



## **Criminal Intelligence Service Canada**

# **2005 Annual Report on Organized Crime in Canada**

**Research for this report concluded on 2005-07-15  
and is based on information available until that date.**

**Note:** References to organized criminal activity associated to particular ethnic-based organizations in this report are not meant to suggest that all members of that specific ethnic group are involved in organized crime or that the government of the country of origin or its authorized agencies permits or participates in any illegal activities. These references allude to the illegal activities of particular criminal organizations, the majority of whose members share ethnic origins.

## **Criminal Intelligence Service Canada**

### **2005 Annual Report on Organized Crime in Canada**

#### **Graphic Design**

St. Joseph Communications  
Creative Services

The design on this year's report cover graphically depicts organized crime, their activities and their drive for criminal profit. Elements that represent a few of these criminal activities, such as illicit drugs, intellectual property rights crime and illegal gambling have been incorporated into the handgun's bullets. The handgun pointed at the treasure chest represents the violence frequently associated with organized criminal activities while the padlock represents the integrated community, provincial, national and international efforts to prevent organized crime.

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**Message from the Chair**  
**Criminal Intelligence Service Canada**  
**RCMP Commissioner Giuliano Zaccardelli**

We are living in ever changing and demanding times.

Globalization, rapid technological advancements and a constantly evolving criminal landscape mean those of us involved in law enforcement must work harder and smarter than ever before; we must continue to find better ways of doing business. The release of the *2005 Annual Report* by Criminal Intelligence Service Canada (CISC) is an excellent example of how we are rising to the challenge and addressing the evolution of organized crime.

This year's report represents a significant change from previous years. The new approach recognizes the changing dynamics of organized crime, and the need to highlight to the public the types of criminal markets most favoured by organized crime groups in Canada.

Equally important, the 2005 report reinforces CISC's commitment to bringing greater attention to the far-reaching, though often subtle, effects organized crime has on the lives of ordinary Canadians. It is critical that Canadians recognize and understand that they may be victims of organized crime without realizing it.

Recent events involving the seizure of counterfeit prescription drugs, as well as potentially dangerous counterfeit household products, demonstrate that every Canadian is a possible target for organized criminals. Identity theft is also a growing concern, given the ease with which criminals can exploit today's advanced computer systems to create new identities for themselves and others using the personal documents of virtually anyone.

Law enforcement at all levels, along with organizations such as CISC, must continue to work together to undermine and reduce the impact of organized crime. But we must also rely on the recognition, understanding and involvement of Canadians in communities large and small if we are to have success in this battle.

Organized crime is not some nebulous concept. It is a real and ongoing threat both to our communities and to our personal safety. Educating Canadians on the threat of organized crime and enlisting their support in protecting their community by reporting crime and obeying the laws is crucial to our collective efforts.

I am proud of the achievements of CISC and would like to thank the entire criminal intelligence community for its collaboration and excellent work in creating this document.

A handwritten signature in cursive script, reading "G. Zaccardelli". The signature is written in dark ink on a white background.





**Message from the Director General  
Criminal Intelligence Service Canada  
Sandra Conlin**

CISC, as the voice of the Canadian criminal intelligence community, represents a truly integrated and co-operative effort within the law enforcement community.

The combined efforts of CISC's members enable us to produce strategic products and services which comprehensively assess the threat of organized and serious crime in Canada. The resulting strategic assessments provide the foundation for the development of more effective policy and strategies to reduce the negative effects of crime on our communities.

This report is part of Criminal Intelligence Service Canada's commitment to inform Canadians on significant organized and serious crime activities across the country and their negative effects on our communities.

Organized crime affects each and every Canadian. We feel its effects through higher insurance costs, increased incidents of fraud against individuals and businesses, deteriorating health caused by the illicit drug trade, or fear for our safety and security in our neighborhoods and on our streets.

As clearly illustrated in this year's report, the nature of organized crime groups is continuously evolving. These groups are no longer bound by a geographic location or ethnic origins. Criminal organizations are increasingly diverse and focused on multiple criminal activities. As such, the law enforcement community must also adapt in order to successfully disrupt and dismantle these organized crime groups and networks.

For this reason, we have restructured this year's report to highlight organized crime activities and their negative social and economic impacts on our communities in all regions of Canada. We hope that you will find this information both useful and of interest.

In closing, I would also like to extend my sincere gratitude to all CISC members, bureaus and employees for their valuable contributions to this report.

A handwritten signature in cursive script that reads "S. Conlin".




## Criminal Intelligence Service Canada

Established in 1970, Criminal Intelligence Service Canada (CISC) unites the Canadian criminal intelligence community by providing leadership and expertise to CISC member agencies in their integrated efforts to detect, reduce and prevent organized and serious crime affecting Canada.

CISC consists of a Central Bureau in Ottawa that liaises with and collects information and intelligence from nine Provincial Bureaus. The Provincial Bureaus, which operate independently while maintaining common service delivery standards, are located in each province with the exception of Prince Edward Island whose interests are served by Criminal Intelligence Service Nova Scotia. The Yukon Territory is served by Criminal Intelligence Service British Columbia, while the Northwest Territories and Nunavut are represented by Criminal Intelligence Service Alberta and Criminal Intelligence Service Ontario, respectively.

### Locations of the Central and Provincial Bureaus





CISC has two levels of membership. Level I membership in CISC is restricted to federal, provincial, regional or municipal police services and agencies that are responsible for the enforcement of federal and provincial statutes and have a permanent criminal intelligence unit. Level II membership in CISC may be granted to a police service or agency responsible for the enforcement of federal or provincial statutes unable to meet the qualifications of Level I membership. The intelligence and specialized units of these law enforcement agencies supply their Provincial Bureaus with criminal intelligence and raw data related to organized and serious crime issues affecting Canada for further analysis and dissemination.

The CISC Executive Committee is the governing body for CISC. It is chaired by the Commissioner of the RCMP and comprised of 22 leaders from Canada's law enforcement community. This Committee meets twice annually to review the operation of CISC and to decide on communal goals. The Director General of CISC, who heads the Central Bureau, is secretary to the CISC Executive Committee and coordinates the efforts of all Provincial Bureaus in the production and delivery of national strategic criminal intelligence products and services. The Directors of the Provincial Bureaus meet twice annually with the Director General of CISC to discuss organized crime issues and forward recommendations and resolutions to the Executive Committee.

The staff of the Central Bureau consists of RCMP employees and secondments from other police departments and government agencies. Secondments at the Central Bureau currently include: Canada Border Services Agency, Department of National Defence, Ontario Provincial Police, Ottawa Police Service, Service de Police de la Ville de Montréal and the Sûreté du Québec. CISC's Central Bureau receives administrative and financial support from the RCMP through its National Police Services<sup>1</sup>.

## **ACIIS**

CISC's member agencies collaborate in the collection, collation, evaluation, analysis and dissemination of criminal intelligence by contributing to the Automated Criminal Intelligence Information System (ACIIS), an on-line computer database. ACIIS is CISC's national repository for criminal intelligence and information on organized and serious crime. The Central Bureau is the custodian of ACIIS and manages it on behalf of, and in consultation with, all CISC member agencies.

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<sup>1</sup> Under the stewardship of the RCMP, the National Police Services provides essential, front-line support services to the law enforcement community in Canada and abroad, in particular, forensic analyses of criminal evidence; criminal records, information and identification services; enhanced learning opportunities, and coordination of criminal information and intelligence.



## About this report

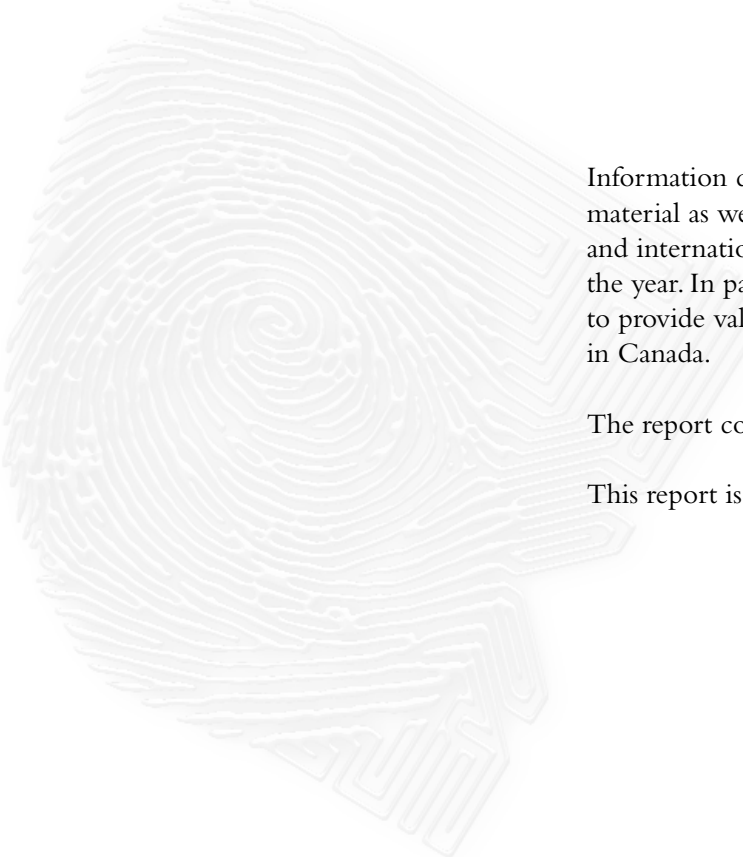
The *CISC Annual Report on Organized Crime in Canada* is published to inform and educate the public. Organized crime is a threat to public safety and to all Canadians. The activities and workings of criminal organizations are often complex and can be hidden from the everyday world. With this report, CISC seeks to make the negative socio-economic effects of organized crime visible and of concern to every individual, community and region in Canada. One of the keys to success in the fight against organized crime is partnerships between law enforcement agencies as well as with policy makers and the public.

In previous years, CISC reported on organized crime under broad-based cultural-geographic groupings. As noted in the *2004 Annual Report*, CISC recognizes that these cultural-geographical-based categories, while valid in some instances, are proving to be problematic in that the membership of some crime groups is becoming ethnically diverse with diminishing linkages to culture, language and homelands. In addition, the composition of some crime groups is becoming more fluid and temporary. Furthermore, it has also become evident that there are numerous other crime groups that do not readily fit under previously identified broad-based cultural-geographic groupings, but who are also engaged in serious criminal activities, many at levels which equal or surpass crime groups that CISC previously reported on in past years.

In recognition of the changing and increasingly complex dynamics of organized crime and its activities, the *2005 Annual Report* has shifted its focus and structure from past years. The report is divided into two principal sections. The first section focuses on the characteristics of and the methods used by organized crime groups, while the second section highlights various criminal markets in Canada. Combined, both sections seek to provide the public with a better understanding of the direct and indirect negative effects of organized crime and its illegal activities.

In addition to text boxes to illustrate some of the criminal activities discussed in this report, readers will note a number of quotations in the margins of this report. These quotations, provided by members of the CISC Executive committee as well as selected stakeholders (Canadian Bankers Association, Canadian Standards Association, Financial Transactions and Reports Analysis Centre of Canada and the Insurance Bureau of Canada), are intended to highlight the negative effects of organized crime on various communities and legitimate business sectors across Canada.





Information contained in this report is based on research of open source material as well as intelligence and investigation reports from Canadian and international law enforcement agencies received by CISC throughout the year. In particular, CISC relies on its member agencies across Canada to provide valuable information on organized crime activities and trends in Canada.

The report covers information from the previous year up to July 15, 2005.

This report is also available on CISC's website at: [www.cisc.gc.ca](http://www.cisc.gc.ca)



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## Executive Summary


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The *2005 CISC Annual Report on Organized Crime in Canada* is published to inform and educate the public. In recognition of the changing and increasingly complex dynamics of organized crime and its activities, CISC has shifted the focus of this report. The report is divided into two principal sections. The first section focuses on the characteristics of and the methods used by organized crime groups, while the second section highlights various criminal markets in Canada. Combined, both sections seek to provide the public with a better understanding of the direct and indirect negative effects of organized crime and its illegal activities on the lives of Canadians and their communities.

By its very nature, organized crime in Canada takes advantage of a multitude of opportunities that will bring them profit. They are as a result increasingly networked, often engaging in co-operative criminal ventures based upon mutual need. Organized crime also employ key methods, such as violence and technology, which help facilitate their various ventures and ensure their success over the long term. Violence and intimidation remain important elements as organized crime members and associates regularly use them to protect and promote the group's criminal identity, interests, territory and activities.

That many organized crime groups have the capacity to move commodities both into and out of Canada, whether through any of the land, air and marine border areas, is reflective of their level of sophistication. Many of the more powerful organized crime groups are able to exert their influence and facilitate connections between regions and the national and international criminal marketplace. Organized crime's presence in certain major metropolitan areas, including southern Quebec and Ontario, the B.C. Lower Mainland, as well as other urban centres with access to major transportation routes remain key in facilitating criminal operations throughout the country.

Organized crime's business largely surrounds their involvement in criminal markets. Criminal markets are dynamic and evolve over time as they react to market forces that also include competition from other organized crime groups, technological innovation, and law enforcement action. Many criminal markets emerge when organized crime identifies and exploits loopholes in legal markets (i.e. regulatory) that then become profitable market niches for it. There are also purely criminal markets, with no equivalents in the legitimate economy, such as the one in illicit drugs that involves providing illegal goods and services. It is the current scope and dynamics of organized criminal activity within Canada, and the degree to which they impact society, that are of concern to law enforcement and expressed within this report.



Criminal markets often involve illegally moving commodities, such as tobacco and firearms across borders, whether at a inter-provincial, national or international level. Due to the particularly lucrative nature of the illicit drugs market, organized crime remains extensively involved. Organized crime either directly controls or indirectly influences all aspects of the illicit drug industry whether it be cultivation, manufacture, importation or distribution.

Financial crimes, including money laundering, intellectual property rights crime and identity theft, are facilitated in large measure by technological advances, specifically in information and communication technologies. These types of crimes in particular take advantage of processes and institutions within the legitimate economy. Certain financial crimes, such as money laundering and identity theft are also used as vehicles to facilitate other crimes, particularly fraud. Information and communication technologies have also helped to facilitate the sexual exploitation of children (SEOC) by fostering connections between like-minded individuals and identifying potential victims, as well as a way to exchange and store vast amounts of data.

Additional criminal markets highlighted within this report, in which organized crime is involved and operate at an international level, are the export of stolen motor vehicles, migrant smuggling, and to a lesser extent, the trafficking in persons.

The potential criminal exploitation of Canada's diamond industry is an example of a natural resource that could be attractive to both foreign and domestic organized crime, of which law enforcement is aware and pro-actively monitoring. Furthermore, while organized crime is more actively involved in environmental crimes internationally than in Canada, it is an example of a criminal market in which organized crime in Canada could become more involved.

Canadians experience the negative socio-economic effects of organized crime to varying degrees. These range from public health and safety issues to financial loss either on a personal, or on a larger economic sector level.

Violence and intimidation are key elements in the Canadian criminal marketplace. More violent criminal activities such as assaults, home invasions, break-and-enters and homicides, contribute to a culture of fear in some communities, fostering a general sense of insecurity. Moreover, the frequent use of illicit firearms by organized crime can also have a dramatic and direct impact on individuals through intended and unintended homicides, attempted homicides and assaults.

# EXECUTIVE SUMMARY

Profits generated by organized crime's involvement in numerous criminal markets and the successful laundering of these proceeds promote and finance the commission of other organized crime activities, and may also help to sustain or expand the reach and scope of an organized crime group. Such increased capacities help organized crime to continue to pose threats to the Canadian economy and the public's health and safety.

The illicit drug market affects all communities, whether that be rural, suburban and urban, in Canada to varying degrees. Illicit drug use can often spur criminal activities, such as robberies, break-and-enters, fraud and violence against individuals to support habits. The sale of illicit drugs in communities can also lead to violence, be it between individual users, between competing organized crime groups supplying the market, or between users and their dealers. Moreover, the manufacturing of illicit drugs, specifically synthetic drugs and marihuana, pose threats to the environment, public safety, law enforcement and the health services sector due to the improper disposal of toxic waste that could contaminate the soil and water supplies. Marihuana grow operations also pose danger to nearby residences from the increased threat of fire from electrical bypasses.

Direct and indirect losses from identity theft in Canada are significant. There are considerable financial costs to financial institutions, businesses and consumers alike. Victims are often left with damaged credit ratings and disrupted personal and financial records.

Crimes facilitated by technology are often costly, complex, multi-jurisdictional (and even multi-national) and thus difficult to investigate and often harder to prosecute. Some crimes, such as identity theft are complicated by the multiple jurisdictions involved, to the extent that the crime, victim and offender are often found within and between different countries.

Whether apparent or hidden, the adverse effects of organized criminal activity touch all Canadians. This report has sought to highlight only some of the innumerable ways in which organized crime directly or indirectly affects Canada, its institutions, its citizens and communities. Intelligence-led policing, guided by the CISC community, is Canada's best tool to combat organized crime.





## The Organized Crime Marketplace in Canada

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### Characteristics and Methods

To understand the organized crime phenomenon in Canada, it is not only necessary to grasp the workings of the country's various criminal markets, but also to have an appreciation for the principal entities that drive these markets: organized crime groups. It is therefore necessary to understand the inner workings of groups (i.e. structure), their membership, the relationships between groups, as well as the various tools and methods they use in the commission of their criminal endeavours such as violence, cross-border operations and technology.

#### *Structure and Composition*

There is no single organizing principle for organized crime groups in Canada, but their criminal operations are largely networked and opportunistic. They are networked in that very few groups are able to run their operations without the assistance of one or several other groups and/or individuals. The assistance of the latter comes either from their access to a key product or ability to provide a needed service (i.e. skills, contacts, access to smuggling routes). Most organized crime groups are also opportunistic in that they are venturing into new activities and will exploit advances in technology to facilitate their existing criminal activities, or to advance in new criminal markets.

Organized crime groups frequently engage in co-operative criminal ventures, some of which are temporary in nature, based upon mutual need. These relationships may dissolve quickly or provide a foundation of trust for future joint criminal ventures. In other cases, such co-operation may be more long-standing and wide-ranging, based upon historical alliances and/or personal connections. Moreover, the relationship between groups may be based on mutual co-operation and relative equality, or hierarchical whereby a lower-level crime group plays a more supportive role or is in a subordinate relationship with a stronger, more established and connected crime group. Although few of these hierarchical relationships are formalized in sets of rules and laws, outlaw motorcycle gangs for example do have such a formalized structure for dealing with its support crime groups. Essentially, these supportive crime groups are used to train the younger generation, identify those candidates with the potential to become full-fledged members, as well as exclude undesirables. In this kind of relationship, the advantage for the dominant group is that the subordinate one further insulates the dominant group's members from the day-to-day criminal activities that would bring them into direct contact with the authorities and/or their rivals. Other benefits

*"Like a cancer, organized crime attacks the very foundation of our Canadian society, by overtaxing the health care system as a direct result of drug abuse and gratuitous violence, by undermining the credibility of our financial institutions through major commercial crime and money laundering and, finally, by targeting the most vulnerable."*

— RCMP Assistant Commissioner  
Pierre-Yves Bourduas,  
Commanding Officer,  
"C" Division (Quebec)





**“For most Canadians, organized crime is invisible; this is one of its sustaining characteristics. Organized crime, by definition, comprises coordinated efforts to advance criminal enterprises that are fundamentally contrary to the values and principles of Canadian citizens. It is malignant to our communities, takes many forms and has far-reaching impact.”**

**— Chief Cal Johnston,  
Regina Police Service**

for the dominant group include the payments in money, goods and services they receive from members of the subordinate group.

In terms of internal group dynamics, there are few groups that maintain a formalized hierarchical structure. Rather, a substantial number of organized crime groups operate in a more fluid environment whereby individual gang members operate their own criminal enterprises, sometimes independent of other group members and with associates occasionally belonging to other criminal organizations. As an example of a non-hierarchical structure, these cell-based organizations offer the group greater resilience in that the dismantling of one cell does not automatically lead to a weakening of the entire group. However, a cell-based structure does not mean that there are no leaders within the group.

The internal composition of many organized crime groups reflects the multicultural nature of contemporary Canadian society. Although shared ethnicity remains an important organizing principle for a number of the country’s crime groups, there are other, multi-ethnic criminal organizations equally influential within the criminal environment. In other words, it is no longer unusual to have groups that were once ethnically exclusive to now include members and associates from a multitude of cultural backgrounds. Several newly established and emerging groups (many of these being street gangs) are also multicultural. It is important to note that in Canada, groups have emerged from the streets, schools, and prisons of certain localities, where the people have a common bond be it ethnicity, shared experience or economic status. It is in these neighborhoods, schools and prisons that the friendships (and occasionally conflicts) between group members are forged and developed, and the identity of the group established.

Organized crime groups also exploit legitimate businesses, professionals and other community members to assist them in their criminal ventures and launder their criminal profits. In some instances, providers of this assistance may be unaware of their exploitation by organized crime, while others, lured by the profitability of their relationship, either may suspect but remain silent or knowingly and openly participate.

While many members of organized crime groups shy away from publicly flaunting their criminality and criminal associations, some (often members of outlaw motorcycle gangs or street gangs) seek to display their uniqueness and lifestyle through their clothing attire, tattoos and demeanor. Those seeking to remain inconspicuous look to integrate themselves within their economic, social, and cultural communities and establish personas of legitimacy, normality and respectability, and thus insulate themselves from law enforcement attention. Others publicly display their criminally-acquired wealth through expensive residences, vehicles and jewelry while otherwise seeking to maintain a low profile.



# CHARACTERISTICS AND METHODS

## *Violence and Intimidation*

### *Threat Issue*

Violence and intimidation are key elements in the Canadian criminal marketplace. Unlike legitimate society, the organized criminal marketplace uses these as a means of contract enforcement and dispute resolution; that is not to say that there are no trusted arbiters or key individuals to whom groups and individuals turn to resolve a dispute. Such individuals do exist, but the legitimacy of their decisions is often based on their ability to enforce these through violent means or withholding of key services.

Violence and intimidation also remain key methods through which organized crime conducts its criminal activities. Violence is used by organized crime of all levels of sophistication and capability. Organized crime members and associates regularly use violence and intimidation in order to protect and promote the group's criminal identity, interests, territory and activities. Violence and intimidation are also used to facilitate many other criminal activities such as illicit drug or gambling debt collection, extortion, home invasions and drug-related kidnappings. Threats and assaults are used to maintain internal order and loyalty to the criminal group while physical punishment is dispensed for infractions against the group or its leaders. Some criminal groups, particularly some street gangs, have violent initiation procedures that involve assaulting new and departing members.

### *Overview of Criminal Activity*

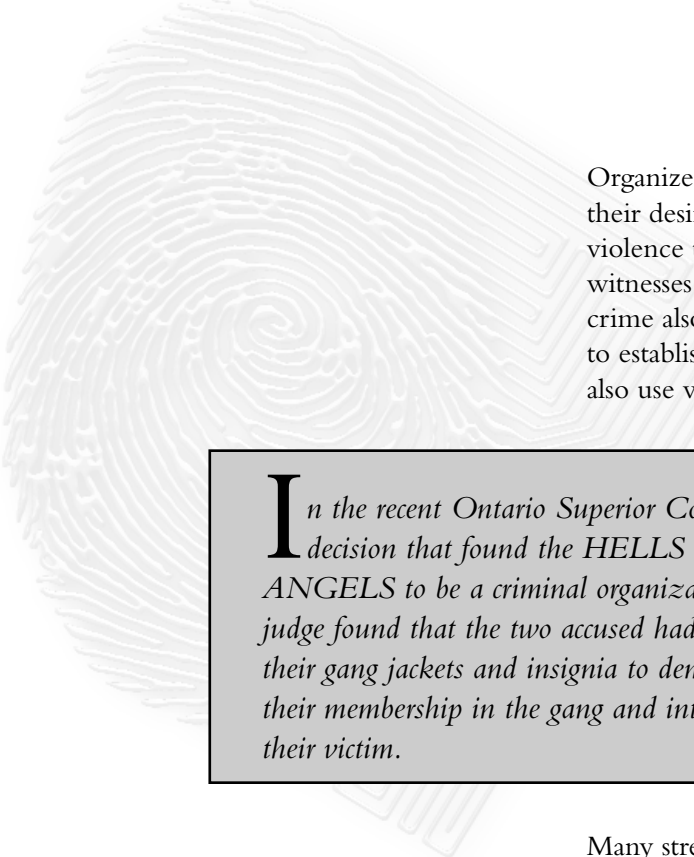
All organized crime groups in Canada remain involved in violent activities of varying levels to protect their criminal activities and interests. More sophisticated criminal organizations also hire lower-level and/or subordinate criminal groups, such as street gangs, to undertake violent acts on their behalf. These street gangs participate in criminal activities such as illicit drug debt or gambling collection, and also act to insulate the more sophisticated groups from both its criminal rivals and law enforcement.

Members and associates of criminal groups often participate in varying illicit firearm activities and possess numerous firearms of various types, and are known to engage in criminal activities with the use of these weapons. Firearms, particularly semi-automatic handguns, are used by criminals for their protection, enhancement of their status and the commission of crimes including intimidation, assaults and homicides. The problem of illicit firearms is particularly concentrated within urban centres that have a significant organized crime, including street gang, presence.

*"I think that one of the most disturbing aspects of organized crime is that they will achieve their purpose without any regard for the lives and safety of the people around them."*

*— Chief William Blair,  
Toronto Police Service*





Organized crime groups use different levels of violence depending on their desired goals. Organized crime has used premeditated acts of violence to intimidate law enforcement, officials of the judicial system and witnesses in attempts to thwart investigations and prosecutions. Organized crime also pre-emptively attacks criminal rivals to expand territory or try to establish a monopoly in a criminal activity. Organized crime groups also use violence to instill fear in communities to discourage co-operation

**I**n the recent Ontario Superior Court decision that found the HELLS ANGELS to be a criminal organization, the judge found that the two accused had worn their gang jackets and insignia to demonstrate their membership in the gang and intimidate their victim.

with police and prosecutors. Criminal groups like outlaw motorcycle gangs and some street gangs have also been known to intimidate communities or specific individuals by prominently displaying their gang-related paraphernalia. Competition between organized crime groups over territory or a particular illicit commodity can lead to inter-crime group conflict that threatens public safety. Personal conflicts and animosities may also result in violence between groups.

Many street gangs across the country have a high propensity for and spontaneously use violence. Street gang members and associates frequently use violence, often with illegally acquired firearms, in response to criminal and non-criminal-related disagreements over perceived insults, territory, or as part of a retaliatory cycle of violence against a rival gang. The often intense rivalries between various street gangs in urban centres across the country occasionally erupts into violence. Street gangs undertake firearms-related violence, such as drive-by-shootings, or other shooting incidents in public places before numerous witnesses. This use of violence poses an immediate and direct safety threat to both the public and law enforcement. For example, in the last year, several rival criminal groups in Alberta have been involved in multiple homicides, some of which took place in crowded lounges and bars.

The illicit drug trade in Canada is the most prominent criminal market for organized crime groups. Consequently, individuals involved frequently participate in acts of violence to protect or expand their market share within the illicit drug industry. As well, there are spin-off criminal activities in which one criminal group specifically targets another's market share. For example, some criminal groups deliberately target residential marihuana grow operations in violent home invasions in order to steal the mature plants. In response, those who cultivate large amounts of marihuana for criminal groups have been known to install dangerous booby traps to guard against theft. Some residences have contained trip wires which activate harmful substances or electrical currents.

**"The Hells Angels are the most prominent organized crime threat in our community. They control much of the drug trade through violence and intimidation. The drugs they supply our youth destroy their future."**

**— Chief Constable Jamie Graham,  
Vancouver Police Department**



# CHARACTERISTICS AND METHODS

Violence often continues when organized crime members and associates are imprisoned. Incarcerated gang members and associates use assaults, intimidation, and to a much lesser extent, homicide, to discipline members/associates, to retaliate against rivals and to establish or maintain involvement in criminal activities, like drug trafficking, within correctional institutions.

## *Negative Socio-economic Effects*

Organized crime's use of violence affects individuals and communities across the country. As the use of violence by organized crime groups tends to focus on the illicit drug trade, innocent bystanders may be subject to increased costs associated to related property crimes, assaults and homicides committed by individuals seeking to support their addiction. Individuals in communities with a particularly visible organized crime presence may avoid certain businesses or institutions in affected areas, thus fostering a general sense of insecurity. Criminal activities like assaults, home invasions, break-and-enters and homicides, contribute to a culture of fear in some communities.

**I**n 2005, there have been a number of incidents of gang violence in Calgary that have occurred in public places, putting innocent bystanders at risk. In one incident, individuals exchanged fire in a crowded bar, killing a man known to police and narrowly missing nearby patrons. In another case, a man was stabbed to death in a crowded nightclub.

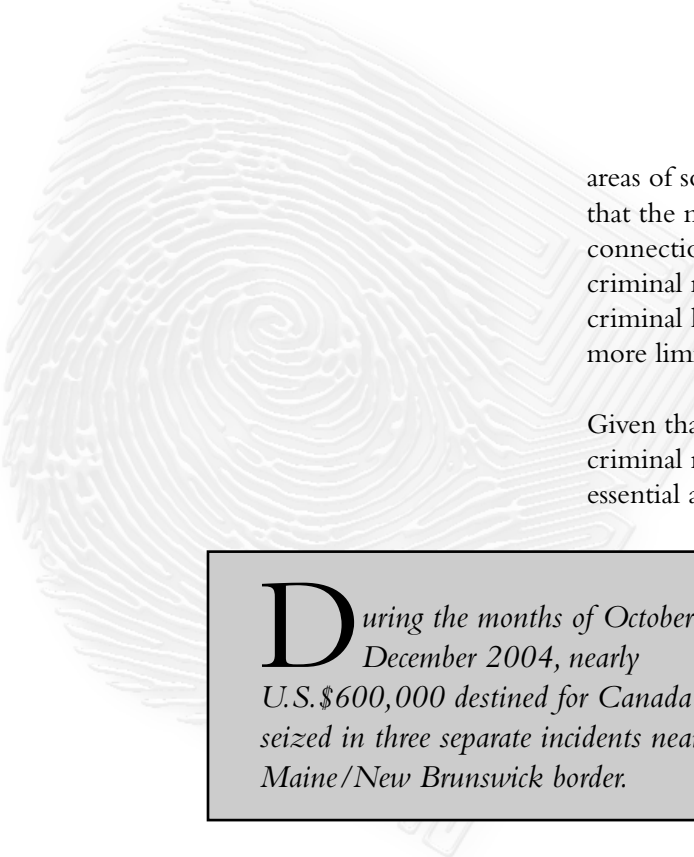
As many street gangs are highly violent in public areas, they pose an immediate threat to the general public. Street gangs' criminality also directly affects the daily lives of individuals within affected communities. Community members may inadvertently interrupt a crime and be retaliated against as a result, or be targeted by the gang to ensure their silence and acquiescence. Gang recruitment and gang-related problems have escalated in many schools, endangering staff and students. As street gangs are expanding from urban areas into smaller communities, more communities across the country will be affected by their high levels of violence.

## ***Organized Crime and Cross Border Movement***

### *Threat Issue*

As is the case in other markets, the level of power and influence an organized crime group exerts in a criminal market is largely a reflection of how indispensable it is to other groups and individuals. This is largely due to its ability to provide key services and/or carry out operations over wide geographical expanses, more often than not across interprovincial and international borders. These operations often translate into influence over the criminal marketplaces of other cities, provinces and regions. It is often from the country's primary criminal hubs (the major metropolitan





areas of southern Quebec and Ontario, and the B.C. Lower Mainland) that the most powerful groups exert their influence and facilitate the connection between the regions and the national, and international criminal marketplace. The country's other urban centres act as secondary criminal hubs in contraband distribution and criminal influence over more limited spaces.

Given that illegal drugs and contraband are mainstays of the Canadian criminal marketplace, the ability to get commodities across borders is an essential attribute of any significant criminal group. Thus, organized crime will continue to develop strategies to exploit Canada's borders to illegally move people and various types of contraband commodities such as drugs, firearms, undeclared currency, both in and out of Canada. In some instances, particularly at Canada's marine and air ports, these strategies are assisted by a small number of criminally influenced individuals that are employed within the legitimate work force.

**D**uring the months of October to December 2004, nearly U.S. \$600,000 destined for Canada were seized in three separate incidents near the Maine/New Brunswick border.

#### *Overview of Criminal Activity at Marine Ports, Airports and Land Border Areas*

Marine ports are exploited by organized crime to move contraband, particularly illicit drugs, into Canada. Although historically the concern has been focused on the country's three largest container ports of Vancouver, Montreal and Halifax due to the vast quantities of commercial cargos they handle, all Canadian marine ports that receive international traffic are potentially vulnerable to exploitation by organized crime. Thus, all forms of marine movement including commercial and fishing vessels, cruise ships, ferries and private vessels may be utilized.

In spite of a number of law enforcement successes over the past three years, certain organized crime groups have been able to maintain either a direct or indirect presence in the country's three largest ports. Their presence is assured by individuals, working for them directly or simply providing services as members of other groups, who have jobs giving them access to the cargo.

Cocaine, heroin, opium, hashish, and ecstasy are the illicit drugs most commonly encountered by law enforcement at many of Canada's marine ports. In addition, other commodities such as illicit tobacco, counterfeit goods, as well as illegal migrants have been encountered at marine ports. Organized crime also uses marine ports to export products such as stolen vehicles, particularly those with a higher resale value, concealed within marine containers to illegal vehicle markets in the Caribbean, Eastern

# CHARACTERISTICS AND METHODS

Europe and Asia. Marine container movement continues to pose a threat as it is the predominant means to internationally transport commercial goods.

All Canadian airports receiving international flights are at potential risk of being exploited by organized crime in the movement of illegal goods and migrants. In particular, Canada's three largest international airports in Montreal, Toronto and Vancouver are exploited to various degrees due to the large numbers of individual travelers, and quantities of commercial cargo they receive daily from numerous countries, many which are potential sources or transit points in the illegal movement of contraband and migrants. Similar to a small city, these large airports occupy a large physical space with numerous companies engaged in various functions that collectively employ thousands of individuals, some of whom are potentially vulnerable to criminal exploitation.

*In December 2004, 52 kilograms of cocaine was seized during an intensive vessel search at the Port of Belledune in New Brunswick. The vessel was carrying coal and arrived at the Belledune from Maricaibo, Venezuela, and was en route to a Quebec marine port. Two plastic bags of cocaine were discovered in the sea chest area below the water line of the vessel in an area accessible only by divers.*

Illegal migrants are encountered at international airports attempting to enter Canada, some with fraudulent documents, and often assisted by organized crime groups, particularly Asian organized crime groups located in Canada and abroad. In some instances, these illegal migrants are linked to subsequent smuggling attempts into the United States. In terms of illicit drugs, law enforcement most frequently encounters heroin, cocaine and ecstasy at the international airports. Other types of contraband discovered at Canada's airports include non-declared jewelry and counterfeit goods.

Individuals, frequently associated to organized crime, attempt to bring illicit drugs into Canada through a variety of concealment methods such as false-sided suitcases, concealed on or in the person, or concealed within commercial cargo. Furthermore, illicit drugs are sometimes concealed on the aircraft or within unlisted luggage. This smuggling method involves a conspiracy of airport employees at both the flight's point of origin and destination for the placement and subsequent retrieval of the illicit drugs.

Most organized crime groups are involved in the exploitation of the land border either directly by its own members, or indirectly as the recipients of contraband smuggled in by independent operators and/or brokers operating either on contract or on a freelance basis. Contraband, undeclared currency and illegal migrants move illegally in both directions along the Canada-U.S. border. This cargo is either concealed within the





large volume of personal and commercial traffic that moves daily through designated ports of entry, or is surreptitiously moved across the vast border areas between these legal entry points. In this latter movement, smugglers use a wide variety of means such as: individuals walking across the border with backpacks; all-terrain vehicles; snowmobiles; aircraft; pickup trucks and small boats. In some instances, the unique geographical location of certain Aboriginal reserves that either straddle or are near the border is exploited to facilitate this illegal movement.

*Negative Socio-economic Effects*

Many of the illicit commodities distributed within Canada’s communities are not domestically produced and must be smuggled into the country. This border criminality can directly impact upon communities near or on the border as a result of organized crime related violence and/or the criminal recruitment of local inhabitants. The associated effects are felt throughout Canada as the smuggled contraband is criminally distributed. The border is essentially Canada’s first line of defence against many of the criminal activities perpetrated by organized crime. Thus, enforcement successes at the border directly assists the entire Canadian law enforcement community in its fight against organized crime, and impact on the ability of organized crime to be criminally effective and profitable.

The illegal border movement of contraband products such as illicit tobacco and alcohol deprives federal and provincial coffers of potential tax revenues. Moreover, the smuggling and distribution of contraband can contribute to the corruption of public officials or private sector professionals. Its adverse affects and activity causes deployment of significant law enforcement resources to monitor and attempt to combat these illegal activities.

There are potential direct effects on various land border communities through the smuggling actions of organized crime. In particular, certain border area Aboriginal territories have been targeted by organized crime and exploited as either conduits for illegal cross-border activity and/or as storage/distribution centres for this activity.

This criminal activity and organized crime involvement could potentially create tensions within any community between a small number of individuals engaged in this criminal activity and the rest of the community who view it as a corrupting and unwelcome influence. Of note, it can also be a corrupting influence on the youth of the community who may favourably view the material benefits of crime in comparison to the benefits of other legitimate employment opportunities within their community.

**“The CBSA recognizes the involvement of organized crime in the illegal entry of goods and people into Canada and supports the concept of partnerships and multi-disciplinary units to attack organized crime and criminal activity including terrorism.”**

**— Roger Lavergne, Director,  
Borders Intelligence, Canada Border  
Services Agency**





# CHARACTERISTICS AND METHODS

## *Technology and Crime*

### *Threat Issue*

Crimes facilitated through technology encompasses a wide variety of offences that pose different levels of threat to consumers, businesses, and, more generally, society at large. There are two broad categories: new crimes committed with and born out of new technology and traditional crimes committed with new technology. Newer crimes include hacking and “spoofing” websites<sup>2</sup>, while traditional crimes using technology, particularly the Internet, include identity theft, extortion and fraud.

### *Overview of Criminal Activity*

The growth in the number and variety of technology-related crimes, particularly computer-related crimes, echoes the exponential increase in the number of Internet users and the expansion of e-commerce globally. Organized crime groups are broadening their exploitation of technological vulnerabilities by targeting individuals and businesses that rely on technology, e-commerce and the on-line storage of valuable personal, financial and intellectual property data.

Computer-related crimes pose significant and growing threats globally because many are sophisticated, effective and malicious. For example, spam has evolved from a time- and resource-wasting nuisance to a medium through which individuals can distribute malicious software programs, also known as “malware.” Individuals now increasingly use unsolicited e-mail, or spam, to distribute viruses, worms,<sup>3</sup> spyware<sup>4</sup> and Trojan horse software.<sup>5</sup> Spam directed at computer programs/files, instant messaging systems, weblogs and cellular phones makes these tools vulnerable to worms, viruses, and fraud. Some viruses facilitate the illicit access of the personal or sensitive data stored on the devices. For cellular phones, new text messaging technology enables senders to conceal their identity, allowing impersonated messages that can facilitate spam, fraud and viruses. Malware enables criminals to use the cellular phone without the user’s knowledge or gain access to the phone’s personal data. The exploitation of these technologies is expected to increase in the next year. Spam also poses a threat to wireless game consoles, personal data assistants (PDA) and Voice over Internet Protocol (VoIP).

“In terms of organized criminal activities in 2005, the SPVM is concerned about money laundering and general economic crime, as well as cyber-crime, an area that continues to grow because practices associated with virtual casinos, telemarketing, general credit card or debit card fraud and other electronic crimes are becoming more and more sophisticated.”

— Director Yvan Delorme,  
Service de police de la ville  
de Montréal (SPVM)

<sup>2</sup> Website ‘spoofing’ involves duplicating a genuine website with a fraudulent website with a similar internet address.

<sup>3</sup> A worm is an independent program that self-replicates by sending itself to other networked computers, such as through the e-mail program’s address book. Once created, it does not require human involvement to propagate.

<sup>4</sup> Spyware gathers information about people without their knowledge, often by tracking an individual’s Internet activity, in many cases to deliver targeted advertising. It can enter computers via a virus. Cookies, which also gather personal information, are not considered spyware because they are not hidden.

<sup>5</sup> A Trojan horse is malware that conceals itself as a legitimate program. Once executed, it can allow someone to control the computer system illicitly and remotely.





In Internet “pharming,” hackers exploit vulnerabilities in the domain name system (DNS) server software and then illicitly redirect Internet traffic to targeted websites.<sup>6</sup> Pharming can also occur when a user’s computer system is compromised by malware. As a result, when users wish to access a legitimate site, they are unknowingly redirected. Redirected false sites are used for phishing.<sup>7</sup> Pharming poses an ongoing threat to consumers and businesses as it can target a broad number of financial institutions’ users and wait within the computer for the user to access financial services.

Criminals are forming more and larger botnets, or networks of computers with broadband Internet connections that are compromised by malware and are thus “software robots or zombies.” These remotely-controlled attack networks undertake a variety of crimes: sending spam or phishing e-mails, hosting spoofed websites for pharming scams, and distributing viruses or trojan horse software to facilitate on-line extortion or compromise more home computers for larger botnets.

Individuals involved in on-line “carder networks” illegally buy and sell stolen personal and financial information. Some networks sell blank credit cards, the algorithms necessary to encode a credit card’s magnetic

strip or lists of botnets. These networks facilitate counterfeit credit card manufacture and identity theft. In Operation FIREWALL for example, 28 individuals were arrested from eight U.S. states and several countries who were involved in selling about two million credit card numbers in two years, causing losses of over US\$4 million.

In a newer version of traditional extortion, criminals hack computer systems containing valuable and/or sensitive data, like credit card numbers. The data are then either ransomed back to the company or the criminal offers to exchange silence regarding the vulnerability for a fee. An increasingly popular extortion scheme involves either threatening to launch

or actually launching denial-of-service (DoS) attacks or directed denial-of-service (DDoS) attacks against businesses. These attacks, often undertaken through botnets, involve overloading computer

**T**he U.S.-led Operation FIREWALL targeted criminal groups using websites to traffic counterfeit credit cards and false identification information and documents. An estimated 1.7 million stolen credit cards were trafficked causing an approximate loss to financial institutions of more than US\$4.3 million. Twenty-eight individuals were arrested from eight U.S. states and countries including Belarus, Poland, Sweden, the Netherlands and Ukraine.

<sup>6</sup> When a user enters a web address it is converted into a numeric Internet Protocol address in a process that is known as name resolution and this task is performed by Domain Name System servers that store tables with the IP address of each name.

<sup>7</sup> Phishing occurs when criminals posing as a legitimate person or representing an institution send unsolicited e-mails and asks the unsuspecting victim to provide personal financial information, such as credit card account numbers.



# CHARACTERISTICS AND METHODS

networks/servers with enormous amounts of data to disrupt or interrupt service to users. Corporate or intellectual property information is also vulnerable to espionage. In May 2005 for example, a number of middle-level managers and private investigators from several companies in Israel were charged with planting trojan horse software in competitors' computers to access confidential information.

Internationally, some criminal groups, according to the United Kingdom's National High-Tech Crime Unit, are also showing increasing interest in using the Internet for pay-per-view child pornography.

Certain technologies and innovations have facilitated the production and distribution of child pornography. For example, computer software can digitally alter images of child pornography to enhance or change the image, for example sexualizing content by removing clothing. Similarly, in contrast to software that digitally ages missing children, images of child pornography can be created by "de-aging" images of adult pornography. With developments in animation, digitally-created child pornography may become widespread. Criminals have been known to use steganography to conceal information, like child pornography, and distribute it in a secure fashion.

Technology facilitates increasingly secure, anonymous and rapid communication, through tools like encryption software, wireless devices, encrypted cellular phones and anonymous re-mailers that forward e-mails without revealing their origins. Criminal groups exploit tools like this to plan and undertake criminal activities, such as drug trafficking, without physical interactions, thereby reducing the risks of detection and prosecution.

Organized crime can also use technology to intimidate criminal rivals, or instill fear in communities to prevent the reporting of organized crime-related activities or testifying to a witnessed crime. For example, individuals can use e-mail, the Internet or other electronic communications devices, like cellular phones with cameras, to slander, threaten, harass or "cyberstalk" another person. Threats can be posted in chat groups and personal information can be manipulated or simply released to violate personal privacy. With technology to enable anonymity and security in communication, this type of intimidation poses challenges to law enforcement.

## *Negative Socio-economic Effects*

The scope and extent of technology and crime within Canada or globally is difficult to determine, partly due to chronic non- or under-reporting. Compounding the complexity of technology-related crime is the lack of standard definitions, either in Canada or globally. Despite these gaps, the number of computer-related crimes are increasing rapidly as are associated financial costs.



It is increasingly expensive and difficult to respond to evolving threats from computer-related crime as well as to update protective software continually – firewalls, encryption and anti-virus and anti-spam protection. Businesses face increased costs from malware ranging from lost worker productivity, degraded network performance, security risks

and waste of technical support resources to expensive, time-consuming repairs and upgrades. For example, the Canadian Banking Association reports that the banking industry in Canada spends more than \$100 million annually to prevent, detect and deter fraud and other crimes against banks, including activity related to identity theft.

**A**ccording to a February 2005 Ipsos-Reid telephone survey, 80% of Canadian adults say they consider identity theft to be a serious problem and 17% say that someone they personally know has been a victim of identity theft.

Technology simultaneously provides opportunities and challenges for law enforcement. Crimes facilitated by technology are often costly, complex, multi-jurisdictional (or even multi-national) and committed by individuals who are difficult to investigate and often harder to prosecute. The criminal activities are often under-reported and require investigator expertise, as well as sophisticated tools to identify, gather and evaluate evidence. On the other hand, law enforcement uses technological advancements to target criminal groups and exploit criminal groups' vulnerabilities to detect, deter and reduce their criminal activities. It is essential that law enforcement, the private sector and the public work together to promote awareness of technologically-related crimes, to encourage the reporting of all crimes and to discuss ways to reduce the threats.

**“The pervasiveness of organized crime impacts individuals and communities across Canada. People are robbed of their physical safety, their security and their assets. The solution is an integrated approach by law enforcement across Canada, working to keep our citizens and society secure.”**

**— RCMP Deputy Commissioner  
Peter Martin, National Police Services**



## Criminal Markets

As is the case in most markets, criminal markets trade in goods and services, for the most part according to the principles of supply and demand. Criminal markets are thus dynamic and evolving over time as they react to market forces that also include competition from other organized crime groups, technological innovation, and law enforcement action.

The core characteristic of a criminal market is its illegality, be it in the good or service being traded, or the actors (organized crime groups and individuals) involved. Although the actor(s), good(s) or service(s) may not be criminal in nature, the transaction(s) are. Criminal markets often emerge whenever organized crime identifies and exploits loopholes (i.e. regulatory) in legal markets that then become profitable market niches for it. Fraud of any type exemplifies the criminal exploitation of a legitimate process. There are also purely criminal markets, such as illicit drugs, with no equivalents in the legitimate economy; thus it is not a case of finding market loopholes, but of providing illegal good(s) and service(s). Legal and criminal markets often run parallel and operate simultaneously. It is these current dynamics of the criminal activities' scope within Canada and the degree to which they impact society that is of concern to law enforcement, and expressed within this report.

### ***Contraband***

A contraband market is one in which illegal products are bought and sold. In some instances, a contraband market consists entirely of an illicit commodity, such as cocaine or heroin. In other instances, the commodity may be itself legal and sold within a legitimate marketplace along side a parallel contraband market consisting of illegally diverted products. For the purposes of this report, CISC will concentrate within this section on two selected commodities, tobacco and firearms, that would come under this second form of a contraband market.

Contraband operations range from small-scale enterprises in scale and scope (geographic reach and profitability), to very large-scale operations and thefts that are often inter-provincial and/or international in scale and scope. This last type of operation requires a significant network of individuals working in different domains that can acquire, produce, distribute and transport the products to their destined markets. The impacts of contraband markets are manifold, including the avoidance of taxes and other government regulations that are meant to guarantee a measure of quality control and/or public safety.

*“Organized crime is an issue that affects ordinary Canadians. While many of its activities seem to have no direct bearing on the lives of law-abiding citizens, the consequences of organized crime are far-reaching and insidious...and touch each and every one of us.”*

— RCMP Commissioner  
Giuliano Zaccardelli





## **Illegal Firearms**

### *Threat Issue*

In Canada, strict firearm controls and regulations have proven largely effective in preventing organized crime members from legally acquiring firearms. Criminals are thus forced to develop illegal strategies to acquire these firearms either from within Canada or smuggled from a foreign country such as the United States.

Canada is not unique in requiring all firearm owners to be licensed and all firearms to be registered as similar requirements are in place in Australia, the United Kingdom, Germany and Japan among others. Firearm registration information assists the Canadian law enforcement community in tracing the origins of firearms and in the investigation of illegal gun trafficking and smuggling. It also allows police officers to determine if firearms may be present when responding to calls and thus take appropriate precautions in order to avoid potential threats to the public and officer safety.

The new requirement for all law enforcement agencies to report seized firearms, starting in January 2005 with full compliance by January 2006, will assist the law enforcement community to improve its strategic evaluations of the illicit firearms market. These new regulations will also increase identification of smuggling groups, and thereby assist in the interdiction of illicit firearms entering into Canada and moving internally within the country.

### *Overview of Criminal Activity*

The illicit firearms market in Canada is generally driven by individual criminals and organized crime groups (and their members) seeking to either sell or buy firearms that are then used to commit crimes, provide self protection, demonstrate status, and intimidate or inflict violence on their criminal peers, the law enforcement community and innocent citizens.

The two major sources of illicit firearms in Canada are: domestic thefts; and those smuggled from the United States. Domestic thefts of handguns and long guns have come from both commercial firearm venues and private residences. In particular, known firearm owners and/or collectors, have been deliberately targeted by criminals to acquire firearms either for themselves, other individual criminals, or for sale to organized crime groups. Law enforcement often recovers firearms through enforcement actions that are discovered to be legitimately registered, but the owners were either not aware they had been lost or stolen, or had not reported this information to the police.


The United States is another significant source of illicit firearms, frequently but not exclusively handguns, as they can be more easily acquired than in Canada due to a generally less rigorous federal and state firearm control system. In particular, a serious threat is from those states that allow unregulated and undocumented firearm purchases at gun shows or flea markets. However, firearms destined for the Canadian illicit market are also acquired directly by Canadians through their possession of legitimate or fraudulent U.S. identification cards, or through a U.S. accomplice usually referred to as a “straw purchaser”. Although a few shipments of between 10 to 40 firearms have been uncovered in the last three years, most smuggling incidents involve between 2 to 5 firearms.

There are other potential firearms sources for the illicit Canadian market including: firearms that are declared as deactivated, but either the declaration is fraudulent, or the firearm can actually be easily reactivated; and firearm parts bought and shipped separately that are subsequently assembled into a functional weapon. As well, in some instances, the acquisition of a single part will allow an individual to transform a semi-automatic to a fully automatic rifle. The on-line Internet access to individuals or retailers in North America that are selling firearms or parts and the exploitation of the postal and/or commercial movement system further complicates and creates difficulties for effective law enforcement.

All organized crime groups acquire illicit firearms, and thus are involved in this criminal market in some manner, even if it is as an end consumer. The illegal drug trade is a major instigator in creating market demand for illicit firearms given that the large profits generated are the source of competition and tension between crime groups, as well as between members of the same crime group. Thus, the potential for violence is always very near the surface of the illicit drug trade, which in turn fuels a need for illicit firearms. The acquisition and distribution of illicit firearms appears to involve a variety of individuals and groups. These range from independent operators that are not aligned with any specific crime group, and thus willing to trade with a wide variety of clients, to semi-independents who have some linkages to organized crime groups though are not necessarily a bona fide member of that crime group, as well as members of criminal organizations who specialize in the acquisition of illicit firearms. Although most firearms are paid for in cash, law enforcement believes that, in some instances, firearms have been included as part of the exchange price for illicit drugs.

Increasingly street gang members are being encountered with illicit firearms, particularly semi-automatic handguns. Street gang members usually have a much higher propensity than more established crime groups to readily resort to firearms-related violence in both criminal-related activities and in their daily personal interactions. Thus, they





often pose a higher direct and immediate risk to public safety despite their relatively lower-level criminal activities.

#### *Negative Socio-economic Effects*

Illicit firearms can have a dramatic and direct impact on individuals through intended and unintended homicides and assaults. Indirectly, these homicides and assaults affect friends and family through accompanying emotional pain and suffering. As well, it affects communities through fears of personal and public safety. Individuals and crime group members, particularly street gangs, use illicit firearms to intimidate peers, innocent citizens and their communities. They can assist in the creation and perpetuation of a “culture of violence” in some communities or between members of the same or different crime groups.

While it is difficult to estimate precise costs of illicit firearms on society, they nevertheless have an impact to varying degrees on a wide variety of services such as: law enforcement and the judicial system; medical care; pain, suffering and lost quality of life for victims and their communities; and reduced productivity.

### **Tobacco**

#### *Threat Issue*

Health Canada estimates the level of smoking has declined since 1999, and that as of 2003, it is estimated that over 5 million Canadians are current smokers, which represents approximately 21% of the population. This still represents a major market for tobacco products and, as was evident during the early 1990s, increasing levels of this smoking population will turn to the contraband market as the price of legitimate tobacco rises. The vast bulk of the tobacco price is made up of federal and provincial taxes, and given current levels of taxation currently surpass the levels of January 1994, when the historical high point of the tobacco contraband market was reached, it is likely that a market for contraband tobacco products will remain.

#### *Overview of Criminal Activity*

The current market consists of various components, that affect each region of Canada to varying degrees of magnitude, and includes: smuggled discount or Aboriginal-manufactured products from the United States; smuggled counterfeit U.S. or Canadian brand-name products; culturally-specific tobacco products from India and the Middle East that are in demand within certain ethnic communities in Ontario and Quebec; inter-provincial movement of Canadian products from low to high tax provinces; intra-provincially through the illegal diversion of domestic products from Aboriginal territories; domestic thefts from



businesses; hijacking of tobacco-loaded tractor trailers; and small illicit tobacco manufacturing operations.

Various organized crime groups are involved in the contraband tobacco market often working in co-operation with Aboriginal crime groups and/or individuals. Aboriginal crime groups and/or individuals are linked to the smuggling and/or distribution of U.S. tobacco products. The Aboriginal U.S. products are manufactured on reserves near the border and often packaged in transparent bags. There are certain Aboriginal territories in Ontario and Quebec that are used as conduits of illicit tobacco into Canada, distribution and storage centres, and/or sites of illicit manufacturing.

Smuggled tobacco products initially enter Canada, primarily in Ontario and Quebec, through customs ports of entry concealed in private and commercial vehicles and in between official ports of entry using all-terrain vehicles, snowmobiles and boats. These tobacco products are distributed across Canada, both west and east, through private and rented vehicles, and legitimate transportation systems.

In the past, these counterfeit products were often based upon the popular Phillip Morris “Marlboro” brand, a product not readily available in Canada. However, in recent years counterfeits of popular Canadian brands, such as DuMaurier and Players, have also been encountered by law enforcement. Many organized crime groups in Canada, such as Asian crime groups have been involved in the distribution of counterfeit Canadian-brand cigarettes, many of which are produced and packaged in Asia.

*In late 2004 and early 2005, over 23,000 cartons of cigarettes were seized in Ontario. In one seizure, 5,000 cartons were seized from a west-bound one-tonne rental truck driven by a British Columbia resident from Montreal to Ontario. In a second seizure, 16,823 equivalent cartons were seized near the Canada/U.S. border. In the third case, a transport van was found in Cornwall with 1,250 cartons of cigarettes.*

### *Negative Socio-economic Effects*

Apart from the loss of tax revenues, there is also a potential for violence and/or intimidation within that criminal market. This violence/intimidation has already been exhibited through thefts at tobacco wholesalers and retailers, and the hijacking of tractor trailer tobacco loads.

A reduction in legitimate domestic tobacco sales could lead to a reduction in Canadians employed within the legitimate manufacturing and distribution tobacco market. The unfair competitive advantage contraband tobacco retailers have on their legal counterparts may also lead some of them into the contraband market.



## **Financial**

### *Threat Issue*

The types of financial crimes have increased worldwide in part because they are facilitated by new technology and also because they are attractive to criminals, as the perception is that there is a high potential for profit with relatively low risks compared to other criminal activities. Of great concern to law enforcement is organized crime's involvement in various financial crimes that differ in their degree of sophistication. These can include complex money laundering schemes and stock market manipulation.

For the purpose of this year's *Annual Report*, the financial crimes section will highlight selected criminal activities that are particularly pertinent to the Canadian organized crime environment, including money laundering, intellectual property rights crime (IPR) and identity theft .

“*In Canada, money laundering is a multibillion-dollar problem. It is an integral element of organized criminal activity, and is the proven method by which organized crime groups seek to transform the proceeds of drug trafficking, contraband goods and people smuggling, extortion, fraud and other activities into apparently legitimately earned funds.*”  
(FINTRAC's Guideline 1: March 24, 2003).

## **Money Laundering**

### *Overview of Criminal Activity*

According to the International Monetary Fund (IMF), global estimates of money laundering ranges from between US\$590 billion and \$1.5 trillion. In Canada, organized crime groups are involved in a myriad of illicit activities, which generate huge amounts of profit annually. It is paramount for organized crime groups to continue to carry out their various ventures while remaining under the radar of law enforcement. As a result, innovative methods are utilized by criminal

organizations to hide the source of their income in order to avoid the suspicion and scrutiny of law enforcement, as well as provide the means to reinvest into both legitimate and illegitimate enterprises. Money laundering, therefore, is a type of financial crime that is crucial to enabling a criminal organization to continue its activities, as well as increase its strength and capability.

Despite the numerous ways in which criminal proceeds are laundered, there are typically three main stages to the process. The first stage involves methods to separate the money from the crime, thus placement refers to the initial movement of the funds; the next step is the layering process, which helps to disguise the origin of the money, for instance the use of wire transfers between numerous accounts in several countries over a short period of time; and finally, the integration phase allows the money to remain accessible because it appears legitimate, so that it can be used by

the criminal organization without fear that the origin of the funds will have been perceived to have come from an illicit source.

There are numerous techniques employed to carry out money laundering, particularly at the placement and layering stages, however, these techniques will differ in their scope and level of sophistication. Organized crime groups employ smurfs<sup>8</sup> and nominees<sup>9</sup> to facilitate the laundering process because they help to layer financial transactions. Structuring the financial transactions ultimately help to distance the criminal organization from the source of the illicit proceeds. The degree of structuring in transactions and in money laundering schemes is becoming increasingly complex. A number of different avenues will often be used in a money laundering scheme, such as deposit institutions, international wire transfers, and the purchase of real estate, which help to further insulate the criminal organization from the proceeds of crime.

Despite the increasing sophistication of money laundering, organized crime's involvement can range from a relatively low-level of sophistication to very complex schemes. At a lower end of the scale, money is stored at a residence or place of business, and large purchases are made in cash. However, recent law enforcement projects in B.C. have discovered organized crime groups capable of laundering proceeds of crime derived from the cross-border smuggling of cocaine and marijuana, totaling approximately C\$200 million.

Techniques used to facilitate the money laundering process are usually referred to as typologies by law enforcement. They generally evolve and adapt over time due to law enforcement action, government legislation and changes in regulatory requirements within the financial services sector. The Financial Action Task Force on Money Laundering<sup>10</sup>, an international-based organization, has recently identified the following worldwide trends in money laundering typologies also evident in Canada: these include the use of wire transfers, and organized crime's utilization of gatekeepers<sup>11</sup>, as they act as intermediaries with financial institutions in addition to providing an appearance of legitimacy. In addition, casinos, including on-line casinos, white-label Automated Teller Machines

*“Money laundering is about criminals hiding money that is connected to a long list of activities that are abhorrent and destructive to our society and our free and open way of life.”*

— Horst Intscher  
Director, Financial Transactions and  
Reports Analysis Centre of Canada  
(FINTRAC)


<sup>8</sup> Smurfing refers to an individual (or smurf) who is used to deposit cash in different banks, bank branches and/or deposit institutions in amounts that will not alert attention.

<sup>9</sup> Nominees are often used to register legal title to an asset because they are either not connected to the criminal activity or do not have a criminal record.

<sup>10</sup> The Financial Action Task Force on Money Laundering (FATF) an international organization based in Paris, France, holds an annual typologies exercise at a meeting of financial experts. The findings from the latest report stem from the meeting held in Mexico from 17-18 November 2003. There were 35 countries and jurisdictions present at this meeting, including Canada.

<sup>11</sup> According to the FATF, gatekeepers refers to the involvement of legal and financial experts, some of whom are unwitting participants, in money laundering schemes, which could include solicitors, notaries, accountants, amongst others that carry out important functions in helping their clients organize and manage their financial affairs.





(ATMs), and money service businesses, such as currency exchanges are increasingly employed by organized crime groups to launder their money in Canada.

While organized crime groups based in Canada are laundering money here and abroad, Canada is also used by foreign-based groups for the purposes of laundering the proceeds of crime due to the stability of the economy and the soundness of its financial sector. There are individual facilitators and criminal organizations who specialize in providing money laundering services to a number of other organized crime groups. These individuals and criminal groups are not necessarily involved in other types of criminal activity but they do provide an essential component to the successful operation of criminal networks even though they may not be core members of the organization. Some marijuana brokers, for instance, have tasked individuals outside of their criminal organizations with converting the U.S. cash into Canadian currency through currency exchanges on their behalf.

#### *Negative Socio-economic Effects*

The process involved in money laundering parallels legitimate financial activity, and by its very nature, exploits loopholes and weaknesses in the legitimate economy. A key element to tapping into this legitimate sphere, is the use of gatekeepers. These specialized legal and financial professionals are targeted by organized crime and are either knowingly or unaware that they are facilitating criminal activity. The co-optation of professionals can also involve corruption, bribery and influence used for the purpose of criminal exploitation.

As a result, the effects of money laundering are not necessarily visible to the public. Nevertheless, organized crime's ability to successfully launder the proceeds of crime helps to strengthen its capabilities, thereby becoming more of a threat to the financial integrity of the Canadian economy. Laundered proceeds of crime also enable organized crime to invest in additional criminal ventures and insulate their investment into legitimate enterprises. Taken to an extreme, it can help criminal organizations to infiltrate the legitimate economy to such an extent that they evolve to become solely legitimate enterprises, despite the fact that the capital behind the company was originally supported by criminal activities.

Ultimately, money laundering undermines the legitimate economy, especially investor confidence in important Canadian markets. This can occur when, for instance, the public finds out that a publicly-traded company has been criminally exploited for the purpose of laundering the proceeds of crime; the company's tarnished image thus undermines

**“Using strategies aimed at laundering the proceeds of crime, organized crime victimizes many types of people in the general population, including individuals who are subject to unfair competition in the area of goods and services, as well as investors who incur losses due to stock market manipulation, for the primary purpose of legitimizing criminal proceeds.”**

**— Normand Proulx, Director General,  
Sûreté du Québec**



shareholder and public confidence in it. Lastly, the proceeds of crime being laundered in Canada are income that is not taxed, which as a consequence places a disproportionate burden on the general public and its contribution to the social safety net, like health care.

## **Intellectual Property Rights Crime**

### *Overview of Criminal Activity*

In a post-industrial age, where innovation is at the very heart of an advanced society's economic well-being and growth, ideas can be among the most valuable commodities. The legal framework behind intellectual property in the form of trademarks, patents, copyrights, and other provisions, was established to protect original inventions, promote innovation and progress, and, in turn, safeguard economic security and prosperity. The nature of intellectual property makes this form of commodity highly susceptible to theft and violation. Although intellectual property rights (IPR) crime has existed for as long as these rights have, its scope and magnitude have increased in recent years due to the effects of globalization on the worldwide production of and consumer demand for inexpensive brand-name consumer and luxury products. This demand is facilitated in part by the perception that this activity is a victimless crime. However, unlike the theft of physical property, which usually deprives only the property's rightful owner, intellectual property theft affects all consumers, and has a pervasive impact on the society as a whole.

To various degrees, organized crime is involved in all types of IPR crime. IPR crimes generally fall under one of three categories: violations of copyright, which includes the piracy and counterfeiting of digital media such as software, music, and movies; violations of trademark, which involves the counterfeiting of brand names; the theft of trade secrets, which includes the theft of proprietary information such as design templates and production schematics.

The range of actors and groups involved in IPR crime is a testament to the significance of this criminal activity. Indeed, product counterfeiting and piracy are not constrained by regional or national boundaries, and virtually no consumer sector is beyond its exploitive reach.

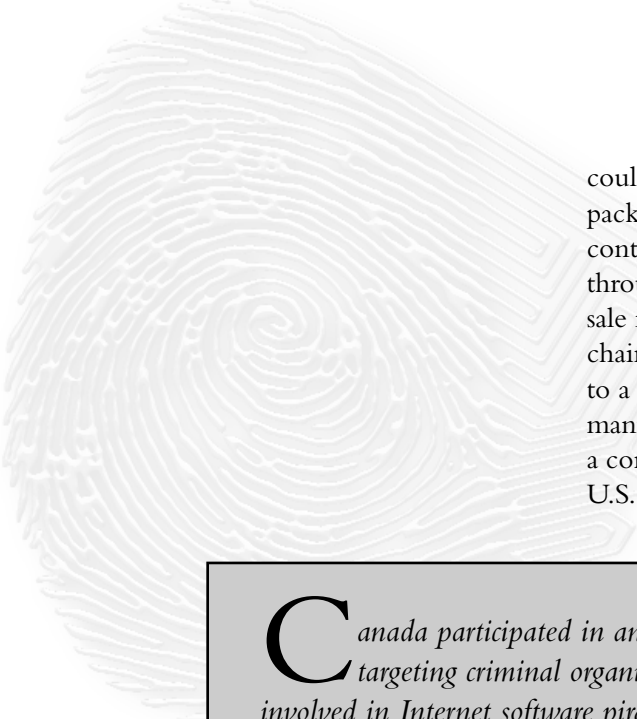
The Secretary General of Interpol has recently stated that, internationally, IPR crime is dominated by organized crime. It is clear, however, that the more sophisticated networks in Canada and operations have organized crime involvement at some or all points of the supply chain from manufacturing to sales.

Complex supply chains can involve compartmentalized operations that are carried out in different countries. For example, counterfeit goods

*“Organize crime doesn’t just affect large cities. If left unchecked, it would threaten the safety and security of all Manitobans, and pose risks to our institutions, society, economy and the quality of life.”*

*— RCMP Chief Superintendent  
Bill Robinson, Criminal Operations  
Officer for “D” Division (Manitoba)*





could be partly manufactured in a factory in Country X, assembled and packaged in Country Y, to be eventually sold in Country Z. Asia continues to be the primary source continent for counterfeit goods sold throughout the world. Approximately 80% of the counterfeit goods for sale in Canada, on the streets by vendors, at flea markets, or even retail chain stores, originate from abroad, primarily the Asia-Pacific region and, to a lesser extent, Europe and the U.S., while the remainder is manufactured in Canada. There are indications that Canada functions as a conduit for foreign-manufactured counterfeit goods destined for the U.S. market.

**C**anada participated in an operation targeting criminal organizations involved in Internet software piracy and the illegal distribution of copyrighted works, including software, movies, music, and games on the Internet. Searches and seizures were conducted in British Columbia, Alberta, Ontario and Quebec. Operation SITE DOWN also focused on individuals and organizations that illegally provided copies of copyrighted works to criminal groups that would provide the works for illegal distribution and downloading via the Internet. The investigation also encompassed Australia, Belgium, Denmark, France, Germany, Israel, Korea, Poland, the Netherlands, the United Kingdom, and the U.S.

In recent years, some international counterfeit operations have been increasing in sophistication, reflected in both the structural complexity of the operations as well as in the apparent attention to detail in the production of the counterfeit goods themselves.

Technological advances have facilitated the ability to produce, in some cases, high-quality representations of packaging and product markings, sometimes including lot numbers, bar codes, and other details. In some cases, laboratory analysis is needed to differentiate the fake from the genuine product. In the past, consumers would usually be aware that they were buying counterfeit or knock-off products; the illegitimacy of the item would often be betrayed by the obvious deficiencies in craftsmanship and packaging, if not by the nature of the transaction. However, one trend that has been facilitated by technological advances and the growth of the illegitimate industry is that, today, some counterfeiters are successfully passing off their products as

genuine. The accuracy of the counterfeit's representation, at least superficially, means that they can often be sold at up to retail value. Counterfeit products have been found in some major retail chains in Canada.

To dupe consumers into thinking they are purchasing genuine products and to avoid regulatory action, some counterfeiters are reproducing the safety certification and quality assurance markings that appear on genuine products. A particularly alarming trend is the incorporation of counterfeit Underwriters Laboratories (UL) or Canadian Standards Association (CSA) markings on electrical devices. On genuine products, the UL or CSA marking gives assurance to the consumer that the device has

undergone rigorous independent inspection and safety testing, and is deemed safe for use. On counterfeit goods, however, fake UL or CSA markings contribute to the item's deception and can give a false, if not dangerous, sense of security to the user. In January 2005, the RCMP executed a search warrant on a Toronto business and seized large quantities of electrical power bars and extension cords bearing forged UL certification markings. While the inferior quality of these electrical products may not have been apparent to the consumer at the time of sale, subsequent UL testing revealed that these devices presented serious fire and safety hazards.

**I**n July 2005, CSA International issued a consumer safety alert regarding a type of electrical extension cord that had been distributed by an Ontario-based company. This product, which bore counterfeit CSA marks, was found to be highly hazardous.

### *Negative Socio-economic Effects*

Intellectual property crime has a negative impact on the entire economy and, therefore, adversely affects all Canadians. The substantial financial losses incurred each year are compounded by the potential threat of undermined consumer confidence as Canadians unknowingly purchase substandard goods that illegitimately bear brand names usually associated with quality and safety. The proceeds of counterfeiting and piracy can also be used to fund other, more serious criminal activity, and may help to sustain or expand the reach and scope of an organized crime group.


The adverse socio-economic effects incurred by the counterfeiting of DVDs and designer clothing represent only one dimension of IPR crime's impact on Canadian society. While great attention may be devoted to a counterfeited item's presentation, these cosmetic measures only conceal the lack of quality beneath the surface; to a great extent, counterfeiter's profit by using the cheapest materials possible, by taking shortcuts wherever convenient, and by cutting out expensive quality and safety testing. The counterfeiting of such critical products as medicines, electrical devices, and auto parts elevates the potential impact of intellectual property crime to a very different level involving public safety concerns.

The World Health Organization (WHO) estimates that 10% of the world's pharmaceuticals are counterfeit, an alarming figure when one considers that a large percentage of counterfeit pharmaceuticals contain either no active ingredients or incorrect medicinal levels. In developing countries, counterfeit pharmaceuticals have claimed hundreds of thousands of lives, and continue to create or exacerbate major health crises around the world. Counterfeit electrical devices, such as commercial batteries, extension cords, and power bars, present a serious risk of personal injury, as these devices have bypassed the regulatory system designed to ensure such products are safe for

*"Canadians need to get the message that faulty counterfeit items can kill. Counterfeiters don't limit themselves to watches, CDs and fashion accessories. They produce items that may present a real danger to people's lives, such as faulty circuit breakers, computer power supply units, safety footwear, holiday lights and even gas ranges."*

*— R.J. Falconi, vice-president,  
general counsel and  
corporate secretary, Canadian  
Standards Association (CSA) Group*





consumer use. In some cases, counterfeit electrical devices seized by Canadian law enforcement melted, caught fire, or exploded during laboratory testing.

## **Identity Theft**

### *Overview of Criminal Activity*

Identity theft continues to pose a significant threat to Canadian consumers and businesses across the country. This crime refers to the illicit gain and use of another person's personal and financial information in order to commit a variety of frauds, including real-estate and payment card fraud amongst others. Identity theft includes mail theft, stealing from residences and personal spaces, and misuse of personal data in business transactions, theft from company and government databases. Identity theft victims may not be aware of the fraud until weeks, months or even years later. Criminal groups in Canada will continue to be involved in identity theft, particularly as more personal and financial data is stored and transmitted electronically, and as identity thieves are able to operate from a distance. Access to these data facilitates the commission of a wide range of frauds on a much larger scale.

Real-estate fraud has become an issue of increasing concern to law enforcement and professional associations involved in the mortgage industry. Real-estate fraud represents significant potential financial costs to victims and is also closely associated to other criminal activities, particularly those under the umbrella of identity theft, document fraud and the illicit drug trade.

This type of fraud is often very complex and encompasses a number of different forms. Generally, however, mortgage fraud occurs when fraudulent information, such as false employment records, is provided to a lender in order to obtain a mortgage. Title fraud, another variant of real estate fraud, involves an individual falsely assuming the identity of another property owner. This false identity is then used by the criminal to either assume the title, sell or obtain other mortgages based on that property and the identity of the true owner. A recent law enforcement investigation uncovered an allegedly elaborate mortgage fraud scheme in British Columbia that involved obtaining mortgages using false employment records and banking documents. Many of the homes purchased in this criminal operation are alleged to have been used for large-scale marihuana growing operations.

Payment card fraud is a major component of identity theft, comprising 42% of reported identity theft incidents in 2003, according to Phonebusters. It remains a significant threat to Canadian businesses,

**“To commit mortgage fraud, a number of parties need to be working together and they vary the methods used to commit this crime. By sharing information, we can all constantly be taking steps to change practices and close any gaps that may exist in the system.”**

**— Canadian Bankers Association**





financial institutions and consumers. According to the RCMP, total dollar losses from credit card fraud in 2003 amounted to C\$200 million. The most prevalent form is counterfeit credit card fraud. In many cases, organized crime uses portable card skimmers to read and capture the data contained on the card's magnetic stripes and then manufacture counterfeit cards. The stolen card's information is then re-encoded onto blank magnetic cards and used to drain the victim's account or sold on the black market. Criminals use skimmers to steal credit card data from areas such as restaurants, bars, gas stations and convenience stores. In these areas, some criminally inclined employees will sell the stolen information to individuals who will manufacture counterfeit cards. Another threat to payment cards are white-label automatic teller machines (ATMs) that are illegally modified to copy payment card information and record passwords as the card is swiped.

An increasingly popular form of Internet-related fraud is "phishing." This involves deceptive e-mails that impersonate legitimate institutions and lure recipients into divulging personal financial information such as credit card numbers or Internet banking passwords. It may also entail password-detecting/decrypting software illicitly capturing encrypted passwords transferred over networks. Some spyware is designed to steal information, for example, through keystroke-logging software that illicitly records personal information. Criminals are increasingly targeting smaller financial institutions, such as community banks and credit unions, that may have fewer security resources. (See: *Technology and Crime section*)

Government agencies and departments have also been targeted by phishing. In February 2005, the Ontario Ministry of Transportation warned that an e-mail impersonating the ministry was circulating with a request for recipients to confirm their driver license information by clicking on an embedded link.


### *Negative Socio-economic Effects*

Direct and indirect losses from identity theft in Canada are significant. While identity theft results in considerable financial costs to financial institutions, businesses and consumers alike, it remains difficult to collect current statistics regarding the problem nationally or internationally. In 2002, the Canadian Council of Better Business Bureaus (CCBBB) estimated that consumers, banks, credit card firms, stores and other businesses lost C\$2.5 billion to identity theft. In 2003, the latest year for which statistics are available, PhoneBusters recorded losses reported by victims at C\$21.8 million. In addition to these financial losses, victims of identity theft are left with damaged credit ratings and disrupted personal and financial records. In a 2003 survey, the U.S. Federal Trade Commission reported that identity theft victims spent an average of US\$500 to recover lost identities and clear credit ratings.

"Organized crime is not some far-removed phenomenon, it is here in our community. You only have to look at the person struggling with the effects of identity theft or the family devastated by drug abuse to see the personal impact of organized crime. You do not even need to be directly victimized."

— Chief Vince Bevan,  
Ottawa Police Service





Victims may lose trust in the businesses through which they were defrauded while the business may have been unaware of the employee's criminal activities. Corporations, or government institutions, invest considerable human and financial resources in the establishment and maintenance of a brand or image. After incidents of fraud, corporations must allocate significant time and resources recovering their lost image/tarnished brand. In addition, in cases of phishing and pharming, corporations must allocate additional resources to strengthen security measures. Identity theft will continue to grow and pose a threat to millions of people and businesses in Canada.

### ***Human Beings as a Commodity***

#### **Migrant Smuggling and Trafficking in Persons**

##### *Threat Issue*

Migrant smuggling and the trafficking in persons are criminal activities in which organized crime has become involved internationally. The extent of organized crime's involvement in these criminal activities in Canada are proactively monitored by law enforcement. Trafficking in persons and migrant smuggling are sources of significant profit, and help to strengthen and expand the capacities of criminal organizations internationally. The distinction between migrant smuggling and trafficking in persons is an important one, as smuggling implies consent while the latter implies coercion. According to the United Nations Convention Against Transnational Organized Crime, migrant smuggling refers to the facilitation of illegal entry of a person into a country for financial gain. The trafficking in persons, on the other hand, involves the displacement of an individual by means of coercion, deceit or violence for the purpose of exploitation. Frequently, this involves the sexual exploitation of women and children, but also includes men and women trafficked for the purpose of forced labour or other services in debt bondage.

Although they represent very different offences, there are many parallels between illegal migrant smuggling and trafficking, such as the international displacement of individuals and their illegal entry into a country. There are also additional elements to the smuggling of illegal migrants that impacts on law enforcement's ability to detect and determine the extent of the trafficking in persons. The smuggling and trafficking of individuals operate simultaneously. As a result, it is possible that within the same illegal movement, there are both smuggled and trafficked individuals. Moreover, since a number of potential trafficked victims are entering or transiting to the U.S., it is difficult for law enforcement to determine whether intercepted individuals were destined for commercial exploitation.

## *Overview of Criminal Activity*


The smuggling of individuals across borders for the purpose of illegal migration or trafficking requires the ability and capacity to coordinate the transportation of these individuals. As a result, the criminal organizations involved are generally highly sophisticated. Some of these organized crime groups in Canada have the ability to coordinate the transportation of individuals from source countries to their final destination. Other groups or sub-groups within a larger criminal network specialize in one element, whether that be to organize the transportation of individuals across the border to the U.S., or in the acquisition of false or stolen documents, including passports and visas. Such specializations allow some organized crime groups to undertake contracts for their smuggling services on behalf of other groups. Thus, one shipment can entail a mix of individuals from various originating countries and ethnicities. For example, a smuggler was arrested in January 2005 trying to smuggle Chinese nationals and an Albanian into the U.S. through a train tunnel, linking Ontario to Michigan. In another incident last August, a Chinese and a Pakistani national were detained after they had been assisted crossing into the U.S. on a freight train from Canada. Many illegal migrants enter Canada intending to remain here, while others are in transit to the U.S. Smuggling fees paid by some migrants to arrive in Canada have ranged from approximately US\$20,000-\$50,000 per person.

While some criminal organizations in Canada specialize in migrant smuggling, some are also involved in the smuggling of other commodities, particularly illicit drugs such as cocaine and marijuana, firearms and currency. Moreover, some of these groups possess the technical skills to manufacture and/or have access to counterfeit documents or falsify genuine documents to facilitate the transportation phase of the smuggling operation.

Although significant media attention was focused on large numbers of individuals entering the west coast of Canada on ships in the summer of 1999, information indicates that most individuals illegally entering the country come by air and over land by car, train or on foot over a land border area. Individuals are smuggled to the U.S. at border areas across the country, but are particularly concentrated in Ontario and British Columbia.

Primarily a transit and destination country, persons are smuggled into Canada for the purpose of forced labour and sexual exploitation. For the most part, trafficked victims transiting Canada are destined for the U.S. The trafficking of persons may also occur within Canada across provinces. Historically, Asian and Eastern European organized crime groups in Canada have been most involved in the trafficking of women from countries such as China, South Korea, Thailand, Cambodia, the





Philippines, Russia and from the region of Latin America. Worldwide, profits generated by human trafficking are reported to compete with significant other criminal markets, such as the illicit trade in drugs and firearms. In April 2005, the first person to be charged in Canada with human trafficking occurred in British Columbia.

#### *Negative Socio-economic Effects*

Migrant smuggling and the trafficking in persons present health and safety risks. Traded as commodities frequently without regard to their safety or well-being, trafficked individuals are displaced from their homes and often held involuntarily, usually through the use of threat of violence towards themselves and/or their family. Trafficking in persons is increasingly viewed as a violation of human rights.

Should the market for trafficked victims increase in Canada or the demand increase in the U.S., then the numbers of victims requiring help from governmental and social services will expand. Trafficking in persons may also be associated with an increase in violence between criminal organizations vying for a portion of this lucrative market.

The illegal entry of migrants into Canada threatens the integrity of the formal immigration process. Illegal migration has an impact on immigrants arriving legally into the country, as the costs associated with deportation and immigration hearings divert resources away from those arriving through legitimate processes. The integrity of citizenship documents are also undermined as counterfeit and falsified documents are frequently used, particularly passports and visas. Furthermore, since a number of individuals arriving in Canada illegally are actually in transit to the U.S., a significant increase in the number of migrants smuggled or trafficking victims to the U.S. could place additional strain on law enforcement resources in both countries.

Internationally, organized crime makes use of legitimate businesses during their smuggling and trafficking operations, typically in the transportation and travel industry, in order to avail themselves of such services or to operate them. The international movement of individuals across borders, whether with illegal migrants or trafficked victims, can be facilitated by co-opted employees connected to the transportation and travel industries. These methods of operation challenge law enforcement as they provide a seemingly legitimate cover used by the majority of people that travel internationally on a daily basis.

Like most organized criminal activity, there are associated impacts to the trafficking in persons and migrant smuggling. Since the smuggling routes and methods of transportation can be used for any type of commodity, criminal groups will take advantage of these resources to expand their

“Canadians have become more aware of organized crime’s involvement in the illicit goods and drug trades as a money maker for funding their agendas. But the growing problem, here and around the world, of human trafficking is a new and frightening phenomenon. Without the attention of law enforcement, human trafficking will have devastating effects on not only individual families but on the fabric of our society as a whole.”

— RCMP Assistant Commissioner  
Ilan Atkins,  
Commanding Officer  
“H” Division (Nova Scotia)



trafficking activities to include for example, illicit drugs. Increased profits from illegal migrants and trafficking activities, in addition to the smuggling and trafficking of other commodities, helps to expand the capacities and operational scope of criminal organizations.

## **Sexual Exploitation of Children**

### *Threat Issue*

The sexual exploitation of children (SEOC) is a complex issue that poses a number of different and serious threats to children in Canada and internationally. Generally, SEOC is recognized to include the following types of criminal activity: child pornography, child prostitution, child sex tourism, and trafficking for sexual purposes. This broad issue is of concern to law enforcement because of the increased number of opportunities to exploit children that are facilitated by the Internet and other information and communication technologies, and also because of the number of challenges in trying to address these forms of illegal activity.


In recent years, the federal and provincial governments, and particularly law enforcement, have responded to the threats posed by these increasing criminal offences to a significant extent. The Government of Canada has a *National Strategy to Protect Children from On-line Sexual Exploitation*, which includes financial support to the National Child Exploitation Coordination Centre (NCECC), a liaison point for both domestic and international law enforcement agencies investigating child exploitation over the Internet; Cybertip.ca, Canada's national tip-line for reporting the on-line sexual exploitation of children; and also various integrated law enforcement units across the country mandated to investigate instances of SEOC.

### *Overview of Criminal Activity*

Child pornography has become encompassed within the larger issue of child exploitation on the Internet, which has presented a myriad of opportunities to produce, distribute and collect child pornography (in the form of images and videos), as well as to enable pedophiles to establish networks where information and data can be exchanged. The Internet has also increased the number of opportunities for pedophiles to have contact with children.

A significant number of pedophile networks have been increasingly emerging on-line, involving individuals worldwide. These transnational networks coalesce around chat rooms, discussion and newsgroups, and communicate using applications software, such as instant messenger and peer-to-peer programs to exchange child pornography images and videos. Many of the chat rooms and newsgroups have increased their level of security through passwords as they try to avoid detection by law





enforcement. An increasing number of fora that require payment to view and trade child abuse images, seek commercial profit from this type of exploitation but payment systems also helps to insulate the illicit activities from law enforcement as these websites are more difficult to investigate openly, and also generate profit for the owners. Moreover, there are a number of gathering places that exist on-line for like-minded individuals to exchange ideas and information on child exploitation.

On-line programs specifically designed for children and youth to make friends and play games, are targeted by pedophiles who pass themselves off as children in the hopes of grooming the child for sexual exploitation. Pedophiles can also remotely control a camera that is attached to a computer without anyone knowing, which can lead to threats and blackmail so that the child will comply with their demands.

Internationally, the production and dissemination of child pornography is a growing illicit market in which organized criminals are involved. Globally, annual profits from child pornography are estimated to total approximately C\$24 billion. Many Canadians have been implicated in international investigations whereby child abuse images were downloaded and traded for a fee.

Child prostitution<sup>12</sup> is usually a hidden section of the prostitution market, and thus frequently exists alongside adult prostitution, and is therefore, difficult for law enforcement to identify. Small groups of organized criminals and lower-level organized crime groups are involved in child prostitution in Canada. Prostitution rings involving children under the age of 18 have recently been dismantled in Ontario and Quebec, however, child prostitution is present in most larger urban centres in Canada. Traditional places of activity centre around Montreal, Toronto and Vancouver.

Child sex tourism is an offence under the *Criminal Code* and involves an individual traveling to various international destinations for the purpose of engaging in sexual activity with a child. The first person to be convicted in Canada with offences related to child sex tourism occurred this past June in British Columbia. This individual traveled to Cambodia in order to procure the sexual exploitation of children. The scope of the problem, that is of Canadians implicated in child sex tourism, may be larger than is presently known as a number of these types of reports have also been received by Cybertip.ca.

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<sup>12</sup> Child prostitution refers to children and juveniles involved in prostitution under the age of 18.

## *Negative Socio-economic Effects*

The victims of SEOC offences face physical, psychological and health-related effects over the short- and long-term. Child sex tourism highlights the inter-connectedness of SEOC-related offences, in that they victimize and present threats not only to children in Canada but also in a multitude of other countries, thus there are far reaching implications to these activities that transcend borders.

Pedophiles who seek out children on-line frequently present themselves as children and as a result, victims sometimes unknowingly engage in conversations with offenders, while others are groomed into accepting communication with pedophiles on the Internet. The danger this presents is amplified as children in Canada regularly use the Internet unsupervised.

SEOC-related offences are very time consuming to investigate, and are complicated by the multiple jurisdictions involved, to the extent that the crime, victim and offender are often found within and between different countries. Moreover, there are a number of means for pedophiles to communicate with like-minded individuals on the Internet that use encryption and multiple passwords on websites, which impedes investigations carried out by law enforcement.

While many integrated approaches have been implemented to address SEOC from a social, health and law enforcement perspective, it is expected that at least in the short-term, more loosely structured groups of criminals will continue to take advantage of the exploitation of children for profit.

## ***Illicit Drugs***

### *Threat Issue*

The illicit drug industry in Canada provides organized crime with one of its most financially lucrative criminal endeavours. There is very little opportunity for individual criminal entrepreneurs to participate substantially in this illicit trade if they are not in some manner aligned with, associated to, or supplied by a larger criminal group. As well, the various aspects of this illicit industry often require resources and expertise that only organized crime groups can provide or have access to. In Canada, organized crime either directly controls or indirectly influences all aspects of the illicit drug industry whether it be cultivation, manufacture, importation or distribution.

In this year's report, CISC will highlight certain illicit drugs that are currently in higher demand within the relatively small illicit drug consumer population in Canada, including: marihuana, cocaine, heroin and the chemical-based substances of ecstasy and methamphetamine. These illicit drugs are available, to varying degrees, in all regions of

**“Substantive evidence indicates that about 95% of the property crime reported to us is directly linked to the illicit drug trade, which is, for all intents and purposes controlled by organized crime groups that have refined the ability to profit from criminal activity to a science.”**

**— Chief Richard Deering,  
Royal Newfoundland Constabulary**





“The fact of the matter is that B.C.’s marihuana grow industry is not really about marihuana at all, it is about cocaine and the funding source for other types of crime. Police intelligence indicates that the marihuana trade is directly responsible for cocaine trafficking, use and related violent crime.”

— RCMP Assistant Commissioner  
Gary Bass, Officer-in-Charge, Criminal  
Operations Branch “E” Division  
(British Columbia)

Canada, with marihuana clearly the most widely abused illicit drug substance. The reasons for illicit drug usage varies by the drug and the individual, but are diverse and sufficient enough to continually maintain an illicit consumer demand in Canada that can only be supplied through criminal means.

Aside from significant quantities of marihuana and some synthetic chemical drugs, the bulk of illicit drugs consumed in Canada originates abroad, and therefore must be smuggled into the country. This illegal movement requires considerable planning and organizational capacities and available financial and human resources. Typically it is the more sophisticated organized crime groups in Canada who possess the necessary international criminal contacts in source and transit countries that can carry out these conspiracies. Crime groups involved in this international movement into Canada are varied.

#### *Overview of Criminal Activity*

##### **Cannabis**

Marihuana, hashish and liquid hashish are cannabis products, each with varying degrees of consumer popularity in Canada. However, marihuana usage is much more widespread in all regions of Canada, while hashish and liquid hashish is less popular with a more narrow consumer base that is mainly restricted to Eastern Canada. Consequently, this year’s report will only concentrate on marihuana.

The Canadian marihuana market is supplied predominantly by domestically cultivated products that is supplemented to some degree by quantities of marihuana smuggled into Canada from foreign sources such as the Caribbean and Mexico. It is unclear precisely the quantity of marihuana grown in Canada but law enforcement is continually dismantling grow operations of all sizes in every region of Canada. Initially in the middle 1990s, marihuana grow operations were concentrated mainly in British Columbia but these operations gradually spread eastward through the prairie provinces to Ontario, Quebec and into Atlantic Canada.

The average marihuana grow operation will contain hundreds of plants; however, some operations may involve plants in the thousands. In one instance, a grow operation including 30,000 plants was discovered within a vacant industrial building near Barrie, Ontario.

It appears that the HELLS ANGELS and a number of Vietnamese crime groups are the predominant players in the Canadian marihuana grow operation industry. However, Italian organized crime groups have been encountered as well as many semi-independent cultivators and smaller-





scale operators. While a significant quantity of the marihuana cultivated in Canada is actually destined for the United States' market, this Canadian contribution actually represents a small portion of the total U.S. illicit consumption, as Mexico is currently their largest foreign supplier.

## Heroin

Heroin is a highly addictive drug that, in Canada, is used by between 25,000 to 50,000 addicts that reside mainly within urban centres, particularly Vancouver, Toronto and Montreal. It is estimated that between one or two tonnes of heroin is required annually to supply this illicit market. Over the last ten years, heroin destined for the Canadian market has traditionally originated in Southeast Asia (Golden Triangle). However, increasing quantities of heroin from both Southwest Asia (Golden Crescent) and South America are being encountered by law enforcement.

Southeast Asian traffickers are involved in the movement of heroin into Canada. As well, there are some Southwest Asian crime groups involved in smuggling heroin to Canada. Heroin enters Canada primarily through marine and air ports concealed either within commercial cargo or carried by individuals within their baggage or on their person.

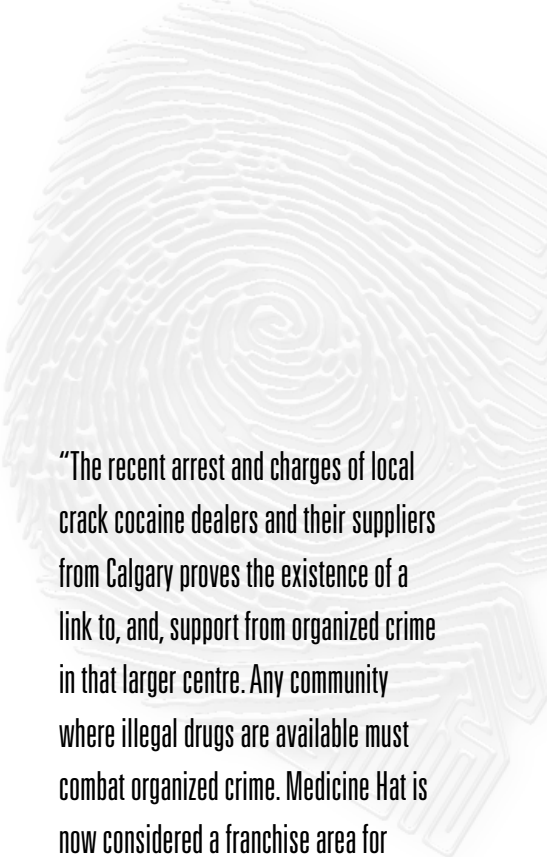
## Cocaine

Most cocaine consumed in Canada originates from South America and travels to Canada either directly or through one or more transit countries. The Caribbean is a significant transit region for the smuggling of cocaine into Canada. Of cocaine seized at Canadian points of entry, Jamaica and Haiti were the major transit points identified, followed by other islands such as, St. Lucia, St. Martin and Curaçao. Cocaine transiting the Caribbean enters Canada through international airports, particularly Toronto's Pearson International and Montreal's Pierre Elliot Trudeau, concealed within luggage or commercial cargo. As well, cocaine is moved into Canada through commercial and private marine vessels.

There is a wide range of crime groups involved in the movement of cocaine into Canada including South American-based drug trafficking organizations, as well as Italian and Caribbean crime groups and outlaw motorcycle gangs in Canada. As well, there are independent and unaligned criminal organizations who are also involved in large-scale

**A** major cocaine smuggling organization was disrupted in September 2004 by numerous arrests as a result of a successful joint forces investigation under the name Project CALVETTE. This crime organization supplied large quantities of cocaine to associates and various other organized crime groups operating in Quebec, Ontario and British Columbia. The arrest of four Quebec residents and the seizure of 750 kilograms of cocaine from a sailboat was linked to this organization as was the seizure of 12 kilograms of cocaine in April 2004 at Sept-Iles, Québec linked to a cargo ship from Venezuela.





“The recent arrest and charges of local crack cocaine dealers and their suppliers from Calgary proves the existence of a link to, and, support from organized crime in that larger centre. Any community where illegal drugs are available must combat organized crime. Medicine Hat is now considered a franchise area for such dealings.”

— Chief Norm Boucher,  
Medicine Hat Police Service

smuggling operations and who either have their own domestic distribution networks and/or may sell their contraband to other organized crime groups.

South American cocaine bound for the Canadian criminal market also often transits through the United States. Cocaine smuggled from the United States is often acquired at distribution centres in southwestern states and subsequently moved through Canadian land border points in British Columbia and Southern Ontario. Commercial vehicles are particularly favoured as means of cross-border transportation.

### **Synthetic chemical drugs**

Synthetic drugs include a wide variety of chemically based illicit drugs but for the purposes of this report CISC will concentrate on MDMA (Ecstasy) and methamphetamine. The rave phenomenon and club drug scene in the 1990s became to some degree associated to ecstasy consumption and trafficking and while still popular, consumption rates appear to be on the decline in Canada. However, methamphetamine, a chemical that achieved some level of popularity during the 1970s, has re-emerged and its consumption level is once again on the increase in Canada.

#### **MDMA/Ecstasy**

MDMA (3,4-methylenedioxymethamphetamine), or ecstasy, was developed in Germany in the early 20th century as an appetite suppressant but its current illicit attraction is based upon its hallucinogenic effects that allegedly heighten one's senses and lessens one's inhibition. Its popularity with the rave culture also rests on its stimulant properties that enables users to continue dancing for hours at all-night clubs.

Western Europe continues to be a major source of the ecstasy, in either tablet or powder form, available in Canada. It is smuggled into Canada by a variety of groups originating from Europe and the Caribbean, through the use of the postal service, couriers aboard commercial flights, airfreight shipments, and marine containers. Market demand is also being met by domestic producers using sophisticated synthetic tableting labs.

#### **Methamphetamine**

Methamphetamine use is on the increase in many parts of the country, but primarily in Western Canada. The bulk of this methamphetamine is manufactured domestically in Canada in small clandestine laboratories, though larger operations capable of producing 4.54 kg or more in one production cycle have been encountered occasionally. Given that pseudoephedrine (PSE), an essential ingredient in the manufacture of methamphetamine, is available in over the counter medications

(in pharmacies and over the Internet) several provincial governments have taken steps to limit their availability. Organized crime groups involved in the illicit methamphetamine industry include outlaw motorcycle gangs, specific Asian crime groups, and independent organized crime groups.

### *Negative Socio-economic Effects*

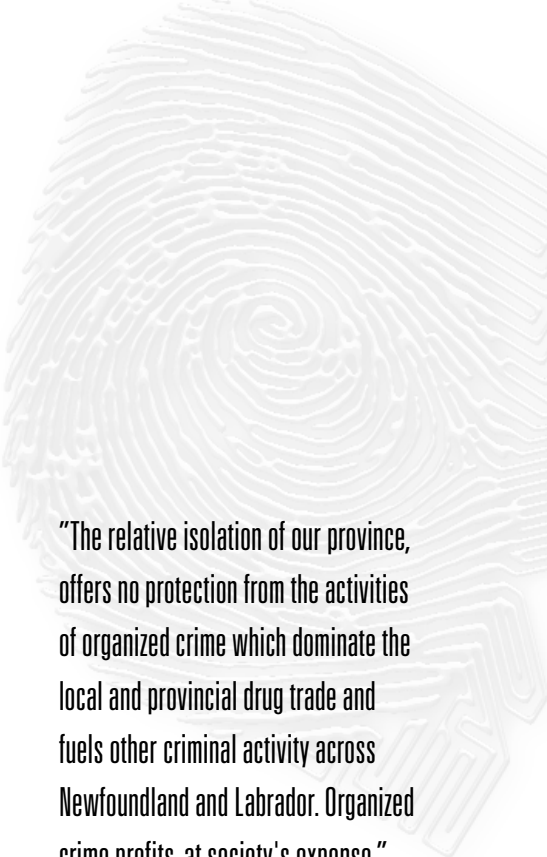
The overall impacts of the illicit drug trade are varied and substantive affecting individuals and their communities. While many of these negative effects may be difficult to quantify, their harm is real and substantive. In general terms, the illicit drug trade has impacts on a user's health; brings about additional medical costs; demands greater law enforcement resources; and may incite conflict and violence between users and organized crime groups; in addition to negatively affecting family and friends. Moreover, in order to feed their habits, addicts can commit a number of petty and serious crimes such as robbery and assault, break-and-enters, the sale of stolen property and prostitution.

Each illicit drug has a combination of side effects that bring about both a physical and psychological dependence. A tolerance can be developed from addictive drugs, such as methamphetamine, that may force the user to acquire larger doses and/or use with greater frequency in attempts to experience what they believed were the positive effects of the drug. Injected drugs, such as cocaine and heroin, may enhance the risk of various blood-borne infections (eg. HIV/AIDS; hepatitis B and C), scarred or collapsed veins, infection of the heart lining and valves, abscesses, pneumonia, tuberculosis, and liver and kidney disease. Although ecstasy is not known to create physical dependency, health-related side effects including dehydration or hyperthermia have occurred while using the drug at raves and dances, leading to death due to kidney failure and heart attack.

Health risks are heightened due to the unpredictability of ingredients within illicit drugs. As a result, consumers do not always know the actual contents of the illicit drug they have purchased nor the purity level of the drug. Their intended drug purchase could be laced with other illicit drugs and/or chemicals or contaminated by fungi or moulds. An unknown drug combination can cause serious adverse affects, including death. Aside from these medical problems, illicit drug users can also encounter serious legal problems, such as a criminal sentence and subsequent record, which could affect their future employment and travel opportunities.

The manufacturing of illicit drugs, specifically synthetic drugs and marihuana, pose threats to public safety and to law enforcement and the health services sector, as well as certain environmental risks. For instance, the chemicals used in the manufacture of methamphetamine are hazardous with some being highly volatile and at risk to ignite or





**"The relative isolation of our province, offers no protection from the activities of organized crime which dominate the local and provincial drug trade and fuels other criminal activity across Newfoundland and Labrador. Organized crime profits, at society's expense."**

**RCMP Assistant Commissioner  
Gerry Lynch, Commanding Officer  
"B" Division (Newfoundland  
and Labrador)**

explode if mixed or stored improperly. Any resultant fire or explosion not only harms the individuals involved with at the laboratory but also the neighbouring area, its inhabitants and visitors.

Exposure to the toxic chemicals used in the manufacture of methamphetamine could cause intoxication, dizziness, nausea, disorientation, lack of coordination, pulmonary edema, serious respiratory problems, severe chemical burns, and damage to internal organs. Methamphetamine production also threatens the environment as a typical laboratory may produce 2.3 kg to 3.2 kg of toxic waste for every one pound of methamphetamine produced. The improper disposal of this toxic waste could cause contamination of the soil and any nearby water supplies.

Marihuana grow operations pose a number of health and safety risks to the occupants of the residences in which cultivation occurs, to their neighbours and surrounding community. The health risks are linked to the increased fire hazard these grow houses represent to themselves and their neighbours. A recent study of grow operations in B.C. concluded that a fire was 24 times more likely to occur in a grow house than in an ordinary dwelling largely because of the unsafe electrical diversions or bypasses many grow operators use to circumvent utility meters in order to steal electricity. They are also linked to the moulds which result from the intense humidity and chemicals used in indoor marihuana grow operations. Homes that have housed grow operations often require great effort and expense to rid them of the moulds and other residues which would otherwise make them unsafe to live in.

In terms of safety risks, neighbours and grow house operators run the risk of being victimized in a "grow rip", which occur when a rival group or individuals violently steal a mature crop. Grow rips can entail assaults, kidnappings and the use of weapons including firearms. Safety issues are also linked to the occasional use of booby traps by grow house operators seeking to protect themselves from potential thieves.

### ***Motor Vehicles***

#### ***Threat Issue***

This criminal market is not restricted to automobiles, but includes all types of motorized vehicles from all terrain vehicles (ATV) and motorcycles, to fishing boats and farm equipment. The Insurance Crime Prevention Bureau has identified an increase in four main fraud techniques that are used by organized crime to steal vehicles. These include: the illegal transfer of Vehicle Identification Numbers (VINs) from wrecked vehicles to similar ones that have been stolen; a legitimate VIN is used to change the legal identity of a stolen vehicle of the same make, model, and colour, a process called "twinning"; and the

use of leasing or financing arrangements to mask the illegal export of vehicles. In this last example, a vehicle is leased and then illegally exported. Since payments continue to be made for a couple of months, suspicion does not arise until the vehicle is eventually reported stolen several months later. An increasing trend in vehicle theft-related fraud is termed “owner give-up”. In this form of fraud, an owner is approached by an organized crime group to give up their vehicle and then submit a claim of theft to the insurer. A newly emerging method of auto theft has also been observed in Canada, whereby the criminals are getting replacement keys from car dealerships using the VIN numbers taken from parked vehicles.

## *Overview of Criminal Activity*

Organized crime is increasingly becoming involved in motor vehicle theft in Canada. In particular, specific Eastern European organized crime groups (EEOC), outlaw motorcycle gangs (OMGs) and independent criminal organizations across the country have developed expertise to carry out various vehicle-related frauds and the shipment of stolen luxury vehicles internationally. Potential profits from this activity are extremely attractive, but require access to an extensive network of facilitators and service providers until the vehicle has been resold domestically under a new identity, stripped for its parts, or shipped abroad on cargo container ships to waiting buyers.

Although Western Canada has recently experienced the highest rate of stolen vehicles, it also has the greatest proportion of recovery by the police which might indicate that a large proportion of thefts are for “joy-riding” purposes. Larger urban centres in Ontario, Quebec, and Nova Scotia have the highest rates of non-recovered stolen vehicles, which is taken as an indicator of a significant degree of involvement by organized crime. Many of the luxury vehicles stolen each year by organized crime groups are destined for export. The vehicles are largely destined for Eastern Europe, Russia, the Middle East, South America, the Caribbean, Africa, and Southeast Asia.

The theft of vehicles and the frauds that are perpetrated to mask the identity of stolen vehicles are frequently undertaken by larger criminal networks, within which a number of smaller groups specialize in one or more aspect of the process. Thus, part of a vehicle theft network will steal vehicles based on commissions to fill orders of particular makes, models and years. Other parts of the network have specialized counterfeiting skills that allow them to alter paperwork and other identifying marks on vehicles; there are also illegal auto body shops where the cars are either stripped for their parts or altered by being given a new VIN, otherwise known as “chop shops”. These highly sophisticated organized criminal networks involved in the theft of vehicles require couriers who can transport them across provinces, to the U.S. and/or have the connections

“Organized crime groups in New Brunswick use motor vehicle crime as a source of profits, which are used to fund other criminal activity. Vehicles are stolen, and sold in New Brunswick or, what is equally troubling, transported through the province to border destinations or to the ports for out of province destinations.”

— Chief Allen Bodechon,  
Saint John Police Force



necessary to arrange for them to be illegally exported on container ships. The networks of criminal organizations also need to extend to the market, and thus country, where the vehicles are destined to be resold.

Organized crime groups involved in motor vehicle theft also tend to be involved in other criminal enterprises, thus it is an activity that contributes significantly to the expansion and strength of groups' capacities.

**A** 2004 investigation in Newfoundland and Labrador into a vehicle theft ring uncovered a network that spanned across the country, from British Columbia through Ontario to Newfoundland and Labrador. The stolen vehicles were also used to transport illicit drugs from the western region to the Atlantic provinces.

#### *Negative Socio-economic Effects*

Organized theft of vehicles for sale within Canada or abroad is often viewed as a victimless crime because the crime itself is rarely committed with violence. Moreover, it is assumed that insurance companies will compensate victimized policy-holders. Aside from victim impact there are financial costs. The Insurance Bureau of Canada estimates that vehicle theft costs insurers and the public

almost \$1 billion a year when all related costs are included, such as those incurred by the health care system and law enforcement. There are also costs associated with the time and expense involved in reporting, processing and settling vehicle insurance claims which affects policy holders, insurance companies, law enforcement investigations, court processes, corrections' services, and taxpayers.

There are risks associated with vehicle theft to the public as well, since luxury vehicles are targeted for break-and-enters at residential homes. Break-and-enters occur because the actual possession of the vehicle's keys can help to avoid built-in alarm systems. Unsuspecting buyers of stolen vehicles may suffer financial loss or be unaware that their vehicle was stolen or in an accident. With regard to the international market for stolen vehicles, efforts undertaken to repatriate stolen vehicles from where they were illegally exported to its originating country is very costly. Repatriation requires the co-operation of numerous affected parties, including insurance companies, customs officials, local, national and international law enforcement agencies. Vehicle theft and crime perpetrated by organized crime in Canada generates significant illicit profits that are used to further other criminal enterprises, such as the trafficking of drugs.

#### *Natural Resources*

In Canada, the criminal market in natural resources attracts organized crime groups, some of whom are involved in other criminal markets, and individuals unaligned with any one group. These groups could be drawn by the profits to be made. For example, it is estimated that the

**"Insurance crime is serious and costly and makes victims of us all. Not only do insurance fraud and auto theft cost Canadians billions of dollars every year, these insidious crimes often result in innocent victims being seriously hurt or killed."**

**— Rick Dubin, Vice-President,  
Investigations,  
Insurance Bureau of Canada**

international market in endangered species is worth roughly US\$5 billion annually. The involvement of organized crime in environmental and natural resource crime can occur anywhere along the production and distribution lines of illicit and contraband goods, to profit concealment and money laundering.

## **Environmental Crime**

### *Threat Issue*

Internationally, environmental crime is often linked to areas of the world undermined by underdevelopment, political corruption, abuse of power, and violent conflict. The types of offences under the category of environmental crime range from poaching and capturing rare and endangered species of flora and fauna (to either be sold as food in local markets, specialty foods to national and international markets, medicines or as live additions to private collections), to the illegal harvesting of timber, illegal gemstone and mineral mining and the illegal transport and disposal of hazardous waste, among others. Many of these crimes are facilitated by complicit political and governmental officials that either oversee the operations, or take a percentage of the profits from the illegal operators. Often, these crimes are a means of funding weak and unstable governments and their political elite, a breakaway region seeking some form of autonomy and/or independence, or to fund an armed conflict.

The environmental crime situation in Canada is quite different than it is in many other parts of the world because of the regulatory oversight at all levels of government and their agencies. It would therefore be unlikely that Canada would experience environmental crimes at the level of those witnessed in other parts of the world. Nevertheless, Canada is concerned by this type of criminality abroad because of its harmful effects on social and economic development, on democracy and governance, and on the local and global environment.

### *Overview of Criminal Activity*

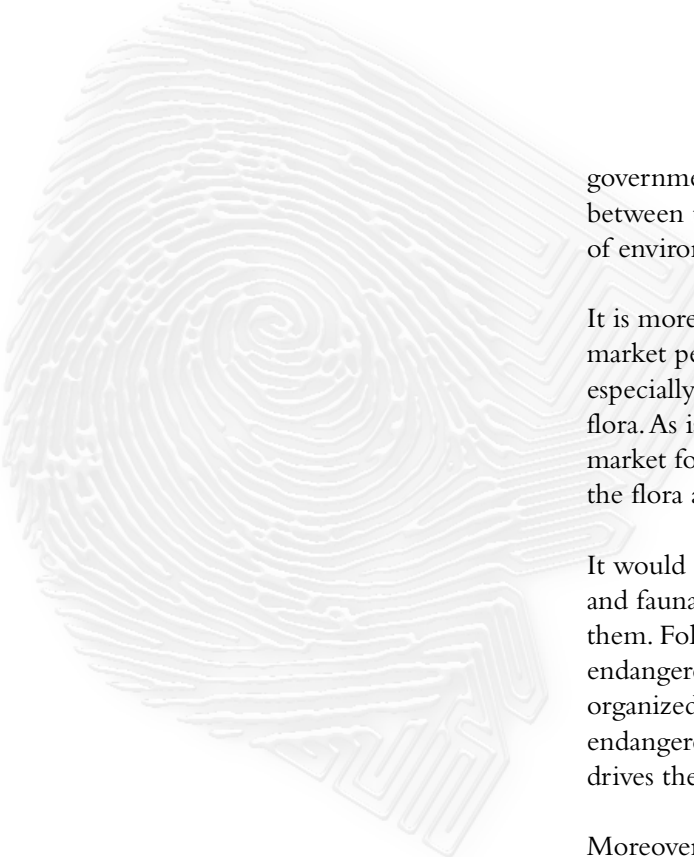
In Canada, the environmental crime category encompasses a diverse set of offenses such as the trade in endangered species, the illegal, unreported and unregulated harvesting of flora, fauna and minerals, and dumping of waste (hazardous and not). Environmental crimes can also result from other criminal activities such as methamphetamine production and marihuana grow operations (See: *Illicit Drug Section*).

Because environmental issues spill-over beyond provincial and national borders and into the international arena, many of the rules and regulations in Canada are the product of or reflect the international commitments taken on by the Canadian government as a signatory of international treaties and agreements. Moreover, as this criminal market covers many disparate types of crime that fall under the jurisdictions of several different

**“Organized crime has a negative impact on Canadians and communities across the country. The Canadian Forces Provost Marshal, the military’s chief of police, is committed to preventing organized crime activity, and military police detachments across the country will co-operate with our civilian police and law enforcement partners in this endeavour.”**

**— Captain Steve Moore,  
Canadian Forces Provost Marshal**





government agencies and departments, co-operation and coordination between them and their international partners is crucial to the prevention of environmental crimes and prosecution of their perpetrators.

It is more useful to look at the issue of environmental crime from a market perspective, than to limit it to the crimes committed. This is especially true in the trade of endangered species and other rare fauna and flora. As is the case in the market for art works and cultural artifacts, the market for endangered species is dominated by collectors and devotees of the flora and fauna in question.

It would appear that for most endangered (and not) species of wild flora and fauna there are individuals and groups that collect, trade, buy and sell them. Following market principles, the scarcity of a species (in this case its endangered status) increases its allure and its price. Although established organized crime groups may not have a non-monetary interest in these endangered species, the profit potential is evident to them and therefore drives their involvement in this trade.

Moreover, organized crime's involvement is also facilitated by its access to pre-existing trade routes along which illicit drugs, contraband and humans are smuggled. Certain organized crime groups have also, for the sake of expedience or in the hopes of deterring inspection, at times combined shipments of illicit drugs and fauna. For instance, boa constrictors, giant snails, crocodilians and tarantulas have been found packed with illegal drugs such as cocaine and heroin.

**R**ecently, a Canadian was charged for allegedly selling endangered species (animals and parts) on the internet. The animals included an African elephant, sperm whale, Himalayan pheasant, birds of paradise, walrus and long-eared owl.

Internationally, poaching appears to be carried out on an ad hoc and opportunistic basis by sophisticated criminal organizations with well-established national and international connections needed to organize the harvesting

and distribution of the resource. Canada is known to have been the destination for some poached products, such as Australian shark fin, as well as an exporter and trans-shipment point. Animals are not only poached for their meat, but also for selected body parts that are used for medicinal and/or spiritual reasons, for clothing and other fashion accessories, souvenirs and art work. For instance, the bile from bear gallbladders is extremely prized as a traditional Chinese medicine, while eagle feathers and talons are prized for their ceremonial and spiritual values.

#### *Negative Socio-economic Effects*

Although the market for poached animals such as caribou, moose, salmon and other fish, and migratory birds in Canada appears largely limited to



the communities in which the poachers ply their trades, larger markets for specific meats do exist and may drive certain poaching operations to attain commercial levels. The sale of poached meat (fowl, fish or mammal) could conceivably become a public health issue given that its butchering, storage and transportation would be unregulated, and therefore its quality and safety could not be guaranteed.

Poaching can also have harmful short- and long-term effects on the species in question, whether it is endangered or not. It is likely that the poaching of endangered species, whose stocks are diminishing either regionally or internationally, could prove disastrous by undermining its sustainability or lead to its outright disappearance.

Organized crime becomes involved in certain activities and markets when there are shortages of a commodity or a service. Their involvement in activities such as poaching and wildlife trafficking threatens the ecological diversity of the country and the planet, while the environmental ramifications of certain criminal activities will be felt in communities of all types and sizes, the costs of which will linger for many years.

*In February 2005, some 40 bald eagle carcasses were discovered in the Vancouver area. The eagles had been poached for their feathers, talons and other parts, which were destined for the North American black market, and made available to collectors of all kinds.*


## **Diamonds**

### *Threat Issue*

Canada's resource riches could be attractive to both foreign and domestic organized crime. Canada's diamond industry exemplifies a sector of Canada's natural resources where law enforcement is continuing to pro-actively monitor the potential criminal exploitation by organized crime. Although now third by value amongst the 23 diamond-producing countries, and expected to move to second or first place once additional mines begin operating, the diamond industry continues to be a new and expanding area of the Canadian mining sector. Diamond exploration throughout Canada has expanded significantly over the past couple of years with the discovery of diamond-bearing kimberlite pipes in Alberta, Saskatchewan, Ontario and Quebec. The next three mines to open, DeBeer's Victor Project in Ontario, Snap Lake in the Northwest Territories (NWT) and the Tahera Jericho Project in Nunavut, are still on schedule to begin production in 2007/08, 2007 and 2006 respectively.

The risks presented by organized crime's potential involvement in the diamond industry are multi-faceted and relate to different aspects of the





diamond industry, including markets for rough and polished stones, and diamond exploration companies.

#### *Overview of Criminal Activity*

The *Kimberley Process Certification Scheme* (KPCS) was implemented in 2003 in order to stem the trade of conflict diamonds<sup>13</sup> from certain civil strife ridden southern and west-African countries. This international initiative was designed to establish a system of internal controls to track diamonds from where they were mined to their point of export in order to ensure that no conflict diamonds have been added to the chain of production. Nevertheless, it is possible to smuggle both rough and polished stones into and from Canada, where they can be introduced into the stream of rough, cut and polished and then sold as Canadian diamonds.

Possible threats posed by organized crime's potential infiltration of the diamond industry are through co-opted or wholly owned mining, exploration, and cutting and polishing firms. Co-option of a firm or a specialized service within could occur if organized crime groups were to place individuals in jobs that could gain access to important industry information or to acquire a supply of rough stones illicitly.

Theft and distortions in the valuation of diamonds that are both imported and exported are also possible through jewelry stores and diamond exploration companies, as is insertion of non-Canadian diamonds into the stream of diamonds labeled as originating from one of the Canadian diamond mines. Organized crime groups are likely to be drawn to the mine sites and their neighboring communities as their populations swell with well paid workers with few outlays for their money. In the past, organized crime has supplied similar resource extraction-based communities with illicit drugs, contraband tobacco and alcohol, illegal gaming and associated loan-sharking, and prostitution.

Additional potential threats from organized crime that could have a direct and indirect impact on the Canadian diamond industry include: misrepresentation of high-quality fake stones for real diamonds; an increasing involvement by organized crime in polished stones as a means to transport currency, as well as investment in jewelry stores; an increase in the smuggling of rough stones in order to avoid the Kimberley Process Certification Scheme; and opportunistic theft at mine sites or while in transit to secondary stages.

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<sup>13</sup> Conflict or blood diamonds refer to diamonds associated to the violent conflict in certain countries in Africa. Diamonds mined in this region have been known to be sold on the black market to raise money to support the continuance of regional conflicts.

## *Negative Socio-economic Effects*

The RCMP-led Diamond Protection Service in concert with the Canadian diamond and diamond exploration industry are helping to monitor and ensure its protection. However, potential criminal threats to the Canadian diamond industry highlight the necessity to uphold the integrity of important economic sectors, particularly those relating to Canada's natural resources. There could be significant financial loss if there was criminal exploitation of the diamond industry. For instance, smuggled diamonds could not only negatively impact the integrity of diamonds mined in Canada, but governments could also lose potential tax revenues from their sale. Moreover, a loss in confidence of the diamond industry in Canada could have negative repercussions on consumers and investors domestically and in other diamond producing countries. If frauds were to take place via publicly traded companies within the Canadian diamond industry, members of the general public could suffer significant financial loss.

There is the potential for organized crime to become involved with legitimate companies within the diamond industry or other areas of the natural resources sector. The threat would stem from organized crime's potential use of businesses within this sector to facilitate criminal activities, such as fraud, money laundering and the smuggling of natural resources. Expanding resource sectors, such as the Canadian diamond industry, present many opportunities for organized crime to exploit that could have negative consequences for communities' well-being and public safety.



## Conclusions


This year's report represents a significant departure from those of previous years as it focuses on organized crime's illicit activities and their negative impacts on Canadians, rather than on the broad based cultural-geographic grouping categories used in previous reports. This new approach better captures the changing dynamics of organized crime and the criminal marketplace. This is not to suggest, however, that the actors and groups behind organized criminal activity have lost any relevance in improving the understanding and response to the threat it represents to Canada. On the contrary, any understanding of organized crime would be incomplete without a comprehension of both the organized criminal activities and the actors behind them. It is important to remember that the actual threat of organized crime stems from criminal groups capacity to enter into criminal activities, which generates significant profit for them. This year's report reflects CISC's continued commitment to bringing attention to the wide-reaching, though often subtle, adverse effects of organized crime on the lives of Canadians.

In many ways, the organized crime marketplace in Canada resembles elements of the legitimate one, with a diverse array of actors and groups competing for a share of various markets. Like entrepreneurs in the legitimate market, organized criminals will actively seek out and attempt to capitalize on opportunities that afford a potential for profit. This opportunism, which is a central driving force behind organized crime, explains why the threat is a continually evolving one; it is a characteristic feature of organized crime that it adapts to the conditions of the ever-changing environment they operate within. The exploitation of technological advances, notably the Internet, illustrates how organized crime adapt its methods and criminal enterprises to utilize new tools and mediums for criminal activity.

The economic forces of supply and demand that drive legitimate business are just as relevant in the illegitimate marketplace. Whether the demand may be for low-cost tobacco or counterfeit DVDs, illicit handguns or child pornography, illicit drugs or counterfeit payment cards, organized criminal elements will respond to and exploit any market for illegal commodities or services. Regardless of the criminal market, however, the common denominator is always exploitation for profit. This exploitation ultimately affects the entire country: its people and institutions; its economic prosperity; and its social fabric.

While violence is often used as a form of internal discipline and dispute resolution within the criminal marketplace, it is rarely confined to this domain, as violence between criminals often takes place within the community. When the community becomes the battleground between organized crime groups, ordinary Canadians and their families also





become victims of gang violence. In some cases, violence or threats are deliberate tools to create and sustain an atmosphere of fear in a community, intended to discourage citizens from taking actions contrary to the criminal group's interests. The illicit firearm market directly affects community safety, providing criminal groups with instruments of violence that can be just as deadly to innocent bystanders as to their intended targets. Violence and intimidation in Canadian communities are often directly related to the illicit drug market. Whether a cause or symptom of the illicit drug trade, violence and other criminal activity take their form in, for instance, residential break-ins and robberies by addicts, "turf" wars between rival gangs, and discarded syringes littering the ground in community parks.

Most Canadians would have little difficulty recognizing these more observable consequences of organized crime in their communities. The effects of organized crime, however, are not limited simply to the obvious, and go well beyond outright violence and disturbance in our communities. Organized crime has a pervasive and far-reaching impact on Canadian society, manifested in ways that range from the dramatic and unmistakable to the subtle and less visible. In fact, the more pervasive effects of organized crime are often those that are the least apparent. These effects are often subtle or hidden for a very good reason: organized crime succeeds largely by operating out of public view, hoping to avoid the undue attention of their principal victims, the Canadian public, and the scrutiny of those charged to protect them, the Canadian law enforcement community.

The economic impact of organized crime is immense. The illicit drug trade has a considerable impact on a large number of addicts and users in this country, which results in an incalculable loss of productivity, and takes a heavy toll on health care resources. Attempts to conceal the proceeds of crime can result in untold sums of Canadian money leaving the legitimate economy or leaving the country entirely. Moreover, when the proceeds of criminal activity enter the legitimate economy through businesses linked to organized crime, legitimate Canadian companies are undermined as they are subjected to unfair competition. Product counterfeiting and piracy not only have a devastating impact on various sectors of the economy, but in some cases can expose Canadians to risk of serious injury or even death from the use of such hazardous counterfeit items as electronic devices, medicines, or vehicle parts. Though certainly less dramatic than violence in communities, identity theft is nevertheless a significant threat, producing losses to individual Canadians and businesses in the multi-millions of dollars every year. The victims of violence can also be hidden from public view. The commercial sexual exploitation of children or the trafficking of persons by organized crime inflicts unmeasurable costs on the lives of the victims and their families, and represents an affront to core Canadian values and basic human rights. Whether apparent or hidden, the adverse effects of organized criminal

# CRIMINAL MARKETS

activity touch all Canadians. This report has sought to highlight only some of the innumerable ways in which organized crime directly or indirectly affects Canada, its institutions, its citizens and communities. Organized crime is much more than specific actors and groups, but includes criminal markets, national and transnational infrastructure and networks, methods and tools, criminal norms and subcultures. In other words, organized crime needs to be understood in this context as it is central to the principle behind intelligence-led policing – a law enforcement strategy that aims to be truly preventative and forward looking. Intelligence-led policing, guided by the CISC community, is Canada's best tool to combat organized crime.









# Evaluation Form

## CISC 2005 Annual Report on Organized Crime in Canada



Criminal Intelligence Service Canada would like to receive feedback on its *Annual Report on Organized Crime in Canada* in order to improve the quality of the report and its value to Canadian society. CISC invites you to complete and return this evaluation form. Your comments and suggestions will assist CISC in developing better reports.

**How informative is the Annual Report on Organized Crime for each of the following criteria?**

National overview	No use	1	2	3	4	5	Most useful
Criminal Markets	No use	1	2	3	4	5	Most useful
Scope of criminal activities	No use	1	2	3	4	5	Most useful
Socio-economic effects	No use	1	2	3	4	5	Most useful

**Please circle the number which best describes your judgement about the content of the report.**  
(1 = Poor and 5 = Excellent)

Readability and understanding	1	2	3	4	5
Organization of the report	1	2	3	4	5
Quality and usefulness of information	1	2	3	4	5
Overall value	1	2	3	4	5

**How does the information in this report impact on your views of organized crime?**

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**How can CISC improve this Annual Report on Organized Crime?**

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This form is available on CISC's website at: [www.cisc.gc.ca](http://www.cisc.gc.ca). CISC welcomes your comments and requests that you complete the information box and return this form by e-mail, fax or mail to:

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