, and Canadian markets.
 - Enhance intelligence collection, analysis, and counterintelligence on TOC entities across Canada's inter-agency that pose the greatest threats to national security.
 - Develop intelligence and risk products for the corporate and legal sector, sharing intelligence and risk factors relative to illicit trade, including a web site within Global Affairs.

Cross-Border Law Enforcement Operational and Intel Fusion Hubs

- Sever the illicit flow across Canadian borders of drugs, opioids, people, weapons, counterfeits, and other illicit goods and contraband through investigations and prosecutions of key TOC networks, as well as through the targeting of TOC networks' enabling financial wherewithal and infrastructure.
- Develop greater synergies between Canadian intelligence and law enforcement agencies, and support intelligence-fusion coordination and operations including among Federal, Provincial, local, First Nations, and territorial authorities in the Northwest Territories, Nunavut and Yukon.
- Address the current stove-piping of intelligence between federal agencies in Canada, federal-provincial task forces, and provincial-to-provincial investigations. Enhance information-sharing mechanisms to employ effective whole of government anti-crime responses.
 - Enhance national and FNOC capabilities to combat the increasing involvement of TOC networks in illicit trade including in ecommerce marketplaces and the digital world; build national capacities to forensically exploit and judicially process digital evidence.
- Ensure all Federal agencies are mandated to be engaged not only at the strategic level but the operational level with national partners, due to the interconnectivity to other national security related activities and networks.
- Ensure all federal agencies are sharing action intelligence in a timely and operationally effective way, including ensuring that all relevant agencies are 'operationally' integrated in key convergence hubs of Vancouver, Montreal, Toronto and Halifax.
- Leverage international cooperation to disrupt and dismantle supply chains by deploying intelligence and law enforcement resources in both key domestic convergence zones and international threat streams.
 - **Establish Convergence Zones Agency Operational Hubs:** Vancouver, Toronto, Montreal (Tier 1), Calgary, Winnipeg, Halifax (Tier 2).
 - Within Tier 1 entities, create "operational and intel hubs" that include RCMP, CBSA, CSIS, FINTRAC, CRA, DND, Global Affairs, et al.
 - Additionally, in Tier 1, include the FBI, DEA, HSI, US Border, IRS, et al.
 - In Vancouver include AFP and Vancouver City Police (federally fund). In Toronto and Montreal someone from Europol, City and Provincial police resources, federal funded.
 - **Position Threat Streams Forward Deployments:** Place strategically Canadian law enforcement and intelligence assets with "operational intent" in FVEY jurisdictions.
 - Consider funding designated Canadian investigative and surveillance teams.
 - For example, a major hub of illicit trade in Canada is connected with Los Angeles and Pacific ports in the Western part of the United States: Consider a deployment team consisting of vetted law enforcement and security agencies with full spectrum capacities (Canadian funded) including investigatory, intelligence, analytics, and surveillance operations. Other important illicit US-Canada illicit hubs: Miami, New



York, Chicago, Houston, El Paso.

- Use these Forward Deployment Teams to help mitigate the risk of deadly narcotics, opioids, and dangerous counterfeits being dispersed across borders while reducing investigative costs and efficiently utilizing enforcement resources.
- Create a US-Canada “Operational Working Group” of seasoned transnational organized crime and national security investigators from Montreal, Toronto, and Vancouver - to work with the U.S. Department of Justice on identifying and rectifying the key legal impediments in law that preclude law enforcement from enhancing bilateral law enforcement cooperation. Include experts from constitutional law that could explore modifying existing legal authorities and case law such as *Stinchcombe* that precludes international cooperation in mitigating foreign threats to all global partners (see below).
- Consider the establishment of a Federal-led Counter-Transnational Threat Convergence Integrated Response Group (CT²-IRG) to identify and prioritize converging threats related to the risks and challenges posed by the criminalized links between corruption, illicit trade, terrorist financing, and malign influence, and respond to them. The CT²-IRG could include and integrated intel and operational Center. Not a strategic intelligence Center such as CISC, but focused at operations with partners including all federal partners and invite others as required.
- Build on bilateral cooperation and cross-border law enforcement collaborations with the United States, FVEYS, other countries, and other relevant international organizations (e.g., INTERPOL, EUROPOL) on actionable intelligence to disrupt and dismantle bad actors and threat networks.
 - This includes enhancing bilateral cooperation on extraditions, mutual legal assistance, intelligence-sharing, and asset confiscation that can contribute to the successful prosecutions of high-level drug traffickers, criminals, and money launderers.
 - Leverage all possible areas of cooperation, including legal instruments such as the *UN Convention against Transnational Organized Crime (the Palermo Convention)*, the *UN Convention Against Corruption (UNCAC)*, the *UN Convention against the Illicit Traffic in Narcotic Drugs and Psychotropic Substances*, and protocols, to obtain the assistance of international partners and to raise international criminal justice, border security, and law enforcement standards and norms.

Corruption and Money Laundering

- Make corruption and money laundering centers of gravity in the fight against illicit trade and converging threats in Canada and across Latin America and the Caribbean. Devote more resources to combat the dirty money and corruptive influence of kleptocrats, oligarchs, criminals, and state-sponsored covert operations in Canada.
- Identify foreign kleptocrats, oligarchs, and politically exposed persons (PEPs) who have corrupt relationships targeting Canadian officials and political institutions and freezing and confiscating their assets; and deny their visas.
- Federalize unexplained wealth orders to help investigatory and prosecutorial agencies to target proceeds of transnational crime and corruptive influence by compelling targeted criminals and corrupt officials to explain assets and origins of their wealth based on prima facie information showing purchases disproportionate to their income including luxury houses,

KEY RECOMMENDATIONS

yachts, cars, and other extravagant expensive assets. The information from the wealth orders could then be used to pursue civil forfeiture cases where a provincial jurisdiction aims to seize assets or money.

- Make Trade-Based Money Laundering (TBML)/terrorist financing a higher priority through the development of a national TBML strategy including addressing the vulnerabilities posed by virtual and crypto currencies as exploited by criminals and other bad actors.
 - Remedy remaining anti-money laundering (AML) deficiencies related to the 2016 Financial Action Task Force (FATF) mutual evaluation, national assessment, and recommendations.
 - Comply with all FATF Recommendations on fighting money laundering and terrorist financing; address all weak measures and close all vulnerabilities.
 - Make transparency in all Canadian AML case statistics. In order to determine an effective strategy against TBML, it is necessary to have straight-forward and transparent investigative and case statistics at both the federal and provincial levels. In addition, FINTRAC, Canada's Financial Intelligence Unit (FIU), should publicly release how many suspicious activity reports (SARs) related to TBML have been filed by Canadian financial institutions and money service businesses (MSBs).
 - Create a Canadian Trade Transparency Unit (TTU). A TTU is an innovative program that analyzes trade anomalies that might be indicative of TBML.
 - Approximately 17 countries currently have TTUs. The Canada Border Services Agency (CBSA) might explore establishing a TTU. The CBSA already collects trade data and intelligence. The ideal would be for representatives of the CBSA, the RCMP, Canada Revenue Agency, and FINTRAC to be co-located within the TTU. In addition to identifying and investigating TBML, by cracking down on trade fraud, the establishment of a TTU will be a net revenue gain for the government.
- Ramp up more prosecutions of financial crimes. Authorities have had some success investigating and freezing accounts of suspected launderers, but have shown extremely limited progress in successfully prosecuting financial crimes.
- Block the assets under Canadian jurisdiction of TOC networks and their associates that threaten critical to Canada's national security.

Counterfeits

- Develop a national law enforcement strategy to investigate and prosecute intellectual property violations at all levels of the supply chains in Canada.
- Ensure the full adoption and effective enforcement against all forms of illicit trade including existing anti-contraband, intellectual property infringement, and anti-piracy laws and regulatory controls.
- Identify and report cases in which third-party intermediaries have demonstrably directed, assisted financially, or aided and abetted the importation of counterfeit or fake merchandise.
- Encourage the OECD to conduct a national study on the counterfeit trade in Canada and its negative consequences for national industries, strategic markets, supply chains, and port security in Canada. Such an OECD national study can help to mobilize greater investigations, seizures, and judicial actions.
- Create greater public awareness of the dangers of illegal online pharmacies selling fake



medicines as well as on the health hazards of buying such illicit pharmaceuticals from criminal fraudsters across the digital world and tainted supply chains.

- Change counterfeit buying behaviors by educating consumers on the dangers of buying counterfeits and educate them on how to identify and avoid counterfeit goods.
- Address illegal tobacco products in Canada, including the importation of illicit cigarettes from other countries and free trade zones, and the exportation of non-duty-free cigarettes produced in First Nations.
 - Ensure that increases in cigarette taxes do not end up stimulating the underground economy.
 - Encourage federal and provincial government coordination on tobacco taxes across jurisdictions.
 - Policy makers should work in collaboration with First Nations to implement tobacco taxes on reserves to be remitted directly to local reserve governments.

Public-Private Partnership and Threat Convergence Awareness Campaigns

- Mobilize dynamic public-private partnerships and collaborations to counter illicit trade and financial crimes in Canada, across imputed cross-border jurisdictions, FTZs, and hubs of illicit trade.
 - Build whole-of-society partnerships with private sector experts, nongovernmental organizations, civil society groups, media, and academia that focus on strengthening the political will for criminal justice reform in Canada.
- Develop and promote a national strategic communications strategy and public awareness campaign on the harms and impacts of illicit trade and related messages to help inform policy and law enforcement communities on the necessity to prioritize enforcement and transparency on the threats posed by criminal and illicit networks to Canada's national security.

Legislation

- **Modernization of Disclosure Laws – Global Investigations:** Conduct a review of the legislative impediments to enable effectiveness of international criminal investigations and prosecutions.
 - It is well known within “operational” sectors of Canadian and international policing, that case law such as *Stinchcombe vs Regina*, *Jordan vs Regina*, make it virtually impossible to prosecute certain criminal and threat convergence cases in Canada, and hamper international cooperation due to the risk posed to their law enforcement and intelligence assets.

KEY RECOMMENDATIONS

- Until legal authorities highlighted in *Stinchcombe* are modified, criminal and threat convergence harms will continue to impact Canada's national security, businesses, consumers, and communities.
- Address the legislative and regulatory barriers currently precluding the sharing of information on criminal investigations that impede the ability to mitigate threats to Canada.
- Authorize the effective implementation and enforcement of a new Racketeer Influenced and Corrupt Organizations (RICO) Act – similar to that in the U.S. Criminal Code – that empowers and strengthens legal tool in evidence gather by providing extended criminal penalties, sanctions, and civil causes of action for unlawful organized crime activities in furtherance of an ongoing criminal conspiracy or criminal enterprise.
- Implement legislation to require disclosure of beneficial ownership information of legal entities at the time of company formation in order to enhance transparency for law enforcement and other purposes.
- Encourage all provinces to introduce a modified corporate transparency registry by 2025, consistent with the *Business Corporations Amendment Act*, to deter financial crimes and tax evasion, that discloses to the public the beneficial ownership information of private companies. Currently, such beneficial ownership information is only available to governmental, law enforcement, and regulatory authorities.
- Modernize the Canada Evidence Act – Section 37 to 37.3: Enable certain provisions to allow and protect sensitive foreign intelligence, promote responsible sharing information with trusted law enforcement partners, and that lead to successful investigations and prosecutions of cross-border illicit threats and converging security harms that imperil Canada's national security, supply chains, and the health of safety of citizens across impacted communities.

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The **International Coalition Against Illicit Economies (ICAIE)** is a national security-centric NGO based in Washington DC that brings together committed champions across sectors and communities, including former members of the public sector, companies and prominent organizations from the private sector and civil society to mobilize collective action to combat cross-border illicit threats. ICAIE advances innovative energies through public-private partnerships, policy dialogues, and transformative threat intelligence and risk management solutions to counter illicit economies. Through ICAIE Labs, we lead a team of highly-skilled national security service providers and product vendors across the globe to examine data and open-sourced information, and map illicit networks. Our multi-faceted, global investigations mine open-source data to determine identify types of illicit behavior a network may be involved in specific markets, online marketplaces, or the dark web. With an eye towards full-spectrum investigations, our ICAIE team bridges the gap between private industries and the government public sector. ICAIE generates deeper investigation and supports judicial action. We leverage communications, financial, geospatial, artificial intelligence, federated learning, and other advanced analytics and technologies to investigate suspicious behavior and map networks. Ultimately, we use counter threat network operations to provide actionable intelligence, forensics, and enhanced security across the globe.

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