HOUSE OF COMMONS
CHAMBRE DES COMMUNES
CANADA

Standing Committee on Finance

FINA • NUMBER 143 • 1st SESSION • 42nd PARLIAMENT

EVIDENCE

Wednesday, April 18, 2018

Chair

The Honourable Wayne Easter

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● (1535)

[*English*]

The Chair (Hon. Wayne Easter (Malpeque, Lib.)): I call the meeting to order, though there are a few members yet to come because question period went a little long.

Before I start with the witnesses, I'll just mention to committee members, as I think you're all aware, that the international travel request we made for this particular study on the proceeds of crime, money laundering, and terrorism financing went through the House last night. The dates we're looking at are from June 1 to June 8, so you know in advance to try to work your agenda to accommodate that.

Pursuant to the order of reference, we'll continue with the statutory review of the proceeds of crime and terrorist financing act. We have further witnesses here today.

Mr. Kmiec.

Mr. Tom Kmiec (Calgary Shepard, CPC): Thank you, Mr. Chair.

I have a motion that I tabled March 29, which I think is ample notice, and I intend to move it now. Just to remind the clerks—because they're looking at me, and the analysts are too—it's the one dealing with the Trans Mountain pipeline, because I had a feeling back then that there might be a suspension of the work on the pipeline. The motion I gave notice for back on March 28 was the following:

> That the Standing Committee on Finance undertake a study over a period of four meetings to review the tax revenue losses to the federal government, including but not limited to royalties, personal and corporate income taxes, and levies, as well as review the fiscal impacts, including loss of business and economic activity, resulting from the construction delays of the Trans Mountain Expansion Pipeline, that the Committee review the potential long-term federal benefits, including employment opportunities that the project would generate, and that the Committee would report back to the House and make a recommendation as to whether or not the Government of Canada declare the Trans Mountain expansion project to the national advantage of Canada and invoke Section 92(10)(c) of the Constitution of Canada.

I won't read it in French because I know we have interpretation services, so I'm sure they're able to catch all of it—they're nodding to me over there. The reason I tabled the motion originally is that I was really worried that the pipeline would not be approved. It was approved in the sense that the company was given regulatory authority to deal with it and legal authority to go on with it, but it hasn't been given any political backing almost whatsoever. I'm going to draw the attention of the committee to the news release that Kinder Morgan put out on their own project. I think it has valuable information in it when it talks about the deadline they've set for themselves of May 31 and the potential paths forward that they kind of itemize and go through. In it they say:

> The uncertainty as to whether we will be able to finish what we start leads us to the conclusion that we should protect the value that KML has, rather than risking billions of dollars on an outcome that is outside of our control.

> To date, we have spent considerable resources bringing the Project to this point and recognize the vital economic importance of the Project to Canada. Therefore, in the coming weeks we will work with stakeholders on potential ways to continue advancing the Project consistent with the two principles previously stated.

This is a news release that they put out on the Canada Newswire on April 8, 2018. It goes into a lot of detail on what they see as the problems with the current regulatory and legal environment, because, let's face it, they're being harassed legally and through regulation by B.C.'s NDP government. That's their biggest problem. They're facing a situation where they have government approval to proceed with it, but they're being harassed through the courts and the regulatory process, and they feel that they cannot place the entire company at risk for the project.

I will mention that it was interesting to go Natural Resources' website to see what Natural Resources Canada's views are of the prospects of the energy sector. This is from Natural Resources Canada. It says here that “government revenues from energy were $12.9 billion in 2015”. What I've been saying in the parts of the country I've travelled to, including my own riding and Vaughan that I was in last week, is that we basically need, at this point, two and a half Trans Mountain pipelines to be approved and built in order to balance the budget in the future. That's where it ties it back into federal budgets. I think the revenue generated by the Trans Mountain pipeline is of immense value to the federal government because, on the Liberal side, they will be unable to meet the promises made in the 2015 election unless they see more of these projects built. This is where Trans Mountain becomes critical to actually reaching a balanced budget. In terms of those numbers, this motion speaks to figuring out what exactly, and how much value there will be to the federal coffers over the next five, 10, 15, and 20 years as the construction is completed and the pipeline comes online.

I know that the government has said—and there are no members of the government here, just government caucus members—that it's going to table legislation. I assume this will be done far before May 31, the deadline the company has set. So, they're going to table the legislation, and there's some type of financial or insurance consideration that is going to be given to Kinder Morgan.

Now that's of interest to me because I'd like to know what those considerations would be. I also think it's incumbent upon the finance committee to give advice to the government. I have only asked for four extra meetings to be assigned for this because I know that we have to get into the details of an important budget implementation bill that we have to review. You probably heard at question period that there will be a lot of questions to ask of the government about some of the estimates changes and the impact on the spending to be approved in the budget.

● (1540)

However, this is how important the TMX is. It is of vital importance to the federal government to ensure that this project is built, completed, and made operational and then to have more such projects happening in the future. We know there has been massive capital flight from Canada—$86 billion, the largest loss since at least 2010. These are immense numbers that hurt the attempts of the federal government to balance its own budget.

Not to be piffy, to say that the budget will be balanced and the pipeline will be built without then putting in a comma and completing the sentence by saying what you will do, how you will do it, and how you will get there.... That's the important stuff; that's what everybody wants to know. That's what the journalists are talking about.

Constituents are coming to me. I probably get now hundreds of phone calls, emails, and contacts a week through social media from people talking about the TMX pipeline, energy, and what is going on, because it involves their jobs. I come from the constituency of Calgary Shepard, in the deep southeast part of the city, where I have a lot of white-collar and blue-collar oil and gas workers.

This motion is important because we could be providing the government with vital financial information to influence the legislation it is going to be proposing before the House. Then we would be debating it, of course, but there is no way to tell which committee it will go to. I hope the government will consider, but it might not, whether it should invoke section 92.10(c) of the Constitution Act of Canada.

I did some research on this subject. I know there are constitutional law experts in Canada, so I'm not going to go through all 470-plus times that power has been used in Canada, but it has been used many times—including, I'm sure it will please the chair to know, for grain elevators. Grain elevators were in fact federalized by the federal government at one point, along with much of the work surrounding grain elevators—the bylaws, the construction, the roads, a lot of what's involved. That was news to me; I didn't know this. That would be an interesting aspect to look at.

There is also a Senate bill before the Senate, from independent, elected Alberta Senator Doug Black, that deals exactly with this matter.

I think the finance committee has a unique opportunity from the financial perspective to make a pitch to study the issue, look at the federal impact—the employment numbers, the corporate income taxes, the levies, the royalties that the federal government could be receiving—if this project is completed on time, and also if it's not, What would be the loss to Canada if this project does not go ahead; if Kinder Morgan says, because of the regulatory and court harassment it's facing from the B.C. NDP and the lack of support from the federal government, which is exactly what they've said has happened, that they will not be pursuing the project?

That's how this all ties into giving a yea or nay on the use of this part of the Constitution. If the government is going to invoke it, how should it invoke it and for what reasons should it invoke it? I think the reasons are financial. It's a benefit to members of the government caucus, I think. Here is free advice on my end that is also of benefit to the Liberal government—the ministers, the members of the executive. If they want to balance the budget, they have to see this project through, and this will be a mechanism through which to do it.

I'm only asking, as I said, for those four meetings. There are numbers available from CAPP and others on what it would look like if the project didn't go through.

One thing I want to mention is Claudia Cattaneo's view of this—she's an expert in this field—on April 5 with regard to Bill C-69. Aside from legislation, because it's not important to this motion, there is the regulatory version faced by Kinder Morgan and other projects, because it comes as a basket. The cancellation of the Kinder Morgan pipeline could precipitate others' cancelling their projects.

I think this is another avenue by which the committee through this motion could undertake a study, with four meetings, and make some recommendations to the government respecting a yea or a nay on the Constitution. Then we could have our piece on it before the government tables the legislation. They could have our view of it before that happens. I know the time is short, but it's the time that has been given to us by Kinder Morgan.

She said that “The message couldn't be clearer than in the Canadian Energy Pipeline Association's recent response to Bill C-69” that “investors have tuned out and moved to jurisdictions where governments aren't kneecapping their companies to meet commitments on climate change.” She says there's an opportunity cost involved. What is that opportunity cost? I think we could look at much of that question through this motion and then determine it.

Trans Mountain's project was announced May 23, 2012. We're almost in May 2018. It's almost six years now from the moment of announcement to the moment we're now facing, when the pipeline could be cancelled.

● (1545)

Some members know, of course, that I was born in Poland. We fought World War II from start to finish, I think in the same time span, and yet here in Canad we still don't have the Kinder Morgan project completed. It's startling to me that a nation-building project like this could not be done in the same timeline during which previous generations were able to fight a world war. It's stunning to me. I don't make the comparison lightly, but it's interesting to note how long it has taken the company to get to the point where they're now saying they can't proceed because there are too many regulatory and court-related burdens for them to continue.

I'm hoping that members on the opposite side will hear me out on this. I'm just going to shuffle through the examples that I want to give you. Off the top of my head, as I said, there were grain elevators; the Cape Breton Development Corporation was federalized; and the government divested Teleglobe as well.

This is a section of the Constitution that has not been used in almost 30 years. Perhaps the chair can correct me, because I know he has a long memory of things that have happened here in Parliament, but it's a section, nevertheless, that is available for use when the government wants to declare something to the national advantage.

I think it's worth our time to take four meetings to study the issue and provide recommendations to the government. That's purely on the fiscal side, to study the impact to the budget and future budget years. We could invite experts to appear before us both from Kinder Morgan, and National Resources Canada, if it has done the assessment already. We could also invite others, like Alex Pourbaix, who issued a statement basically saying that there are 200 environmental and legal conditions attached to the approval, and they've been trying to meet them over the past two years. I saw a stat put out by the British Columbia government that about 1,187 permits are required by the pipeline, although it could be 1,178, as I may be getting the last two numbers in the wrong order, and something like only 200 or 300 have been approved so far. It shows you how much more permitting there is imposed upon the company for a project that is approved by the federal government.

On behalf of my constituents, I'm interested to see this motion passed, for us to have this debate, and to hear from expert witnesses in the field who can inform us on what the financial repercussions would be of this project not proceeding. We're seeing headlines like, “As investors blast Canada's pipeline ‘gong show,’ Ottawa must take action”. That's Chris Varcoe from the *Calgary Herald*. In here, he has quotes from Steve Kean, the Kinder Morgan CEO, who is saying, “It's not a bluff” or a ploy but that they're seriously considering cancelling the project. There are hundreds of thousands of jobs that will be impacted, because this is product: feedstock that is moving through the pipeline. Those jobs on the back end, in production and the white-collar jobs, a lot of which are in Calgary, will be impacted directly by this. It will hurt even more of their confidence. Whatever confidence was returning will be hurt by this.

I don't think four meetings is unreasonable to set aside for a study of this motion. If you could just give me one second, I want to—

● (1550)

Mr. Raj Grewal (Brampton East, Lib.): Take your time.

Mr. Tom Kmiec: Take my time? I don't want this to turn into the procedure and House Affairs committee in any way.

I'll mention some of the other examples that I have here. There was an act respecting the Montreal and Lake Maskinongé Railway Company that went into some detail for the county of Berthier on what would be included in that use of the Constitution, including things like station houses, engine houses, sidings, telegraph and telephone lines, and other works. They didn't talk about the financial considerations of why they were doing it. Those are contained in other sections of the act and the preamble. The Drummond County Railway Company and the British Columbia Dock Company used it. The City of Ottawa had it used as well, and so did the Montreal subway company, the railway act, and an act respecting grain, which is very simple, nationwide, and for grain elevators. It's all in here. It was used for the development and control of the Atomic Energy company. Again, there are lots of uses of it, and we should hear from expert witnesses on how the federal government could use this to ensure that the pipeline is built.

If you're wondering about the “how” and what you could do, I think the finance committee is in a unique position to advise the government on financial considerations, through a study that provides recommendations.

I'm going to stop talking. If you adjourn the debate, though, I'm going to take that as a no, and that you don't care about the people back home in my riding and in Calgary. I hope you give it due consideration and that you seriously consider voting for this motion. I don't think four meetings is that much to ask, and I think we could benefit a lot from figuring out the financial considerations that the federal government should take.

The Chair: The motion has been given proper notice and duly moved. It's on the table for debate.

To the witnesses, in fairness to you, a member has the right to lift a motion off the table and debate it at any time. I hope our witness from Australia, who I know was up at five o'clock in the morning in Australia to do this, understands that as well.

I have Mr. Sorbara on my list.

Mr. Francesco Sorbara (Vaughan—Woodbridge, Lib.): Thank you, Mr. Chair.

I want to thank my colleague on the other side for lifting this motion, putting his motion forward, but I want to make a few comments about what he stated.

On Monday night we debated the TMX expansion. Our government has approved the pipeline. It's working hard to get the pipeline built. I actually had the pleasure of being in the House and debating with my colleagues from all sides in favour of the pipeline.

In January, I visited the Edmonton area. I visited the Alberta industrial heartland area and saw the great things going on there. I have been unabashedly pro-pipeline for a very long time. We need it to diminish or lessen the differential between the WCS and WTI, and then Brent, oil prices. We are losing billions of dollars a year, and that's a stated fact put out by many research economists, industry observers, and so forth.

Our Prime Minister recently went to Fort McMurray, or Fort Mac as it's commonly known, and expressed his support to the oil industry workers in Alberta. We all know that. He went to B.C. and stated that he supports this pipeline. His comments have been consistent across the board. So my point of view and our party's point of view is that this pipeline will be built. Recently the Prime Minister had a meeting with the premiers of Alberta and British Columbia, and that message was delivered.

Now, there is a time frame or a window about which a private corporation has expressed its thoughts. I'm sure the various parties are dealing with that and working hard. But at the end of day, this pipeline will be built, MP Kmiec. That's where I stand. It should be built. It should be built for all those middle-class Canadians who will be working to build the pipe, all those jobs that will be created, and all those revenues that will be gained.

If you look at what our government has done, you'll see that the $1.5 billion oceans protection plan will ensure that the coasts are protected. To personalize it, as someone who grew up in northern British Columbia until I was 19 years old, I know how beautiful those coasts are. I'm proud of our government for putting forward a plan that balances the environment and the economy. As our environment minister says, they go hand in hand.

Regarding your comments on having meetings and so forth, I don't think it's necessary. I think right now the focus of this committee is to go over the budget implementation act legislation. We have a very important study that we're undertaking right now, the five-year review of our anti-money laundering and terrorist financing act. We know what the comments of the environment minister, the natural resources minister, the Prime Minister, and the finance minister have been on the TMX pipeline. We are balancing our national interest of building this pipeline—and it will be built.

I thank you, Tom, for bringing forward this motion. I fundamentally disagree with it. I think right now the focus of this committee is fully with the things we are working on and looking at. I know that our government is hard at work to get pipelines built, whether it's the Line 3 replacement; whether it's the Pembina facility out in Prince Rupert, the propane export facility that was recently introduced; whether it's a number of polypropylene facilities that are to be built in the Alberta industrial heartland, we're going at it. We're working hard. We've brought confidence back into our regulatory process, something that you didn't mention was lost during your party's time in government.

I do respect your motion. I agree with the importance of this pipeline. I don't agree with moving forward on a study. That would not be utilizing the committee's time in a prudent manner in terms of what we have facing us and in terms of the timeline.

Those are my thoughts, Mr. Chair.

● (1555)

The Chair: Next on my list is Ms. O'Connell.

I'm going to keep people to the essence of the motion. Let's not stray too far from the motion, so that we can get this dealt with and move on to our witnesses.

I'll go to Ms. O'Connell and then Mr. Albas.

Ms. Jennifer O'Connell (Pickering—Uxbridge, Lib.): Thank you, Mr. Chair.

Thanks to the witnesses who are here.

I'll try to keep my comments as succinct as I can. However, I think Mr. Kmiec's rationale for motion is that he wants to see the political will, but, as Minister Carr indicated a number of weeks ago, the opposition doesn't seem to take yes for an answer.

The Prime Minister has clearly said that this pipeline will be built and that it is in the national interest. Let me quote him, because the whole reason Mr. Kmiec asked that we look at this is to engage the finance committee and the finance minister. In his speech, the Prime Minister said, “As such, I have instruct the Minister of Finance to initiate formal financial discussions with Kinder Morgan, the result of which will be to remove the uncertainty overhanging the Trans Mountain Pipeline expansion project.”

Now, I fully understand and appreciate the fact that Mr. Kmiec filed his motion prior to the Prime Minister's statement, but Mr. Kmiec should find—and the people, the workers, and the Canadians across the country concerned about this pipeline should feel—that the political will is there. The comment has been made clearly. The Prime Minister and the ministers have said so time and time again in the House, and the Prime Minister directed the Minister of Finance to move forward on these discussions, which is exactly what Mr. Kmiec just asked for, his exact rationale for this study. While I appreciate his request and the rationale behind it, the government is doing it. The Prime Minister is doing it.

The other point I'd like to make is that Mr. Kmiec gave the rationale for the finance committee to consider studying this and to basically do a legal review and provide a legal opinion for the Prime Minister and the government. This is the finance committee. This is not the justice committee; this is not the committee that would provide a legal opinion. Then it's suggested that the finance committee do this review, a process that the natural resources committee would have looked at.

While I appreciate and I think Mr. Kmiec's concern and the opposition's concern for workers is real, at the end of the day, you're directing it to the finance committee, yet the Minister of Finance has already been engaged in this file from the Prime Minister. If you want a legal opinion, then it's not the finance committee that should ever be tasked with that.

Another point that Mr. Kmiec raised was the length of time since the approval of the project. The problem is—and perhaps he was looking for this information when he was looking through his documents—that one of the greatest delays was a result of the former Harper government not consulting with indigenous peoples. This is why the process had to be re-established by our government. I can appreciate the frustration about the delay, but had the process and consultation been done in the first place under the Harper government, perhaps the political uncertainty wouldn't be there. This government is committed to moving forward, and I think the Prime Minister has been quite clear in engaging the finance minister that that's exactly the intention we are moving forward with.

I think, in fairness, the motion was filed prior to that, and I think Mr. Kmiec should allow this work to be done and not have the negotiations in public, because frankly, that's would undermine the result that I think you want. I'm going trust our Prime Minister and the Minister of Finance to move forward on these discussions in the interests of Canada and not try to make this a political back-and-forth at the finance committee to establish a legal opinion. It's simply the wrong committee when we have the Minister of Finance engaged in these consultations, engaged in these negotiations with the very people he should be.

I'm quite confident in the work that the Prime Minister and the Minister of Finance will do, and I think, in fairness, Mr. Kmiec should probably hold off on this motion since, again, he tabled it prior to some of these announcements, but we are doing exactly as he is seeking.

● (1600)

Thank you.

The Chair: Mr. Albas.

Mr. Dan Albas (Central Okanagan—Similkameen—Nicola, CPC): Thank you, Mr. Chair, and to all of the witnesses, I'm sorry that this has broken out. However, this crisis in confidence resulted in an emergency debate on Tuesday. Although Mr. Sorbara mentioned that that was the appropriate venue for it, the unfortunate part about it is that it came to nothing.

We know that last Sunday there were four people in the room: the Prime Minister, the Premier of Alberta, the Premier of British Columbia, and the finance minister. Now the finance minister obviously has been tasked by the Prime Minister with coming up with for some sort of package. I'm not going to bear onto that end of it. I have some particular thoughts that I don't think are germane to this, and as I said, I will try to keep it to the subject. However, everything that is referred to here has a direct effect on Canada's GDP and the revenue of the Government of Canada. Given this crisis of confidence, where we see $80 billion fleeing out of that sector, I think we need to start making the case.

Now the Senate, the other place, has been discussing S-245, I believe, which is sponsored by the elected independent Senator Doug Black. They are talking about what should be the appropriate role from a legal sense. What this committee can do that no other committee in the House of Commons can do is to make that public case. More than $20 billion coming to the Government of Canada has an enormous impact and bears some scrutiny, and four meetings by us would be helpful in making that case.

There still are some places where they may not know of the nation-building potential for this project. That case has to be pursued, Mr. Chair, and I think we would actually have some recommendations to the Minister of Finance and to the general public that would have good public value.

Ms. O'Connell opened her comments by saying the opposition can't take yes for an answer. I'm just letting her know that on this motion, MP O'Connell, we will take yes for an answer.

The Chair: Okay are we ready for the question?

Hon. Pierre Poilievre (Carleton, CPC): No, I was on next.

The Chair: I didn't see you.

Pierre, go ahead.

Hon. Pierre Poilievre: Mr. Chair, yes is a word. We want steel on the ground. We want a result. This government has been in office now for two years. It has allowed exactly zero pipelines to tidewater to proceed. It has killed Energy East, which would have transported Canadian crude to Canadian refineries rather than selling Canadian crude at a discount to the States and buying it at a premium from Saudi Arabia and Venezuela. It would have created jobs for refinery workers in the east and oil workers in the west.

The government's decision to block this project is going to harm the environment because that same oil will still be produced; it will just be produced in places where there's less regulation and fewer protections for the environment, and in places where there are state-owned oil companies that fund dictatorial human rights-abusing regimes around the world. Even hard-core environmentalists who like the Prime Minister dream of shutting down the oil industry are not even achieving that; they're just moving it to faraway lands to help bankroll our enemies.

On the issue of the Trans—

● (1605)

The Chair: Mr. Poilievre, I think you're straying a little from the motion. We're giving a fair bit of latitude, but stick as close as you can to the motion please.

Hon. Pierre Poilievre: The motion is on pipelines. I'm talking about pipelines, Mr. Chair.

The Chair: The intent of the motion is section 92(10)(c) of the Constitution and the tax revenue losses to the federal government.

Hon. Pierre Poilievre: Right. We know how much we're losing as a result of not having these. We know we are losing great sums as a result of not having pipelines to reach our markets with Canadian petroleum. Right now, as a result of the lack of pipelines, we have one customer for Canadian oil—literally, one customer, because 99% of Canadian oil exports go to the United States of America.

When the Prime Minister blocks pipeline construction or fails to advance even those pipelines he claims to support, there's no one happier on planet earth than Donald Trump, because he and his economy get to continue to take our oil at a discount and in effect rip off our workers in so doing.

The question is whether the government is going to exercise its leadership under section 92(10)(c) of the Constitution, declare that this project is to the national advantage of Canada, and assume jurisdiction over all of its permitting and approvals. If the Prime Minister were determined to have this pipeline built, as he claims, then he probably would have done that by now, but he has not.

The member across the way says that the finance committee is no place to be studying pipelines, in fact, because we don't study legal matters. Well, of course, we study legal matters, Mr. Chair. We approve the budget legislation every year, which is a law, and laws are legal matters. We also study financial matters. That's why we're called the finance committee. I don't think there's a single regulatory question that would have more impact on the financial bottom line of the Canadian government than the construction of this and other pipelines, so the finance committee is an excellent place in which to do this study.

I should further add that there is nothing to stop an additional study or additional studies from going on in other committees. The natural resources committee could study it. The environment committee could study the damage the government is doing to the environment by blocking the production of clean Canadian petroleum. The human resources committee could study the increased poverty that is resulting in first nations communities from blocking these projects. All those things could still be studied elsewhere, Mr. Chair, as you grasp your gavel.

The Chair: I am, because that's not the intent of the motion.

Hon. Pierre Poilievre: That does not stop us from studying what is right here in this motion.

In conclusion, I'd like to thank Mr. Kmiec for bringing this forward. He is championing the people of Calgary who live in his constituency, but don't be mistaken that while the people of Calgary will justifiably benefit if these pipelines get built, this is a national issue. There are people right across the country whose lives will be made better by the economic activity that would result from getting full market value for Canadian oil. As long as we're being ripped off by this discount price we receive for Western Canada Select, people everywhere in Canada are poorer. Everywhere.

I don't understand why the government, if it's really so committed to getting the pipeline built, would not want to explore the use of section 92.10(c) of the Constitution to achieve it. What harm would be done in studying that, and what could possibly be more urgent to study at a time like this, when we have an interprovincial crisis between the NDP governments in Alberta and British Columbia, a crisis the Prime Minister has thus far been unable to solve?

Let's bring the experts here, discuss what constitutional powers the government could execute to take this pipeline to tidewater, and pass the recommendations on quickly to the government. I think if you asked the member, Mr. Kmiec, if he was in agreement, he would probably tell you that he would be willing to see the committee expedite the report coming out of that study so that the Prime Minister could receive a copy of it as quickly as possible and use the knowledge garnered therefrom to move forward with full approval, and ultimate construction of the pipeline, at all levels.

Thank you.

● (1610)

The Chair: Mr. Kmiec.

Mr. Tom Kmiec: I guess I'll be wrapping up, if there are no other speakers, with some of the points that have been made. The uncertainty is not financial. It's entirely the making of the Government of Canada, with its dithering. You're asking us to trust the people who ran around torching everything, the entire regulatory process, adding to the uncertainty, and then to leave the arsonists in charge of fixing it. That's what you're asking us to do.

Minister Carr got out of this emergency cabinet meeting and then basically gave a non-answer to the media when they asked what he was going to do, and then he ran away. He was at the flame out front on Parliament Hill, and he ran away. He couldn't answer the question. This is the gentleman you want me to trust? He's the ultimate company man. Everything's going great, 86—

The Chair: Mr. Kmiec, I don't think you're on the motion.

Mr. Tom Kmiec: To the motion, the uncertainty is caused by the Government of Canada and the lack of verbal and legal support, not financial support. The finance committee can be involved because the finance minister was at the table. It was a four-person meeting and he was right there. This does matter because it does affect his ministry. The decisions he will make on the financial implications for the Government of Canada, and what the Government of Canada will do to provide some type of financial support, matters to the committee here. It could be money, direct subsidies, an insurance policy, or an equity stake. We have no way of knowing that. We should find out what the implications are for budgetary matters.

Energy East, Northern Gateway, and Petronas were cancelled. Between Energy East and Northern Gateway, 1.625 million barrels per day of production are not moving through a pipeline. That's royalties, levies, and construction jobs, and that has a huge impact on the Government of Canada's bottom line. Trans Mountain moves 590,000 barrels per day. You are talking about a third of what has already been lost through your decision. Bill C-69 adds to the burden. We're talking about establishing a baseline of what the government can use to say, “This is how much money we've brought into the public coffers, so this is what the Government of Canada can do on the financial side and regulatory side to lessen the burden on the government.”

The last thing I will say is from a constituent. I think he raises a great point. Then, Mr. Chair, I'll turn it over to you if there are no other speakers. I will also ask for a recorded vote.

Darren Engels from my riding says:

> When I finished university, I made the choice to move to Calgary, where I was told that the city was a built on a can-do attitude of hard-working people. My kind of place. I secured a career at a boutique investment bank that focused exclusively on the energy industry. I made it! My hard work paid off. Unfortunately, I now have a front-row seat of investment capital fleeing our country, due to an overly burdensome environment. Arguably, I cannot blame the investor for having zero confidence in Canada, given the hostile investment environment that has been created by over-reaching regulations and governments, I barely have any confidence in Canada anymore. The fact that Energy East, Northern Gateway, Petronas LNG have been abandoned, and there is real risk that Trans Mountain will be cancelled, should ring alarm bells across the country as the rule of law has been overtaken by the "green mob" that lacks facts but is well funded by foreign dollars.
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> The most unfortunate aspect of Canada's new reality is that I cannot honestly tell my daughters that if they work hard, good things will happen. Not in Canada, anyways. My next professional question might be: do I stay and fight for my livelihood and city I love, or do I move outside Canada to pursue the next phase of my career and protect the financial well-being of my family.
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> ...
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> From my perspective, the current governments definitely do not stand up for the oil and gas industry. That is tragic, especially given that the oil and gas industry enabled Canada to survive the world-wide recession of 2008 and has employed thousands of people across the country, and provided millions upon millions of dollars to support our high-standard of living. Please, we need you to act.
>
> Make me a proud Canadian again.

● (1615)

The Chair: Thank you, Mr. Kmiec.

I have Mr. Albas for a short point, and then Mr. Poilievre.

Mr. Dan Albas: Thank you, Mr. Chair.

Not to belabour the point, but the losses are not just to the whole of Canada through tax revenues.... I want to remind everyone here that places like Merritt, British Columbia—I met with Mayor Neil Menard just last week—stand to earn quite a bit from Trans Mountain in property taxes and a community agreement, and people are very concerned. The Lower Nicola Indian Band has also signed an agreement. In my region, these kinds of things are seen as an excellent way for those communities to diversify and to improve their quality of life.

I understand why Mr. Kmiec has brought this forward. I hope that Liberal members will put the Conservative members to work alongside them towards this nation-building project, so that we can give the information so that this pipeline can be built.

The Chair: Mr. Poilievre.

Hon. Pierre Poilievre: The investment climate in this country is very much a subject for the finance committee. I will quote from the Bank of Canada's monetary report from today:

> In the energy sector, which accounts for roughly 20 per cent of business investment in Canada, the Bank forecasts that investment will decrease in 2018 and remain roughly flat thereafter. Investment in new projects is being held back by reduced competitiveness resulting from regulatory and US policy changes.

The regulatory changes here and the tax policy changes south of the border are moving money out of our country and down south. This might make Donald Trump happy; it shouldn't make any of us happy around this table.

The second reason this is very much an issue for the finance committee is that now we have the finance minister, for some unknown reason, responsible for arranging financing for a project that was already privately funded. We're reading news reports that he's travelling around and flashing the government credit card to try to salvage the damage his government has caused. This is an approach we should study.

Right now we have an approach by the government that holds back economic activity and tries to subsidize it back into existence. It's like the old saying, "If it moves, Liberals tax it. If it keeps moving, Liberals regulate it. If it stops moving, Liberals subsidize it." That's what we see here. They've wrapped these projects in so much regulatory red tape that they cannot be financially sustainable on their own. Then all of a sudden the finance minister shows up and says, "Now that we've ruined your project, we'll give you some taxpayer money to resuscitate it". Is that the best way to build a free-market economy? That's something this committee could study.

We are the finance committee. He is the finance minister. He should be here testifying about the approach he's taking to undo the damage his government has caused the energy sector. It is within the purview of the finance committee. It is the most pressing controversy in the country today. And there is not a single reason this committee could not be tasked with doing this job.

I ask members of the other side, what harm would it do if we, as a committee, were to study this? What possible harm could it do to bring light to the questions Tom Kmiec has raised in his motion? If it will do no harm, and if there is a chance it might do some good, let's study it.

The Chair: With that, we'll go to....

Tom, you asked for a recorded vote, I believe.

Mr. Tom Kmiec: Yes.

The Chair: Mr. Clerk, could you go to the recorded vote.

(Motion negatived: nays 6; yeas 3)

The Chair: We'll turn to the witnesses.

Thank you for your patience. If you can hold your remarks to roughly five minutes, we'll still have ample time to get in a series of questions.

I'll turn to Mr. Howlett, from Canadians for Tax Fairness.

Welcome, Dennis.

● (1620)

Mr. Dennis Howlett (Executive Director, Canadians for Tax Fairness): Thank you for the opportunity to present to the committee on the statutory review of the proceeds of crime and terrorist financing act. It's a good thing that the act has built in a periodic review of how it is working because much more needs to be done if the government is serious about ending snow washing and money laundering.

When criminals and tax evaders use legitimate Canadian investments like real estate to clean dirty money, we call it snow washing. Canada has become an international destination for setting up secret companies to snow wash illicit funds from all over the world. It's easier to set up a secret company than it is to get a library card. This is because, in Canada, the true owners of companies and properties can remain entirely anonymous. Their identities can be concealed even from the government agencies entrusted with enforcing laws. This makes it easy for criminals, tax evaders, and those financing terrorism to hide and launder money in Canada, and it makes it hard for law enforcement, tax authorities, and financial institutions to enforce Canada's existing anti-money laundering and anti-terrorist financing laws.

Canada needs to create a publicly accessible, centralized registry of true beneficial owners of companies in an open, searchable format. That's our main recommendation.

Money laundering, terrorist financing, and tax evasion are still big problems in Canada. Estimates of the money involved range from $15 billion to $60 billion a year. Canada has a reputation of being the snow washing destination for the world because of the ease with which you can set up an anonymous company here. The Panama papers revealed that Mossack Fonseca, the law firm involved, was advising its clients to set up shell companies in Canada. When Canada's finance minister attends G20 finance ministers meetings, he has been embarrassed by the fact that Canada is so far behind other countries in beneficial ownership transparency. In fact, tomorrow Transparency International will be releasing a report that compares progress on beneficial ownership transparency among the G20 countries. It will be no surprise that Canada is among the six out of 20 with the weakest frameworks.

Law enforcement and tax authorities do not have the tools or resources they need currently to go after money laundering and tax evasion. Lack of transparency on beneficial owners is a huge problem for them. The steps they have to take to get this information slow down investigations, and this ultimately means they are able to investigate only a relatively small number of cases.

There are gaping holes in our anti-money laundering regime. While banks and financial institutions are required to determine beneficial owners and track financial transactions over $10,000, real estate agents, lawyers, and other high-risk sectors are not required to do this. Money laundering in Vancouver and Toronto real estate markets is a huge problem that is not being properly addressed, in large part due to this gap.

The B.C. government has taken steps forward in requiring beneficial ownership information to be collected by land registries. Other jurisdictions need to implement similar measures.

We need a public registry of beneficial owners of corporations and trusts. This would make it much easier for tax authorities and law enforcement to go after criminals, and it would make it much easier for financial institutions to fulfill their duty to check on beneficial owners. A public registry, I believe, would also be necessary if the AML/ATF regime were to be extended to real estate agents, lawyers, and other high-risk sectors, as I believe it should.

We need much stiffer penalties and more transparency so that there is effective deterrence built into the system. It's much easier to prevent than to enforce. The chances of getting caught currently are very low and even if you are caught, the penalties are not very severe.

● (1625)

The agreement reached with provincial and territorial governments last December to require corporations to know who their beneficial owners are is not much of a step forward. While we appreciate that the federal government has engaged other levels of government in addressing the beneficial ownership issue, unless further steps are taken to set up a public registry of beneficial owners, it does not get us much further ahead.

When you stop and think about it, what has been agreed is really a bit of a joke. Law enforcement would have to go and ask the company they are investigating for information on the beneficial ownership, thus tipping them off that they are under investigation. If they don't voluntarily comply, they have to go through the rigmarole of getting a search warrant, further delaying and complicating investigative efforts. The fact that they are not required to report their beneficial ownership information to provincial/territorial or federal corporate registries means that it's almost impossible to know if companies will actually be doing this and that the information will not be easily assessed by law enforcement and tax authorities. Moreover, there are no penalties for reporting false information.

The federal government has a responsibility to provide more ambitious leadership on this. As a signatory to international agreements, it has a duty to ensure that other levels of government bring their corporate registries up to international standards. If Canada is to become a leader rather than a laggard on beneficial ownership transparency and fighting money laundering, we need to match the U.K. and the EU standard of a public registry of beneficial ownership of corporations.

Thank you very much.

The Chair: Thank you very much.

Turning then to the Canadian Gaming Association, we have the president and CEO.

Mr. Burns, welcome.

Mr. Paul Burns (President and Chief Executive Officer, Canadian Gaming Association): Thank you.

Thank you to the committee for the invitation to appear here today.

The Canadian Gaming Association is a national trade industry association representing leading operators and suppliers in Canada's gaming industry. I had occasion to appear before the Senate's finance committee several years ago as part of their statutory review of the act, and I am grateful for today's opportunity.

To give you a snapshot of Canada's gaming industry, it directly employs more than 125,000 Canadians, contributing $6.5 billion in direct labour income. Our purchasing power equals more than $14.5 billion annually in goods and services, which generates over $8.5 billion annually for governments and charities in revenue.

Canada's gaming industry is one of the most highly regulated industries in the country, and virtually every facet of the gaming industry is subject to scrutiny. Regulations affect employees licensed to work in establishments, suppliers to the industry, gaming equipment, and rules of play. They also assist us in delivering on our requirements under the proceeds of crime and terrorist financing act. Regulatory oversight is built into the DNA of our industry. It's top of mind for every operator, every day.

The success of our business is built upon upholding the public trust by delivering fair games in safe and secure environments. We deliver on that trust through rigorous regulatory oversight, testing of gaming products, strong internal controls, and world-leading responsible gaming programs.

One measure of our regulatory oversight is through our industry's commitment to be a strong partner in Canada's anti-money laundering regime. We do this by collaborating with FINTRAC, provincial gaming regulators, and law enforcement, as we recognize that Canada's AML regime operates on the basis of three interdependent pillars: policy and coordination; prevention and detection; and disruption. In short, it's a partnership that is strongest when we work together.

As gaming operators, our role is prevention and detection, through identifying and reporting large and suspicious cash transactions and large cash disbursements made by casinos. We report that information not only to FINTRAC but also with gaming regulators and directly with law enforcement, as needed.

Our industry commitment is demonstrated through the deployment of a large number of dedicated and well-trained security, surveillance, and compliance professionals, and through the use of sophisticated tools such as state-of-the-art surveillance and information management systems to monitor and record activities. Our activities are regularly audited by provincial regulators, third-party firms, and FINTRAC itself.

The recently released Department of Finance memo identified the casino sector generally demonstrates high levels of compliance, and it should be noted that casino sector compliance levels were double those of chartered banks and money service businesses.

While casino reporting represents less than 2% of the reports received by FINTRAC in any given year, we value the relationship with the Department of Finance and FINTRAC, as they have been good partners to the gaming industry by working on refinements and improvements in the reporting relationship over the years.

Our industry participates in FINTRAC's industry advisory group, and on several occasions we have welcomed the participation of the Department of Finance and FINTRAC officials in our industry's annual conference, the Canadian Gaming Summit.

Recent media reports might leave one the impression that casinos are easy places to launder money. I want to make it clear—they aren't. It's virtually impossible to be anonymous in a casino. Surveillance begins in some instances as soon as you pull into the parking lot, and by the time you reach the front door, your image has been recorded. If you wish to buy chips with large amounts of cash, you'll be asked for ID, plus additional personal information, which we are required to collect by FINTRAC.

If you think you can play a couple of hands of blackjack and cash out with a cheque, you're wrong. Cheques are issued only for verified winnings, with your original buy-in returned in cash. You will receive only a cashback if there are no verified winnings.

Our industry works diligently to identify and mitigate risks, as in the case in British Columbia. It's been widely reported that the British Columbia Lottery Corporation and gaming operators in the province proactively responded to an increase in large cash transactions beginning in 2012. They did that by placing significant restrictions on the use of cash for certain players through increased interviews and scrutiny, increasing training and education for frontline staff, and encouraging—or mandating—customers to use cash alternatives such as player gaming fund accounts.

Thanks to these efforts, players were barred from B.C. casinos, including Paul Jin, who has been identified in media reports as a key suspect in B.C. money laundering efforts. Many of Mr. Jin's known associates were subsequently barred, and, as the media reported, details of their activities were shared directly by BCLC with the B.C. RCMP.

As a direct result of these proactive measures, we have seen a 60% decline in suspicious cash transaction reports since 2015. These types of transactions now represent less than 4% of the revenues of casinos, and they continue to decline with the recent efforts by the B. C. government.

● (1630)

Gaming operators are delivering on their pillar of Canada's AML regime—prevention and detection—but as others who have appeared before this committee have stated, there is a need for increased effort by law enforcement to disrupt the system. To my knowledge, despite information going back to 2012 collected by BCLC and B.C. gaming operators, which was shared with law enforcement, on the illicit attempts by Mr. Jin and his associates to launder money in B.C. casinos, he is still operating in the Vancouver housing market.

The assistant commissioner of federal policing criminal operations with the RCMP commented to this committee that “due to time constraints, resource limitations, and the efficacy of prosecuting certain charges over others in these dynamic and complex cases, following through on proceeds of crime or money laundering charges is often not tenable.”

Across Canada, the gaming industry has strong and productive working relationships with law enforcement, but we need to know that our reporting efforts are being acted on. Awareness of police investigations and of the ensuing arrests are visible outcomes and are deterrents as well as proof that the system works.

Thank you very much for your time. I will happily take any questions.

The Chair: Thank you, Mr. Burns.

We'll turn to Imperial Tobacco Canada Limited, and Mr. Gagnon, head of corporate and regulatory Affairs; and Mr. O'Sullivan, head of security and intelligence.

Go ahead, Eric. I believe it's you.

[*Translation*]

Mr. Eric Gagnon (Head, Corporate and Regulatory Affairs, Imperial Tobacco Canada Limited): Thank you very much, Mr. Chair.

Thank you for this opportunity to appear before the committee.

As the chair pointed out, my name is Eric Gagnon and I am the Head of Corporate and Regulatory Affairs for Imperial Tobacco Canada.

[*English*]

Mr. Kevin O'Sullivan (Head, Security and Intelligence, Imperial Tobacco Canada Limited): Good afternoon. My name is Kevin O'Sullivan. I am the Head of Security and Intelligence for Imperial.

I came to this position after a more-than-20-year career in law enforcement, in which I was most recently the detachment commander for the national investigation service of the Canadian Armed Forces here in Ottawa, responsible for investigations of serious and sensitive crimes both domestically and abroad. My experience in both these roles has afforded me first-hand knowledge of the impact and the immense profits gained by organized crime groups through their involvement with illegal tobacco.

Since 2012 there have been four major investigations in Canada that have demonstrated specific links between contraband tobacco and organized crime, those being Lycose, Mygale, Cendrier, and most recently Olios.

I am pleased to contribute to your review of this act, because the ties between illegal tobacco and other criminal activity are well documented, most recently in a March 29 report by *W5*, which I encourage you to watch.

● (1635)

Mr. Eric Gagnon: First, let me provide you with some information about the size and scope of illegal tobacco and the links to organized crime.

Since I appeared before you in October, new data has been released on the illegal market in Ontario, which has jumped by more than 37%, a 66% increase in just three years. A recent report by Ernst & Young suggests that Ontario alone will lose up to $5 billion in tax revenues from tobacco by 2020.

We are also seeing alarming declines in tobacco tax revenue in provinces like Alberta and Saskatchewan, suggesting there has been a significant increase in illegal activities in western Canada, where the illegal rate has been 12% to 15%, depending on the province. Meanwhile, rates in Atlantic Canada have been consistent, between 15% and 20%. The only province seeing a significant decline is Quebec, where aggressive law enforcement actions have seen rates drop from over 40% to less than 15%.

We estimate that the national illegal tobacco rate to be 20% to 25%, or around seven billion cigarettes, the equivalent of 35 million cartons. From there, you can do the math. If they're sold for $40 each, which is not uncommon, that's over $1.4 billion. We're talking about big money. In fact, the Sûreté du Québec recently said that the importation of illegal tobacco is eight times more lucrative than cocaine, which is why it is so attractive to organized crime groups. According to the RCMP, there are more than 175 organized crime groups involved in illegal tobacco in Canada. There are also at least 50 illegal cigarette factories in Canada and more than 300 smoke shacks selling tobacco outside existing legal, regulatory, and tax frameworks.

As Kevin mentioned, in March 2016, police forces in Ontario, Quebec, the U.S., and around the world were involved in the largest illegal tobacco bust in Canadian history, Project Mygale. This criminal operation involved much more than just tobacco. Also seized were millions in cash, over 800 kilograms of cocaine, meth, marijuana, and enough fentanyl to kill ten thousand Canadians.

This committee should also be alarmed that illegal tobacco from Ontario is now being found throughout Mexico and Central America. You can draw your own conclusions on why this is happening.

For your current study, our recommendation is fairly blunt. Laws are only useful if they are enforced. Therefore, our recommendation is to enforce the existing laws, which are not presently being enforced when it comes to illegal tobacco. Billions of dollars are being diverted to organized crime, often in plain sight. The government can barely bring itself to mention the problem, let alone act. Compare that to the U.S., where extensive action is being taken to address illegal tobacco because of the links to other criminal activities and terrorism.

I also have to flag that MPs will soon be asked to vote on a bill called Bill S-5, which seeks to impose plain and standardized packaging of tobacco products and standardization of cigarettes themselves, making it impossible for consumers, retailers, and law enforcement to differentiate a legal pack or product from an illegal one. This is even more so because the federal excise stamping system has been compromised, with legal stamps already routinely turning up on illegal products.

Health Canada even wants to impose the pack and cigarette formats made by illegal operators rather than pack and cigarette formats used in the legal industry. If you asked organized crime groups to come up with a piece of legislation to help them gain even more of the market share, it would be hard to beat Bill S-5. I know this is outside the scope of this study, but these issues cannot be looked at in isolation. If you want to combat money laundering and organized crime, legal tobacco companies must be given some means to differentiate their products—as is allowed for cannabis—and that means not passing Bill S-5 as is.

Thank you, and we look forward to your questions.

The Chair: Thank you very much, Mr. Gagnon and Mr. O'Sullivan.

We will turn then to the individual, Ms. Iafolla from that department of sociology and legal studies at the University of Waterloo.

Ms. Vanessa Iafolla (Lecturer, Department of Sociology and Legal Studies, University of Waterloo, As an Individual): Hello. My name is Vanessa Iafolla, and it's an honour to appear before the committee as part of the current review of the Proceeds of Crime (Money Laundering) and Terrorist Financing Act. Thank you so much for the opportunity to contribute today. I'll be speaking from some of my research findings.

I'd like to draw the committee's attention to several issues that I think are particularly important in the fight against money laundering and the financing of terror. These include, firstly, the need for improved guidance and feedback to regulated entities by bodies of oversight such as OSFI and FINTRAC; secondly, the issue with respect to the use of discretion by individuals in reporting entities, and here I'm talking specifically about financial services; and, thirdly, the need for a business registry and improved transparency regarding ultimate corporate beneficial ownership.

My research within financial institutions has impressed upon me the desire of our schedule I banks not just to minimally comply with the legislation, but also to set industry-wide standards and be first in class. Our banks take compliance with the law seriously and, as I'm sure you know, have developed a significant apparatus with respect to the detection and reporting of money laundering and terrorist financing.

Still, many people with whom I've spoken have expressed a desire for their regulators to provide more structured guidance. These individuals have expressed that they feel that regulations are imposed with little guidance as to implementation. They describe this process as cryptic or interpretive, and while they appreciate the considerable flexibility, they feel that a better balance should be struck between providing sufficient direction and guidance, and the freedom to implement regulations in ways that work institutionally.

Another issue I've discovered is that this lack of guidance trickles down throughout the reporting process. At all levels that I've studied, bank employees have expressed a desire for feedback about the kinds of intelligence they are gathering. If you want intelligence to be truly intelligent, it's important for meaningful feedback to be provided to regulated entities. The banks don't get a good sense of the use or quality of the intelligence they generate, unless of course the report is rejected for incomplete information. In turn, employees down the reporting chain don't know if what they're sending up the line is useful or helpful.

I appreciate the difficulty inherent in providing such detailed information to the number of regulated entities in this country. However, people who are doing this work in earnest need to know if what they're doing is on the money, so to speak, or if they've missed the mark. I've heard FINTRAC's attitude described as, “Give us the info. We'll figure it out.” That isn't necessarily helpful to reporting entities who want to make sure that the resources they pour into this endeavour are bearing good fruit. Banks want to be more than a resource. They want to do real meaningful work on this issue, and feedback is crucial to that end.

Part of the issue on the lack of guidance ties into the second issue that I would like to discuss, the use of discretion. Reporting employees with whom I've spoken, and internal reports I've seen, highlight the significant latitude that reporters have. This is good, insofar as they're not tied to specific dollar amounts or thresholds for reporting, but there are issues related to the quality of intelligence generated, and frankly issues of privacy and fairness, when individuals are reported not for the suspiciousness of their financial transactions but for reasons that are fundamentally subjective.

Bank tellers have disclosed to me that they have reported suspicious transactions because the individual was wearing a hoodie or sunglasses; that the person was employed as an exotic dancer, which as we all know is legal, providing you have a licence to do so; that the person was too friendly or not friendly enough; worse, that the person was black or a Muslim. Those are not necessarily solid reasons to suspect someone of crimes, yet those concerns are significant enough for reporters to disclose them to me. I've worn a hoodie. I've worn sunglasses. I'm a very friendly person. I can assure you I've never financed terror, and I shouldn't be reported for presenting so in a financial institution.

Better guidance up the chain could translate into these kinds of reports being minimized, and thus in turn into better intelligence for FINTRAC. I think some of this is tied to the fact that, unlike other jurisdictions, Canada does not require the identification of a predicate offence on its suspicious transaction reports. The idea of suspiciousness is less tied to legal definitions, and instead can be more subjective. Perhaps tightening that up would be helpful for producing smarter intelligence.

Finally—and I won't belabour this point as Mora Johnson has spoken to it, and Dennis Howlett has mentioned it today—I think there's a real need for a public registry of beneficial ownership that could be accessed. It's problematic that law enforcement of any kind, and I mean not just criminal but also regulatory enforcement, cannot necessarily determine the connections between business entities, because of the way that our laws enable corporate secrecy. Dirty money isn't just the product of criminal acts; regulatory violations are also done in pursuit of financial gain. It's important for us to recognize that the value of a public registry of beneficial ownership extends beyond the police to other agents of social control.

● (1640)

Thank you so much for your time, and I look forward to your comments.

The Chair: Thank you very much.

Next we have Mr. Leuprecht, professor in the department of political science at the Royal Military College of Canada. who is coming to us from Australia. Welcome, and thank you for your patience, Christian.

[*Translation*]

Dr. Christian Leuprecht (Professor, Department of Political Science, Royal Military College of Canada, As an Individual): Hello.

Mr. Chair and members of the committee, thank you for inviting me to appear before the committee.

I will make my remarks in English, but you may ask questions in either official language.

● (1645)

[*English*]

I first want to define the problem space, which is the under-utilization of money laundering, proceeds of crime, and terrorism financing statutes. I also point out in my fairly detailed and lengthy submission that this is a long and well-known problem. I cite from testimony given by the RCMP before the justice committee in 2012, which had already identified many of the issues that are now recurring here in the conversation. I think one of the questions we need to ask ourselves is, why do we keep beating around the same bush, and so little is being done?

I think in terms of the problem space, first there is a lack of political will and a lack of law enforcement will around these particular issues. Unless we change the will behind this, we can change all the legislation we want, but we're not going to get anywhere.

Second, there is also a problem of capacity. These investigations are highly complex, time-consuming, and resource- intensive, so law enforcement by and large, I would say, shies away from these investigations. I can provide ample data to this effect from both federal and provincial agencies. Prosecutors shy away from them because they're complex and take a long time, so if you get evaluated on how many cases you can prosecute, let alone how many of them you can prosecute successfully, these are not the kinds of cases you're going to take on.

Third, there is a problem of domain awareness. FINTRAC sees a bit of the domain; the banks see a bit of that domain. The banks abroad, to which money might be transferred, might see some of that domain; and much of the domain nobody actually sees if you think about the massively growing problem of trade-based money laundering, for instance, and if you think about some of the charges that have been laid against banks in Australia. All of this points to major coordination and collective action problems here.

There are two last points that I want to raise about the problem space here. One of them has already been mentioned, the problem of concealing ownership of assets obtained by criminal proceeds. The corollary of that is to prevent the dissipation of forfeitable assets that cannot be physically seized. I'll get back to both of these points, but the essence here is that we have two corollary problems.

Really, I think the problem around forfeiture is a particular issue because ultimately it's important not just to punish people and the defendant and to remediate markets, but also to make sure that these markets actually work. As I point out, if it continues in Canada it will only reinforce the way legal businesses get embedded in the Canadian market that engages in these illicit purposes.

I then go in fairly significant detail to some of the legislative measures that can be taken. I point out in detail some elements in the Canadian legislation that are quite good, in particular with regard to predicate offences, and that there are elements that are particularly weak and confusing. For instance, section 462.31 requires the intent to conceal or to convert, which is deliberately waived, for instance, in U.S. legislation.

I also point to Florida statutes because we talk a lot about beneficial ownership, in particular, the problem around bearer shares. But there are code provisions around that for law enforcement that then force companies to be able to identify these owners. I point in particular to Florida provisions here, and I think all these provisions could be readily adopted in Canada.

I'd also like to point out one of the ironies in all this. With regard to the issue of corporate laws that anonymize ownership of assets and the issue of bearer shares that can cross borders largely illegally and undetected, Canada has pressured countries such as the Bahamas and Panama to abolish their bearer regimes, but it has refused to do so itself, so I think we need to get our ducks in line here.

There are 12 specific recommendations. I won't go through them in detail. I will just flag them.

First, we need to change some of the structures around the RCMP that the organization has overstretched. It doesn't have the capacity to engage in this. It needs separate employer status so that it can engage seasoned experts—accountants, lawyers, and whatnot.

I suggest that we need to restructure Criminal Intelligence Service Canada and take it out of the purview of the RCMP. We should create it as a separate, stand-alone organization similar to the Australian Criminal Intelligence Commission. We should embed a special unit of that with the Criminal Intelligence Service Ontario and give it separate employer status. We should basically create what we already have in regard to terrorism, the integrated national security enforcement teams. We should create the same thing on the market enforcement side through this particular structure.

The integrated market enforcement team of the RCMP in Toronto, I believe, has been in existence for eight years. I need to check my data on this, but I believe it has never laid a single charge in those years. This is not to criticize the RCMP. There are a number of issues around IMET, but needless to say the current structure is not working and therefore I have very specific proposals here on what we need to do.

With regard to the domain awareness issue and the collective action problem between banks and financial intelligence that I raised before, one option is to shift the burden, as the U.K. has done, to convince us this is an innocent transfer and we'll allow it. I think that maybe the charter provision as interpreted under Oakes would make this very difficult to do, but we could change the crime to an illicit money transfer, which then means we can seize the money by default as the U.K. has done. Then you can engage in litigation to get the money back that we spend on these proposals.

We should drop to zero the reporting requirement of $10,000. This $10,000 threshold was always arbitrary. It creates significant costs for banks, because now they have to filter transactions, as opposed to pumping all the transactions to FINTRAC. The current regime is untenable because banks are basically the cops that have to provide the evidence. We think compliance will always be weak under this system. Banks have great trouble providing the suspicious transaction reports precisely because they only have a limited picture.

We need to create—and this is really key—separate legislation for money laundering and terrorist financing. I understand after 9/11, it was easy to draft the terrorism financing piece onto money laundering. This has been the global trend not just in Canada, but around the world. This combination of legislation is not working. Think about having a transportation act for maritime and air transportation and saying that since they're both transportation, we'll put them all into one act. They're both transportation, but they're really different things.

By and large, money laundering takes illicit funds and tries to make them legal. Terrorist financing takes legal funds and uses them for illicit purposes. This government has to be prudent to introduce separate legislation. I think it has recognized this in other domains.

We need to make sure that only account holders at banks can make deposits, and cash deposits over a certain amount—I would suggest $10,000—have to be done in person to their account.

I suggest we take $100 bills, and possibly also $50 bills, out of circulation. After all, when was the last time any member of the committee used a $100 bill? This largely fosters money laundering and an illicit cash economy. We need to follow best practices set by AUSTRAC, which require legislative changes. AUSTRAC embeds bank analysts within their financial intelligence organization, and AUSTRAC embeds its analysts within bank organizations to improve co-operation and domain awareness. We can see this is yielding a genuine payoff.

They also need to make sure that the agreement from December 2017 is implemented for the federal, provincial, and territorial corporate statutes so they are changed to beneficial ownership and bearer shares, and bearer share warrants and options are replaced by registered instruments. We've already mentioned the national registry of beneficial ownership; both Germany and the United Kingdom are in the process of doing so.

We need to expand FINTRAC's mandate so it can also engage in investigations. I think this would be a great improvement for everybody. It's not a whole lot of use if you have a financial intelligence agency that can only do the analysis and then passes it off to law enforcement, and then ultimately nothing ever happens.

Finally, as the United States Internal Revenue Service and Treasury do, I suggest that we should publicize the successful prosecution of transnational financial crimes. I say “transnational” because even the government has at times confused this in the statements it has made. It has claimed a number of prosecutions for transnational illicit financial dealings when the crimes that were prosecuted were crimes committed in Canada, domestic offences under the Criminal Code. These cases had transnational dimensions, but nobody was prosecuted for these transnational issues.

If we don't get at this in a globalized society where borders are increasingly fluid, Canada is going to become an even greater haven. The problem is that this is now so entrenched in the legal economy that the longer we wait, the more difficult it is going to be to root out the underlying complex issues.

● (1650)

I've made a very detailed submission, and I'm happy to speak to any of the issues and recommendations that are raised in that submission as to what needs to be done to improve the Canadian regime.

● (1655)

The Chair: Thank you, Mr. Leuprecht. We do have the 12 recommendations in the submission on our iPads.

With that, we can get eight questioners on if we stick to four minutes each.

I assume that most of our witnesses have seen the discussion paper by the Department of Finance, and if you have any additional comments, the deadline for feedback to the Department of Finance on that paper is April 3-—now extended to May 18. If you have any other information on, or any concerns about, the real concerns in the paper, don't be afraid to lay them before us as well.

You have four minutes, Mr. Fergus.

[*Translation*]

Mr. Greg Fergus (Hull—Aylmer, Lib.): Thank you very much, Mr. Chair.

I want to thank all the witnesses for being here today.

Since I have just four minutes, my questions will be for two witnesses only.

I will begin with you, Ms. Iafolla. Thank you very much for your presentation.

[*English*]

I was particularly taken when you said that, based on your research, people in financial industries who are trying to provide information do find the guidance subjective or cryptic, and that not only should there be some clarity on that front, but also some opportunity to have feedback.

Can you give us a little bit more on that? This is bringing something new to the table, so I'd like to do that, but please be brief because I'd also like to make sure I can ask another question after that.

Ms. Vanessa Iafolla: Certainly.

As you know, regulations are set forth by the government. This is no surprise to you. Financial institutions are left to implement processes. Once legislation came in, they all built up their anti-money-laundering, anti-terrorist-financing units piecemeal, as things came through. The experience of financial institutions is one of receiving direction or regulations, making them fit within their risk management frameworks and implementing this process by creating intelligence from the teller counter or from algorithms and feeding that into the financial intelligence unit, and sending it to FINTRAC. All those along that chain feel as though they're putting this information forward, but they have no real sense of whether that information is actually useful or valuable.

Mr. Greg Fergus: Do you think that FINTRAC doesn't provide that type of feedback because it feels that to do so would tip off, perhaps, the organized crime, or people who are trying to launder money, as to what FINTRAC is looking for and that could be avoided?

Ms. Vanessa Iafolla: It could be possible that FINTRAC could provide information to financial institutions in a way that isn't necessarily put on the website for organized crime syndicates to use. It could even be to say, “We've received *x* number of reports from you, and we've been able to utilize and invest in *x* number of investigations into these reports. Financial intelligence containing this type of information, this kind of behavioural information, was useful, but this type is less useful.” Financial institutions can also then inform their employees that this kind of information is useful, be it behavioural, numerical, or pattern-related, and that other kinds are less so. That way, the work they do could be much more targeted.

Mr. Greg Fergus: Thank you very much.

Ms. Vanessa Iafolla: You're very welcome.

[*Translation*]

Mr. Greg Fergus: Mr. Leuprecht, thank you very much for your presentation; it was very complete.

I have two quick questions for you.

[*English*]

The Chair: You'd better cut it to one.

[*Translation*]

Mr. Greg Fergus: Okay, thank you.

You recommended dividing the bill in two to deal with money laundering and terrorist financing separately. Can you elaborate on that recommendation? Has that been done in other countries? Would it be very helpful to do that?

● (1700)

Dr. Christian Leuprecht: That is an excellent question.

[*English*]

This is a problem that exists throughout the world so we're not starting [*Inaudible—Editor*] comparatively in the number of jurisdictions. Everybody, every financial intelligence unit, struggles with the problem that the money laundering and terrorism financing legislation are crafted onto one another, but there's sort of a dictum in policy studies that you use one instrument to achieve one policy objective. These are fundamentally different problems, and I'd be happy to speak to you in person or provide a separate detailed brief on why the current legislative regime is highly problematic in trying to deal with both these issues within the same legislation. If you ask people from the community, you will find a large consensus that these two issues need to be taken into separate legislation. I think Canada can lead by example here, and I can provide, as I say, very detailed examples.

If you would allow me, with regard to your previous question to Ms. Iafolla—

Mr. Greg Fergus: Please.

Dr. Christian Leuprecht: —the banks are not the major part of the problem here. Everybody fingers the banks, but as I point out in my brief, the problem is that 90% of this illicit money never flows through banks. The banks already do a pretty good job, not just because of legislation, but primarily because, on the one hand, they're afraid of fines, in particular U.S. fines, and the reputational risk associated with them. We can see this with regard to Commonwealth Bank of Australia. The banks, I think, are actually doing a reasonably good job. What the banks need is much better collaboration with FINTRAC in terms of domain awareness. Hence, I cite the Australian precedent, but there are other precedents, for instance from the U.K. and other jurisdictions, that I could cite. There are best practices that we could implement and which current legislation in Canada explicitly prevents FINTRAC from doing.

The Chair: Thank you both.

Mr. Albas.

Mr. Dan Albas: Thank you, Mr. Chair, and to our witnesses for your testimony here and helping us with our report.

I'm going to start with Ms. Iafolla. Thank you very much for your presentation. You've said there are prescriptive rules that are brought out but that there is no guidance. That seems to be one of the sticking points here, so I'll give an example of a low-tech approach and then a high-tech approach and just ask you to comment.

A low-tech approach would be when you have a new teller who subjectively views someone as suspicious based on whatever criteria and makes a report to FINTRAC. From what we've heard from the perspective of Minister Eby from British Columbia, there's a warehouse where that report goes, and whether or not it goes anywhere else is up.... So there's no feedback to help the bank that may have a lower-tech approach to dealing with these things.

Then we have a high-tech approach where maybe it's a bank owned by a foreign subsidiary that's doing business lawfully in Canada and it has an algorithm that ferrets out these kinds of issues, whether it be anti-terrorism or money laundering. What ends up happening, though, because these are prescriptive rules and because they're basically forced to put it into a FINTRAC report, is that FINTRAC may not have the capacity to say “this is what our algorithm says” as the case for it.

Do we really have a mismatch with FINTRAC's one-size-fits-all approach?

Ms. Vanessa Iafolla: I think that's a fair characterization, and I also think there are problems on both sides with this low-tech, high-tech distinction you mention, and it's important to highlight them. High-tech doesn't necessarily mean objective. Individuals—you, me—could theoretically create an algorithm. While those algorithms are certainly based on best practices and expertise within institutions, they are still only as good as the rules or input that crafts them. I'm not really convinced that low-tech, high-tech is necessarily a useful distinction .

Also, it's important to note that within financial institutions that use this high-tech modality, they still use the lower-tech human-generated reports of suspicion in their assessments. Either way, you still wind up having that subjectivity coming into the reports.

I would like to comment briefly on your remarks about these reports being generated and then staying there, wherever they might be, either within the financial institution or at FINTRAC. I think it's important to note that where those reports are not necessarily based on truly suspicious financial transactions or activity but on ideas or suspicions having to do more with strangeness than true illegality, it's not particularly fair or equitable that those reports are made and retained in the first place. I think it's important to note that guidance or feedback could help to mitigate that issue. I wouldn't want my transactions to be put forth because somebody thought, as I was told in an interview, that my dark hair made me suspicious to talk to as a researcher.

I think it's very important for us to keep those issues in mind when we make these distinctions.

● (1705)

Mr. Dan Albas: The Privacy Commissioner has also raised concerns about the retention of information. One thing I've been asking many witnesses about is the fact that FINTRAC, by its enabling legislation, is not allowed to actually share its information outside, to the RCMP or the CRA. I'm talking about case-specific information, where they believe there could be organized crime. I understand that, but there is a lot of data they collect that CMHC or OSFI or the Minister of Finance may not know about, from the regulated mortgage space, where there could be cash transactions.

Do you believe that information could be aggregated in a way that does not compromise personal information but gives policy-makers in a variety of different sectors more information? Basically, we're spending the money to collect it, so could we not put that information to better use?

Ms. Vanessa Iafolla: Absolutely. It's a huge resource. I don't think there's anything wrong with disclosing patterns and typologies, much in the way that FINTRAC does in its current reports but in ways that actually are useful to those bodies who are responsible for generating that intelligence in the first place. It's a huge wealth of data that's stored at FINTRAC, and it's a shame we're not able to use it in ways that help us better refine our processes. I completely with you on that count, yes.

The Chair: Mr. Dusseault.

[*Translation*]

Mr. Pierre-Luc Dusseault (Sherbrooke, NDP): Thank you, Mr. Chair.

I want to thank all the witnesses for being here and for sharing their expertise.

My first question is for Mr. Howlett, but first I would like to thank the witnesses who provided their opinion on the issue of beneficial owners.

Mr. Howlett, I would like to hear your thoughts. In some countries, there will always be a degree of secrecy in financial or banking systems and even in company registries. The risk is that, even with company registries that are very transparent, certain company structures will ultimately still use foreign countries that do not have the same standards or the same transparency. That is part of the equation we have to bear in mind.

In your opinion, should we be worried about this?

[*English*]

Mr. Dennis Howlett: There is a global effort to try to address this problem. At this point Canada is a laggard. It's true that other countries may pick up the slack if Canada were to improve its game, but there would be international pressure to bear. I know that when the finance minister has gone to the G20 meetings, he has come under pressure from his colleagues on this. Similarly, international pressure can be brought to bear on countries that don't step up their game and try to bring their regimes up to international standards.

Now one of the issues here is that the FATF report, which the discussion paper referred to, is a bit outdated. Just coming up to scratch with those recommendations is not sufficient, because the EU and the U.K. have moved beyond that. I expect that in the next round of G20 meetings and so on, where these issues are being agreed on internationally, they will agree to a much higher standard. That includes a public, accessible registry of beneficial ownership information.

Now we're not saying the federal government does everything. We still want to have provincial and territorial corporate registries, but the same information needs to be collected, the same minimum standards need to be implemented, and they need to agree on some way to bring the information together in a searchable database. That would bring it up to the emerging new global standards. If countries don't comply with that, there will be pressure brought to bear in various ways for them to up their game.

● (1710)

[*Translation*]

Mr. Pierre-Luc Dusseault: Thank you.

In the time remaining, I would like to talk to Mr. Burns about slot machines. I have the sense that they are not the most problematic in casinos, which have very effective and elaborate technology to prevent money laundering.

Slot machines are not just in casinos, however. Are the regulations as strict with respect to the other place they are located? To what extent are those locations regulated? Are the measures against money laundering as strict in these other locations? For example, money can still be laundered in slot machines that are located in bars, restaurants and so forth, even if the amounts of money are smaller. Has this also been addressed?

[*English*]

Mr. Paul Burns: In the VLT market that you mentioned, with gaming machines and licensed establishments in various provinces, there is a denomination limit and an ability to pay out because it is the bar owner, in many cases, who would be cashing out. You would take a ticket out of a machine, if you put cash in, and play. The ability to move large sums of funds in any kind of way is extremely difficult in terms of those machines. It's the owners' ability to actually have that cash, because they're the ones who will be paying you out, on that ability. There are surveillance mechanisms and other mechanisms to limit those funds, and for people who choose to do that, it's not an entirely effective way if you're trying to move large sums of money, and that's why we say even casinos. The regulatory oversight, the lack of anonymity, is important.

In the VLT marketplace, it's limited by the ability of low denomination, acceptance of funds, and payouts because it is the responsibility for this holder to be actually the one. Within the regulatory oversight in various jurisdictions, those owners of those establishments are subject to licensing and background checks to ensure they're of suitable interest. There is an interconnection between liquor licensing in various jurisdictions and those gaming machines. So there is a very good sight.

The Chair: We'll have to cut it there.

Ms. O'Connell.

Ms. Jennifer O'Connell: Thank you, Mr. Chair.

Professor Leuprecht, I wanted to ask questions—and actually, Ms. Iafolla, I'll also get you in on this as well—on oversight of the actual tips presented, or the tips that FINTRAC would actually collect. I had questions earlier in some of these hearings on how anybody would know, when a bank sent something to FINTRAC, for example, one, whether FINTRAC then passed it on to the RCMP, CSIS, or whatnot, and two, how we would know if the RCMP or CSIS did anything with it. Maybe they didn't for good reason, but are there jurisdictions, or have you looked into other areas that have looked at this issue, and how we provide some oversight on knowing when items are actually moved forward?

Dr. Christian Leuprecht: There are two separate dimensions to your question.

You'll see that in my submission, I actually suggest that the new National Security and Intelligence Committee of Parliamentarians and the new national security intelligence review agency, as well as the Civilian Review and Complaints Commission for the RCMP, all have mandates to ask precisely these sorts of questions. NSIRA will have the mandate, provided the legislation passes.

I think your question is dead on. These are exactly the questions parliamentarians need to be asking of the organizations. What are the specific problems internally, and why is information not moving? There are actually significant amounts of data that move from FINTRAC to the RCMP. The challenge, it seems, is translating that into actual prosecutions. The RCMP will tell you that the data is also used for other purposes, such as for purposes of disruption. We also can see that when charges are laid with regard to proceeds of crime or money laundering, those are often the first charges dropped by the prosecution when the case actually proceeds.

Yes, there are coordination issues here, but there are also significant issues with acting on precisely the data that is provided. That gets to a previous question about the Government of Canada's data analytics generally. They do poorly. The one agency that actually does it and does it well is the Communications Security Establishment. There's a general challenge around skill sets and the ability to share and to actually translate that.

Of course, then we need to make sure that we have more people around the table. FINTRAC has essentially integrated itself. They have people from Revenue Canada and other agencies. In practice, we need to change the collaboration between the intelligence side and the law enforcement side. I also bring the precedent on the terrorism side, where we have actually figured out how to do this. The problem is that on the financial intelligence side, much of the legislation with regard to FINTRAC is so restrictive that it makes it very difficult to engage in the type of sharing your question suggests would be necessary to make sure that we actually have more prosecutions. It's also about the broader question of asset forfeiture and being able to identify beneficial ownership.

There are lots of things we can do. We're not going to arrest our way out of this problem. If we think that's the solution, we're never going to get there. We need to have a much broader preventative space, and that means making the whole matter much more transparent and also giving law enforcement better tools in the act, as I suggest here, with regard to specific U.S. precedent for how this can be done.

● (1715)

Ms. Jennifer O'Connell: Thank you.

Sorry, I'm running out of time.

The Chair: Ms. Iafolla, do you have anything to add?

Ms. Vanessa Iafolla: That was an excellent response. I'd just like to add that financial institutions themselves have taken up a sort of quasi-enforcement activity whereby they engage in a process known as de-marketing or de-risking. They wind up using the intelligence that's garnered through police transactions within their own institutions and then adjudicate and remove from their client roster individuals who exceed their risk tolerance based on that.

That's another particular way data is being used, but it's quite outside the legal framework that's prescribed.

The Chair: Mr. Albas.

Mr. Dan Albas: Thank you, Mr. Chair.

Ms. Iafolla, the Canadian Bankers Association has come before the committee and suggested that there should be a capacity between different financial institutions to share information when they come across a suspicious customer. Are you concerned about the same criteria? For example, if one bank were to identify someone suspicious on subjective and not verifiable information, it could cause someone to not be able to get a bank account at another one. Do you think that is a good idea, or do you think there should be some checks and balances on such a system of sharing information?

Ms. Vanessa Iafolla: Yes, there should be checks and balances. I don't think that capacity should be unfettered, by any means. I think it is very important that if that capacity is provided to financial institutions, and I believe it should be, that capacity should be based on as much verifiable, substantiated information as possible.

Mr. Dan Albas: Here's a good question. If FINTRAC believes that there could be an issue, do you think it should play a preventative role, before an investigation is launched by either the CRA or the proper authorities, such as the RCMP etc. and say, "Here is someone suspicious"? If FINTRAC agrees, they could then notify banks that this person may be of interest, or do you think it can just be the current system, where they just relay that to law enforcement and allow an individual or individuals to continue to try to use financial institutions for their benefit?

Ms. Vanessa Iafolla: Currently, as I mentioned, if individuals are engaging in financial activity that is particularly egregious, they are generally terminated as clients. Financial institutions are still able to kind of use whatever intelligence they've garnered internally.

I think that given the dearth of prosecutions that we see in Canada and the limited activity that we've seen in this area—

● (1720)

Mr. Dan Albas: That might not be a fix.

Ms. Vanessa Iafolla: Exactly.

Mr. Dan Albas: I appreciate that.

To both gentleman from Imperial Tobacco, you say that contraband tobacco and money laundering kind of go hand in hand. Obviously the RCMP plays a role. We've also heard before about the excise stamp as being the way for someone to identify a product.

Do you feel that the current system of the excise stamp through this CRA is curbing this, or are there challenges such that this committee, for example, may be suitable to review that system?

Mr. Eric Gagnon: There are important issues with the stamp right now.

I have right here an illegal pack with a legal stamp on it. What's happening right now is that some of legal stamps are making their way into the hands of illegal traffickers, so consumers who are buying these products see a federal stamp on them and believe the products are legal.

That is the challenge when I talk about Bill S-5. The health minister has been going around Canada and telling everybody that plain packaging will not be an issue because we have a federal stamp that's going to differentiate between legal and illegal products. The issue we have today is that some of these illegal products already have a legal stamp. The challenge will be very significant moving forward. We already have a contraband problem right now. The issue is that we might be stuck with a counterfeit issue also.

That's one of the issues we have.

The Chair: Okay.

Thank you.

Mr. Sorbara.

Mr. Francesco Sorbara: Thank you, Mr. Chair. Thank you to the witnesses for their patience this afternoon.

I would like to start with Canadians for Tax Fairness.

Mr. Howlett. I've read a lot of what you've written and commented on.

You made comments with regard to beneficial ownership. A beneficial ownership corporate registry is the big step we need to take to improve disclosure in this country, is it not?

Mr. Dennis Howlett: Yes, I would agree.

The agreement between the federal government and other jurisdictions that was announced in December talks about a phase two where they will discuss the possibility of setting up registries or requiring corporate registries to collect an official ownership. It is not clear when they're going to get to really seriously talking about that.

This initial step that they've agreed to, which would be implemented by mid-2019, is really, in my opinion, not very much of a step forward at all. They really need to get right to what they call "phase 2" to talk seriously about collecting beneficial ownership information at the registry level across the country.

Mr. Francesco Sorbara: Since the December agreement between the finance minister and provincial ministers, which banned such things as bearer shares—if I remember the terminology correctly—I believe there is momentum toward increased transparency within Canada.

Also, on fighting tax evasion, for example, our government has put over a billion dollars of additional resources into CRA in our first two budgets to improve tax collection and bring down what I would call "tax avoidance measures" that are deemed to be illegal.

I think you also mentioned in your opening remarks the Transparency International report, which you said is coming out tomorrow.

Mr. Dennis Howlett: Yes.

The Transparency International report, called "G20 Leaders or Laggards?", tries to compare how the different G20 members are doing. Canada, unfortunately is identified as part of the laggards.

It's true that this government has clearly indicated in the last two federal budgets that it wants to make progress on beneficial ownership transparency. It's also true that Canada has a complicated system where you can register a company in any province or territory. However, the federal government needs to take leadership to ensure that all jurisdictions comply with the international commitments they have made.

Mr. Francesco Sorbara: Thank you for your comments today.

This is to the Canadian Gaming Association. We had the attorney general from British Columbia appear at this committee and provide some very substantive discussion and fodder for thought for us. He and others have commented, for example, that in B.C. some of the casinos potentially could have been used to whitewash or to snow, whichever term you want to use, or launder the proceeds of crime from illegal to legal activities.

Would you rebut his comments? Would you say that the minister and others are wrong in the concerns that have been shared?

● (1725)

Mr. Paul Burns: No, I wouldn't call the minister's comments wrong. I think we need to be clear on what is occurring in British Columbia. There is a layering effect going on. If there's an issue in B.C. casinos, it may be with proceeds of crime being used. As to the actual laundering of money to make it clean, there's no evidence that it has occurred.

The proceeds of crime issue is very different and very hard for a casino to detect without taking additional measures. One of those measures was taken in British Columbia, but when an individual with a money services business lends money or puts money in somebody else's hands and that person comes in—it could be a customer known to the casino, and casino patrons do use cash—and it's a known patron, those are the issues they have to deal with to determine the source of cash.

Now, the Government of British Columbia has taken one extra step in saying that sources for people need to be determined when deciding to step in. That was one final, additional measure that was added, but during this process, walking in with large amounts of cash, playing a little bit, and walking out with a cheque didn't occur. People using the proceeds of crime and playing in casinos would be a more accurate determination, I think, of what has gone on.

The Chair: Thank you. We will have to end it there.

We have time for one question each from Mr. Albas and Mr. McLeod.

Mr. Dan Albas: I'm sorry, I have to go there concerning British Columbia.

The minister tells us that there are suitcases of $20 bills coming in and that he takes drastic, invasive action to stop that activity, yet your comments today have been that you're a well-regulated industry. Do you feel that your own internal controls are fine and that it's just the Government of B.C. that up to that point was the issue?

We're getting mixed messages here, sir, and I don't think this committee or Canadians are done any service to hear anything other than point blank what is occurring.

Mr. Paul Burns: The issue concerning what comes in is that people bring cash into the casinos; our patrons do. Some are very reputable people who like to play with cash and prefer doing so. What has gone on in many cases in British Columbia is that the issues have been reported and discussed publicly. Yes, people have shown up with large amounts of cash. In some cases, they were accepted; in other cases, they have probably been refused.

What has gone on, though, is that the ability to determine the person in front of you at a given time and to say that this is a known customer with whom we have a relationship and know who they are and to talk about the sources of funds—maybe they have been playing with cash, and this time it's a lot more cash.... Those are determinations that are made at the property level. Those are the controls that we as an industry, in determining proceeds of crime coming in front of us, find very difficult.

This is a challenge that we have. It's a challenge we continue to work on to try to improve the process. But in terms of the definition of it, laundering money—walking in with a bag of cash and walking out with a cheque—hasn't occurred. What has occurred is that money that has been brought in has in many cases been used, been played; the money has been lost on occasion. Walking out with cheques is not an issue that has been discussed or has been found at this point in time.

Acceptance of that money is a challenge that we have as an industry. People—our patrons—like to use cash, whether it's for cultural or historical reasons. There are lots of reasons people bring cash into a casino. Our determination and the difficulty we have—

That's where the additional measures in British Columbia, for example come in. They started interviewing customers to find out more of their sources. They asked them; they banned them.

Mr. Dan Albas: Should those measures be rolled out right across Canada? It sounds to me as though, if it's allowed, it puts your members in a position in which they want to serve their customers but also want to serve larger interests.

Mr. Paul Burns: They do.

Mr. Dan Albas: Are there any other provinces that had B.C.- like situations before these changes were made?

● (1730)

Mr. Paul Burns: No, there have been no other jurisdictions that have had the same kind of report.

The industry uses a risk-based approach and identifies risks in their business. By and large, the industry in Canada is a local's gaming business, meaning that the patrons come from the surrounding area. In very few instances, they're coming from abroad. The Lower Mainland was one of those.

What the industry does on an ongoing basis is to identify those risks in order to mitigate them. Some companies have different policies from others, and their tolerance for taking notes of cash is a lot lower. Those are the things that we continually work on as an industry, to ensure that we identifying risk and put mitigating procedures in place, because patrons still like the cash. Over half of the transactions the industry reports on are disbursements. We pay out people in cash because that's what they want.

There are lots of issues that we're working with on a regular basis.

The Chair: You can have a quick last question, Michael. The bells are ringing, and I think people are okay if we want—

Mr. Michael McLeod (Northwest Territories, Lib.): Thank you, Mr. Chair, and I'll be quick.

I want to ask Imperial Tobacco Canada about their comment on being able to differentiate legal from illegal product. I've worked with organizations that have campaigned for a long time to get plain packaging in place. I'm from the north, and we have a serious problem with a high number of people who smoke. Lung cancer's an issue. Many people applaud this move to go to plain packaging because the status quo is not working.

I had suspected that plain packaging was going to come with its share of problems, but what do you recommend we do to keep the product out of the hands of children? How do we make it so it's not attractive, but at the same time, we can tell that this is a legal product?

Mr. Eric Gagnon: There are a couple of things.

First of all, I want to remind the committee that tobacco products are hidden from public view. There's already a 75% health warning on the pack. I don't think that plain packaging will reduce smoking, but that's another debate.

The health minister has been saying that marijuana products will be in plain packaging. However, Bill C-45 allows for branding of the products. What we're saying is that if there is plain packaging for marijuana, the same plain packaging should apply to tobacco products. There should at least be a logo of the brand that enables us to differentiate legal from illegal packs.

The Chair: With that, thank you to the witnesses for the discussion and the submissions you've made today.

We have votes in about 25 minutes.

This meeting is adjourned.