

**Commission of Inquiry into
Money Laundering in British Columbia**

Public Hearing

Commissioner

The Honourable Justice
Austin Cullen

Held at:

Vancouver, British Columbia
via video link

Wednesday, May 27, 2020

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TABLE OF CONTENTS

	PAGE
Witnesses called for the Commission:	
DR. STEPHEN SCHNEIDER	
Examination by Ms. Mainville	1
Examination by Ms. Hughes	25
Examination by Mr. Smart, QC	34
Examination by Mr. McFee, QC	44
Examination by Ms. Camley	55
Examination by Mr. Westell	57
Examination by Ms. Tweedie	63
EXHIBITS	
9 Excerpt from <i>Hunting El Chapo</i>	42

1 Stephen Schneider (for the Commission)
Examination by Ms. Mainville, Counsel for Robert
Kroeker

2 Vancouver, B.C.
3 May 27, 2020

4 THE REGISTRAR: Good morning, everyone. Thank you for
5 waiting. The hearing is now resumed.

6 THE COMMISSIONER: Yes, thank you. Before we pick up
7 where we left off, Mr. Martland, is there
8 anything that needs to be attended to?

9 MR. MARTLAND: I don't believe there is, Mr.
10 Commissioner, and we were in the middle of
11 counsel for Mr. Kroeker's examination of the
12 witness. I think we can simply resume that.

13 THE COMMISSIONER: All right. All right, thank you.
14 Ms. Mainville, if you wish to resume, now is the
15 time. Thank you.

16
17 STEPHEN SCHNEIDER, a witness
18 called for the Commission,
19 recalled.

20
21 MS. MAINVILLE: Can you hear me? Can you hear me now?

22 THE COMMISSIONER: Yes.

23
24 EXAMINATION BY MS. MAINVILLE:

25
26 Q Okay, good morning, Professor Schneider. I
27 referenced yesterday a passage in your report
28 about bank drafts being deposited into casino
29 patrons' accounts and then being withdrawn with
30 no indication that any gambling had occurred with
31 the funds. And that was at page 123. What I
32 would ask you to turn up now is page 72 of your
33 report. Third paragraph where you cite a 2018
34 *Vancouver Sun* article, which starts, if you're
35 there:

36
37 In 2018, the *Vancouver Sun* reported on
38 speculation that laundering through casinos
39 in B.C. involved the deposit of large-value
40 cheques into a casino's "non-cash patron
41 gaming fund accounts." The patron then
42 requests a cash-out by cheque without "an
43 expected level" of gambling.

44
45 So I want to touch on this idea of minimal play
46 or no play, as referenced in those two passages.
47 You'd agree with me that the idea of minimal play

1 is an important indicator of money laundering?
2 We can't hear you.
3 A Sorry about that. It's certainly one indicator,
4 yes. It's not -- I'm not sure how important it
5 is, but yes, certainly the idea is not to go in
6 and gamble away much of your proceeds of crime.
7 Yeah, so minimal play would be, yes, a part of
8 the money laundering through casinos.
9 Q And you may or may not be aware, but I believe
10 it's fairly -- it's not a secret that if -- if
11 you continue to play at a casino, in fact you
12 will eventually lose? Those are --
13 A Yes.
14 Q -- those are the casino odds?
15 A Yes. Yes, that's my assumption, as well.
16 Q You'd agree with that?
17 A I would agree with that, yeah.
18 Q It's how the casinos make money --
19 A That's right.
20 Q -- the house has the advantage. And so,
21 generally speaking, I would expect money
22 launderers -- professional money launderers
23 certainly would, to the extent possible, try to
24 minimize gambling; is that fair?
25 A Yes, yes, it would be. That's a fair statement.
26 Q And the more costly it is for the criminal
27 organization to launder the money, the least
28 likely they are going to use this particular
29 vehicle? It will be less attractive and not make
30 much business sense; is that fair?
31 A That's fair, yes.
32 Q And indeed, I would suggest that the three
33 typologies identified as it relates to the
34 Vancouver model did have minimal play as a
35 feature, generally speaking?
36 A That's what I've been led to understand from
37 literature, yes.
38 Q And so the proposed model, I'm going to suggest,
39 as a model intended to systematically launder
40 money, would only really apply if launderers
41 don't play extensively, if there's a way to get
42 money in and out and cleaned or layered in some
43 way; is that fair?
44 A That's fair, yes.
45 Q Now, because I've put to you already that if the
46 players, for the most part, played and spent
47 their funds, we don't have the last money

1 laundering function or the main function of money
2 laundering, which is to convert the proceeds and
3 benefit from them, and so, indeed, if that's the
4 case, the model doesn't really apply, if that's
5 what we ultimately find? That the money -- sorry
6 -- that if the money is mostly being played and
7 spent, the model that's been laid out, the
8 Vancouver model, wouldn't really apply? It
9 wouldn't meet the money laundering goal?

10 A Correct. And in general, not just the Vancouver
11 model, but I guess you could say, in general,
12 laundering through casinos typically would
13 involve minimal play. Not necessarily minimal
14 play, but minimal loss of the amount that's being
15 gambled. I mean, there is the idea that you want
16 to lose a little bit, just to try to maintain
17 that credibility that you actually were in there
18 to gamble and not to, you know, launder money.

19 Q That's fair. Minimal loss is --

20 A Right.

21 Q -- a good concept. If I could take you then to
22 page 122.

23 A Mm-hmm.

24 Q Of your report.

25 A Can I just get -- on that note, Christine --
26 sorry. It gets back to a point that Mr. Skwarok
27 made as well, and that was -- this may be off
28 point with respect to the minimal play. But that
29 particular -- one of the reasons -- I know Mr.
30 Skwarok took exception of what this article
31 suggested -- went against the casinos' policy.
32 But one of the reasons that I saw this article
33 and this allegation is credible is that, as I
34 mentioned earlier, there is a lot of movement
35 towards using other types of institutions as
36 quasi-banking financial institutions. Whether
37 it's, you know, brokerage investor accounts or
38 money service businesses. In this case it was
39 plausible that casinos are used -- these gaming
40 accounts, non-patron accounts, are used as sort
41 of -- or casinos in general are used as sort of
42 quasi-financial institutions. So I know that's a
43 bit off topic what you're trying to address, but
44 I don't think I addressed Mr. Skwarok's critique
45 of my accounting of this sufficiently, so I just
46 wanted to interject that at this point, so -- but
47 anyway, sorry.

4 Stephen Schneider (for the Commission)
Examination by Ms. Mainville, Counsel for Robert
Kroeker

1 Q No problem. So if we look at page 122 of your
2 report where it discusses the evidence of Muriel
3 Labine.

4 A Yes.

5 Q A former dealer/supervisor at River Rock Casino.

6 A Mm-hmm.

7 Q And perhaps I'll take you to the second paragraph
8 in the excerpt of her statement. Or, rather,
9 what was reported by *Global News* regarding her
10 evidence, which is that:

11
12 This paper money - wrinkled and wrapped in
13 elastic bands - wasn't likely coming from
14 banks, she judged. When the gamblers ran
15 out of money, she says the "human tellers"
16 would make calls on their cellphones,
17 setting off flurries of activity.

18
19 Someone - typically an older Asian man who
20 was treated with respect, according to
21 Labine's memory of these scenes - would
22 arrive at the casino with a plastic grocery
23 bag. The "human tellers" would grab bricks
24 of cash from the bag, give their clients new
25 wads of \$20s and gambling would start again.

26
27 You'll agree with me, what she's describing are
28 VIP players gambling to the point where they lose
29 all their money and then get more money brought
30 in, in order to continue gambling, right?

31 A Yes, yeah. Yes.

32 Q And that may be indicative of loan sharks, which
33 is indeed what she assessed it could be or
34 suspected it could be, or of other issues. But
35 you'll agree with me that that's not indicative
36 of money laundering?

37 A No, and I think perhaps in this case the gamblers
38 really have just received a loan from these
39 individuals, and so they're not necessarily
40 laundering money. So basically I'm assuming here
41 that they've been lent the drug money and
42 basically once they've been lent the money, it's
43 theirs to do with how they please. And they
44 still have to pay that money back, with interest.

45 So, I mean, that's a really good point you
46 raise. Again, a lot of these raise more
47 questions than answers. So in this case, and in

1 some cases, I would assume that the business of
2 the money laundering professionals, the business
3 of the so-called loan sharks, is to make money,
4 not just to launder money, but to make money off
5 of the disbursement of the drug cash. So when
6 the money's lent to these gamblers, basically
7 they're lent with interest. And once with the
8 money is with the gamblers, they can do what they
9 please. So I think in some cases this is not
10 necessarily money laundering, it's -- it's
11 basically getting rid of the drug cash, lending
12 it to these gamblers, and then the gamblers would
13 do whatever they want with it, and then
14 eventually would have to pay that cash back in --
15 in a non-cash form.

16 So that's just my assumption that's going on
17 here. So, and I understand what direction you're
18 moving in here, and so I think this is an example
19 perhaps of not money laundering, but again, part
20 of the lending process that these professional
21 money launderers had -- Silver International and
22 the -- by the loan sharks. And they would be
23 making money off these loans. So, again, in this
24 case, it's not necessarily money laundering. I
25 think it's part of the sort of loan sharking
26 business that these individuals are involved in.
27 So whether the money's laundered or not, they've
28 disbursed the drug cash and they're making
29 interest off the loans, and so that's part of
30 their business. So they're not just in the
31 business of laundering money, they're in the
32 business of lending money and making interest on
33 that. Whether that's a private mortgage or
34 lending to these gamblers. Again, that's just my
35 assumption in this case.

36 Q Right, and it -- it goes back to the distinction
37 we made previously about money being gambled or
38 spent -- proceeds of crime being spent at the
39 casino versus money being laundered through the
40 casinos?

41 A Right, yeah. Yeah, and it gets back to the fact
42 that, you know, the Silver International and the
43 loan sharks had, you know, a multi-faceted way of
44 making money. They laundered money for other
45 criminal organizations, made a commission off
46 that, but they were also making money by, you
47 know, facilitating, you know, transfers of value.

6 Stephen Schneider (for the Commission)
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1 They're making money off loans. So that's, you
2 know, again, a fairly unique aspect of this
3 criminal conspiracy was they devised a way to
4 make money off various types of criminal
5 transactions. Whether it's loan sharking or
6 whatever.

7 Q But you'll agree with me that it's inconsistent
8 with the Langdale statement that follows? So
9 right after the paragraph I read, you proceed to
10 indicate -- and the source is John Langdale:

11
12 The gamblers will then reportedly buy chips
13 at the casino with the cash provided to
14 them, gamble, and then cash out, receiving a
15 cheque upon leaving the casino...

16
17 A Right. In general, yes, and -- but as you point
18 out, if in fact these VIP gamblers are losing a
19 significant amount of money, then I would
20 suggest, again, they weren't intricately involved
21 in the laundering, but they were simply clients
22 of these loan sharks who had been lent the drug
23 cash, and basically they can do with it what they
24 want, as long as they pay back the money with
25 interest.

26 Q Exactly, and so the --

27 A And also -- sorry, Christine, to --

28 Q That's fine.

29 A -- interrupt. I just want to note, we talked
30 before about my revising the report and -- and I
31 realize that footnote was incomplete, and so I've
32 actually -- there's further references to that
33 particular footnote as well, so just an aside on
34 that.

35 Q Sure. And so really what -- we're talking about
36 two different models, really?

37 A Well --

38 Q The model by which the money laundering is being
39 done through the casinos and this other perhaps
40 component of this same conspiracy, but which
41 simply was a way to facilitate capital flight
42 from China and then Chinese gamblers actually
43 gambling it for leisure?

44 A Right, yeah. Yeah, so again, you know, that
45 quote itself, that quote I had, I actually
46 debated whether I should include it. That was
47 one that perhaps I didn't see as credible.

1 Although nothing surprises me anymore. The idea
2 of, you know, someone handing someone else cash
3 out of bags at a baccarat table seemed a bit
4 outrageous to me. But I did include it. It
5 seemed consistent with other evidence, and --
6 but, again, if in fact this quote is true and in
7 fact these gamblers were losing large amounts of
8 money, it would be less about, you know, the
9 money laundering angle and more about sort of the
10 loan sharking angle of this organization.
11 Q And just on John Langdale. You've indicated -- I
12 think we can say it this way -- he essentially
13 coined the term "Vancouver model," right?
14 A Yes. I believe so, yes.
15 Q And that was from a slide in a PowerPoint
16 presentation?
17 A Correct.
18 Q Correct, and it was not a study with source
19 references that we're able to access, right? I
20 believe you called it "pretty skeletal" earlier?
21 A Yeah. Yeah, all I could find were the PowerPoint
22 slides and then I'd seen subsequent attempts to
23 flesh out that model. Whether it's through Peter
24 German's work or the media. So, yes, from what I
25 saw, all I've seen is his -- is that sort of
26 skeletal model in the PowerPoint presentation.
27 Q Right, and we don't actually know what John
28 Langdale's source were -- and whether they were
29 accurate, fair?
30 A Fair enough. That's a good point, yeah.
31 Q And he in fact focuses, I'm going to suggest, on
32 the money being laundered through underground
33 banking? His primary focus is that aspect of the
34 model? Do you recall that from the slide?
35 A Yeah, it's -- the primary focus is how criminal
36 alliances are formed, and that's I think the
37 common thread through all his case studies. So
38 that's the sort of prime context which he's
39 looking at the Vancouver model. But as far as
40 laundering through underground banks, I'm not
41 quite sure if that was -- I mean, he looks at it
42 briefly but, you know, I think he implies that
43 it's more complex than underground banks.
44 Although certainly underground banks were being
45 used to finance the drug purchases in Asia, so --
46 and that's the sort of area that he has more
47 expertise in. So, yes, underground banks were

1 used. They were typically -- again, my
2 understanding, they were typically used as
3 recipients of the laundered drug money, and the
4 underground banks were in China and Asia, and
5 from those underground bank accounts, funds were
6 used to finance Fentanyl and other drug
7 purchases.

8 Q And in terms of the distinction between the three
9 typologies that have been described as relevant
10 to the Vancouver model versus the spending of
11 funds in the casinos, if I could just take you to
12 page 124 of your report where there's a figure
13 there, Figure 6, "ML at British Columbia's Lower
14 Mainland Casinos (as per the Vancouver model)."

15 A Mm-hmm.

16 Q And am I not right that when there's an arrow
17 indicating cash used to buy in and play at the
18 casino, and then there is no money coming out of
19 the casino? There is nothing -- no arrow or
20 anything coming out of the casino as though the
21 money is just staying there?

22 A Right, exactly. Yeah, yeah, that's a good point.
23 I mean, that's Dr. German's graphic. But, yes, I
24 -- I can't speak on his behalf, but certainly
25 that's the assumption I would make, as well.
26 You're talking about the far right-hand side of
27 the model?

28 Q Yes.

29 A Or the -- yes, yeah. No, that's a good point.
30 Yeah, and I think that would -- I would assume
31 that would be illustrative of what we just
32 discussed.

33 Q Yes.

34 A That some of these individuals have been lent the
35 money and they do with it as they please.

36 Q Another indicator I would suggest that we have,
37 of the fact that what was going on was money
38 being spent in the casinos rather than laundered,
39 I'm going to suggest that at page 121 -- if you
40 could turn there -- where you reference a 2012
41 report that BCLC filed with FINTRAC. It's the
42 second paragraph under the heading "Money
43 Laundering through Casinos."

44 A Uh-huh, yes.

45 Q And it's a 2012 report that BCLC filed regarding
46 Paul Jin and this very model. That reads:

47

1
2 Most of the patrons that Jin has supplied
3 cash for are known VIP players with
4 extensive gaming histories and considerable
5 wealth with mostly Asian-based businesses.
6

7 So I'm going to suggest that these players had
8 extensive gaming histories, which -- which
9 implies not simply that they were known to the
10 casinos, but that they -- they gamble a lot?

11 A That's I think a fair assumption.

12 Q Now, there is some suggestions in your literature
13 review of gambling and potentially winning at a
14 casino as being itself its own method of money
15 laundering?

16 A Well, certainly if you're lucky enough to win,
17 then you can claim those as legitimate revenue,
18 but really what you want to do is, again, get
19 back to the minimal play, cash in your chips for
20 an alternative instrument, and claim that cheque
21 or cash, or whatever, as legitimate winnings. So
22 you can claim that as legitimate winnings without
23 actually having to gamble and win. Does that
24 make sense?

25 Q Yep. So really it's not -- you wouldn't suggest
26 it's something that money launderers rely on
27 necessarily as its own method, because it's a
28 pretty big gamble to --

29 A Yeah, literally speaking, yes, very big gamble.
30 Yes, yeah.

31 Q And I don't know if you know, personally or
32 through your work, Simon Lord, who we expect will
33 be testifying next?

34 A I don't know him personally, no.

35 Q From the UK -- sorry -- from the UK, and he's
36 going to come testify based on his report called
37 "Ethnic Chinese Money Laundering in the UK" to
38 the prevalence of gambling as a leader interest
39 in Chinese communities and the fact that Chinese
40 nationals go abroad for it. And he, in one part
41 of his report, indicates that at least in the UK
42 it's less common for gambling establishments to
43 be used as a money laundering vehicle by Chinese
44 nationals. So my question is, given everything
45 we've gone through, that I've gone through with
46 you in this statement, is it also not possible
47 that these VIP players were simply just gambling,

1 as we've discussed?

2 A Yes, and -- and that's a very good point you
3 raise, because I really didn't get into that in
4 the report. I didn't touch the -- on that angle
5 that simply involves lending money and allowing
6 the individuals to gamble that money away if they
7 so choose to. So, again, while that's not
8 technically money laundering, it's part of the
9 so-called Vancouver model. It's part of the way
10 they disperse the drug money and that they
11 themselves made money off this through interest.

12 Q Right, and you --

13 A High interest, in some cases.

14 Q Okay. And you did explain yesterday that capital
15 flight from China was primarily a concern in the
16 B.C. context because it fed into the broader
17 system of money laundering?

18 A That's what I understand, but I still confess
19 that -- that I still have questions about where
20 some of this capital flight was dispersed and how
21 it was intermingled with drug cash. So I'm
22 probably -- that's the one aspect that's still
23 hazy to me is the disbursement or how the capital
24 flight money fit into all of this. I still have
25 a lot of questions about that myself.

26 Q Well, we know that at least in order to make it
27 out of China, in that broader system the money
28 was flowing through and indeed being placed or
29 laundered through, at least in part, an
30 underground banking system, which is outside of
31 the casino --

32 A Right.

33 Q -- or the gaming industry?

34 A Right, yes.

35 Q And that would require -- I think we've touched
36 on this before, but police investigations in
37 order to really comprehend that aspect of it?

38 A Correct, yeah.

39 Q Now, so something was happening inside B.C.
40 casinos, I think that's clear, an indeed, GCGC,
41 Great Canadian, and BCLC, repeatedly alerted the
42 authorities that something was happening that
43 needed to be investigated. But I'm going to
44 suggest, based on all of this, that it's possible
45 that this model that is described in the
46 literature is erroneous? You'll agree with me
47 that that's a possibility?

11 Stephen Schneider (for the Commission)
Examination by Ms. Mainville, Counsel for Robert
Kroeker

1 A Certainly, yes. Yeah, there's definitely
2 possibilities that -- yeah, that some of this is
3 erroneous, yes.

4 Q I want to just touch on a couple other
5 methodologies mentioned in your report. You
6 reference chip walking?

7 A Mm-hmm.

8 Q And you state that money laundering in relation
9 to casinos can also occur using casino chips to
10 purchase merchandise or monetary instruments
11 outside the casino. And I believe you refer to
12 that as chip walking?

13 A I don't refer to it that, but that's a term that
14 others have used, yes.

15 Q Okay, and so that's chips being taken out of the
16 casino in large quantities and effectively used
17 as currency by organized crime, right?

18 A Yes, that's what I understand.

19 Q And I'm going to use the term "chip liability."
20 I don't know if it's familiar to you. But chip
21 liability for when casino chips go missing from
22 the casino. It's a liability -- for the casino.

23 A Mm-hmm, right.

24 Q You'd agree then that in light of this potential
25 use of casino chips in the underground economy,
26 it's important to keep track of chip liability
27 and to act on that when it becomes too high or
28 reaches concerning levels, fair?

29 A Again, I can't speak to, you know, casino
30 policies or procedures, so that's beyond my
31 expertise.

32 Q Okay. Then I'll move on to gambling junkets. I
33 don't know if you're familiar enough with those
34 to explain what they mean to us, but there is a
35 reference at page 121 of the report which says --
36 just under "Money Laundering through Casinos,"
37 the first paragraph:

38
39 Money laundering through casinos was
40 allegedly accomplished by providing the drug
41 cash to gamblers, including individuals
42 recruited from within B.C. as well as from
43 the global gambling hub Macau, who were then
44 brought to B.C. on gambling junkets.

45
46 Now, to my knowledge, to my limited knowledge,
47 the use of junkets is extensive in Macau, and I

1 would like -- if you're able to explain what
2 those are and what the basis is to say that
3 casino junkets are operating in B.C.?

4 A Well, I'll just speak to it from an organized
5 crime perspective. I know gambling junkets -- I
6 only know it from a criminological point of view,
7 and that is, criminal groups have long been
8 involved in organizing gambling junkets, whether
9 legal or illegal. So, for example, in Montreal,
10 the Cotroni crime family, the Rizzuto mafia
11 family, were both heavily involved in
12 transporting people from Quebec to Las Vegas, not
13 just for legal gambling, but for underground
14 gambling there, as well. So there's a long
15 history, and certainly it's not confined to
16 Canada, as well. So I can't speak to Asia, to
17 Macau. I can only speak to the Canadian context.
18 But certainly within the context of criminal
19 groups and their money-making ventures, they have
20 been involved in organizing these sorts of
21 international junkets for gamblers.

22 Q And to the extent that they involve taking
23 payment from the gambler ahead of a trip, a
24 gambling trip out, so that the money's already
25 available to buy in at the casino, or to play,
26 rather, at the casino, and in some cases it
27 involves negotiating discounts, rebates, things
28 of that nature, if junket operators are not
29 permitted in British Columbia, this statement
30 about there being gambling junkets may well be
31 erroneous, as well?

32 A Well, I -- I would assume that these were done
33 under the radar. They were done illegally. It
34 was all -- you know, organized crime, they don't
35 advertise, you know, on the newspapers about
36 gambling junkets. This is done all, you know, as
37 part of a secret criminal operation, because part
38 of it is -- for example, in Las Vegas, when they
39 took them to Las Vegas, at the time Las Vegas was
40 very much infiltrated by organized crime in the
41 United States. And so the Montreal mafia would
42 with the Cosa Nostra families in New York, in
43 Buffalo, in Cleveland and Las Vegas to facilitate
44 this. And some of the actual junkets were
45 certainly not necessarily illegal, but once they
46 arrived in Las Vegas, they're involved in illegal
47 gambling, underground gambling, working with --

1 you know, basically many of them were victimized.
2 They were gamblers. At the same time, the whole
3 junkets that I understand were not necessarily
4 there to facilitate gambling, it was to victimize
5 these people by basically stealing every penny
6 they had. Whether it's through gambling in
7 casinos or underground gambling, you know -- you
8 know, illegal poker games, things like that.

9 So I would sort of disagree with your
10 statement, the assumption that they were done,
11 you know, above -- you know, legally and with,
12 you know, the knowledge of the public, because I
13 would assume that these were all done, you know,
14 surreptitiously and that they weren't legal or,
15 you know, *bona fide* junkets.

16 Q They may not -- for whatever part of it relates
17 to interacting with the casino, there may well
18 not have been any involvement by the casinos in
19 that phenomenon?

20 A Certainly that would be true, yes, and I would
21 assume that's the case.

22 Q Now, just to move on to detection challenges in
23 respect of some of these typologies. I think
24 we've already talked about detection challenges
25 when it comes to non-cash instruments, so money
26 that's already in the legitimate economy. As it
27 relates to cash, I expect you're aware that there
28 are very high volumes of cash in casinos?

29 A I would assume so, yes.

30 Q And you may or not be aware of this, but that
31 many alternatives to cash were in fact prohibited
32 in B.C. casinos by the regulator for a very long
33 time, such that transactions had to occur in
34 cash? And -- if you assume that fact,
35 considering that, and considering how much money
36 flows through casinos on average, which is
37 measured in the billions, annually, in terms of
38 cash flow, with churn, many large cash
39 transactions, I think it's fair to say, are
40 likely to be entirely legitimate and legal? Many
41 large cash transactions above \$10,000 are likely
42 to be not money laundering, but legitimate cash
43 transactions; is that fair?

44 A I'm sorry, I'm not -- are you saying if -- you
45 know, if the funds were not criminal source, that
46 that's legitimate?

47 Q Exactly.

14 Stephen Schneider (for the Commission)
Examination by Ms. Mainville, Counsel for Robert
Kroeker

1 A Yeah, sure. Yeah, I -- again, I -- I can't
2 really answer that question. I don't know.
3 Q But would you agree, it's fair that we can't
4 assume that all large cash transactions in
5 casinos constitute money laundering?
6 A I think that would -- again, I can't answer that
7 question. I only look at it from sort of the
8 criminal point of view. I don't know what the
9 typical gambler brings in, if they bring in
10 \$10,000 in cash, or 100,000. That's beyond my
11 expertise.
12 Q Did you, in your media review, have the
13 opportunity to come across, for instance, an
14 incident that related to Drake, the rapper that
15 went into a B.C. casino and gambled with \$10,000
16 of cash at a time, and got turned away because he
17 couldn't prove the source of the funds?
18 A No, I'm not familiar with that, no.
19 Q Yet you'd agree with me, though, that high-cash
20 volumes in casinos would lead to some detection
21 challenges, right? That the more cash flows
22 through a casino, the harder it is to assume that
23 large amounts of cash are proceeds of crime?
24 A Again, you know, I can't comment on that,
25 Christine, simply because I'm not an expert in
26 casinos or gambling generally, so I -- again, I'm
27 really not going to assume anything on that
28 point, so --
29 Q Okay. You -- And tell me if you're able to
30 comment on this, though, that -- I mean, you've
31 mentioned how certainly if you outlawed cash in
32 the casinos, that would significantly diminish
33 the money laundering threat, right?
34 A It would diminish it, I'm not sure significantly.
35 Again, my experience looking at money laundering
36 is that they eventually find a way to get around
37 any type of restriction or limitation that's put
38 in place, whether by a casino or bank or
39 otherwise. So certainly on, you know, the basic
40 assumption that if you're laundering drug cash,
41 that -- yeah, I guess it would be safe to assume
42 it would inhibit them somewhat, but certainly not
43 obstruct them. I think they, again, would find
44 ways around that, whether -- you know, various
45 ways. So, again, these individuals are very
46 resilient and adaptable and they're not easily
47 swayed. If they're determined to launder money

1 through a casino, then they're going to launder
2 money through a casino and find a way to do so.
3 Q Would you agree generally, though, that cash
4 alternatives being available in casinos are a
5 good thing, are preferable, and for instance, to
6 offer alternatives to cash would, (a) lead to a
7 reduction, one would expect, of the amount of
8 cash flowing through a casino so that the money
9 laundering transactions would not be as buried
10 amongst legitimate transactions, and (b), because
11 if you offer other options, then players who
12 continue to rely on cash would provide a more
13 reliable indicator of money laundering, because
14 they have other options? You can't comment?
15 A No, I'm not going to comment on that.
16 Q Now, in terms of the Vancouver model, you've I
17 think made quite clear that Jin and Silver
18 International were at the centre of that model?
19 A Certainly that -- the evidence seems to point in
20 that direction, yes.
21 Q And, indeed, you indicated you wouldn't have the
22 Vancouver model without them, and in your report,
23 I think it's made clear the moniker is applied to
24 this criminal network that revolved around Jin
25 and the money transfer business, Silver
26 International?
27 A That's my assumption.
28 Q Okay, and let's assume that's correct. It would
29 be the case that if that network had been
30 dismantled early on, and perhaps now that it has
31 been, let's assume as a result of the E-Pirate
32 arrests and seizures, the cause and concern as it
33 relates to B.C. casinos being particularly
34 vulnerable to money laundering may not have
35 entirely dissipated but would be significantly or
36 would have been significantly diminished? Is
37 that fair?
38 A I think that's a fair statement, yes. I mean,
39 there's certainly independent loan sharks that
40 work around casinos, they've been there long
41 before, you know, Jin appeared on the scene. But
42 certainly from what I've seen, this is the
43 biggest loan-sharking/money laundering casino
44 gambling operation that I've seen in B.C., at
45 least.
46 Q Sure, and I believe you even indicated that it's
47 pretty much what led to this inquiry, and your

1 conclusion, at page 140 -- you don't need to turn
2 it up, but you can if you would like to -- you
3 state that money laundering was pervasive at
4 Lower Mainland casinos for at least three
5 reasons, based on a reading of the literature,
6 the first of which was the alleged massive
7 criminal money laundering conspiracy that became
8 known as the Vancouver model?

9 A Correct.

10 Q And so -- and this Jin network, again, operating,
11 according to the literature and the media
12 reports, in or around, it appears, 2011, perhaps
13 a bit earlier, in 2010?

14 A Yeah, that's a guesstimate on my part. It's
15 certainly -- there's certainly question around
16 that, yeah.

17 Q And I'm going to suggest, based on the literature
18 that you set out that BCLC took action in respect
19 of this network. If you could turn to page 126,
20 you'll see there, second-to-last paragraph:

21
22 Jin first appeared on the radar of the BCLC
23 enforcement and compliance staff in 2012...

24
25 A Mm-hmm.

26 Q He was immediately labelled an extreme risk in
27 2012. And very early on, this -- in this alleged
28 scheme, BCLC banned him. So, again, in 2012, the
29 same year -- and we don't have specific dates
30 here, but when he came on BCLC's radar, that same
31 year he was identified as an extreme risk, and
32 banned, correct?

33 A According to the *Vancouver Sun*, according to that
34 source.

35 Q Which you've deemed a reliable source?

36 A I have. Again, yes, I deem that reliable, but at
37 the same time, you know, again, whether or not --
38 I've seen different dates. At one point I saw
39 2014, he was allowed to gamble after 2014. I
40 think I remember correctly. But certainly based
41 on that article, it seemed credible and reliable,
42 and yes, according to the *Vancouver Sun*, he was
43 labelled an extreme risk in 2012.

44 Q If you could turn to page 121, where -- second
45 paragraph, second sentence, you reference a
46 *Global News* article that cites a 2012 BCLC report
47 filed with FINTRAC --

17 Stephen Schneider (for the Commission)
Examination by Ms. Mainville, Counsel for Robert
Kroeker

1 A Mm-hmm.
2 Q -- that related to Jin and his connections with
3 the casinos' VIP players, correct?
4 A I'm just trying to find that right now. Sorry,
5 what page?
6 Q Sorry. Second paragraph, at 121, under "Money
7 Laundering through Casinos," the second
8 paragraph.
9 A Right. Yeah, I see it, yeah.
10 Q That " In a 2017 article," but then the second
11 sentence --
12 A Yes, I see that, yeah.
13 Q So that was a report filed by BCLC to FINTRAC
14 about Jin and his connections to VIP gambling?
15 A Mm-hmm.
16 Q Correct?
17 A According to CBC, that's --, yes. Or, *Global*
18 *News*. Sorry, *Global News*.
19 Q *Global*, yes. And the literature review does not
20 reflect this, but I expect we'll find in the
21 evidence to be adduced before this Commission at
22 a later time that both GCGC and BCLC were
23 alerting law enforcement, and the regulator,
24 about this -- this network, and you'll agree that
25 it was BCLC who eventually formally complained to
26 the police in February 2015 about Jin, and that
27 it was what prompted an investigation?
28 A Yes, that is certainly one of the sources
29 indicated that's what instigated either Project
30 E-Nationalize or E-Pirate. I'm not sure which
31 one, it was unclear on that, but -- but, yes,
32 it's -- I'm not -- again, I remember that
33 instance and -- or that particular item, and that
34 may have been one of the measures that instigated
35 this. Again, I'm not sure which investigation
36 they're referring to on that, whether it's
37 E-Pirate or E-Nationalize. So, but based on that
38 quote, yes, it seems that a meeting between BCLC
39 and the RCMP initiated an investigation into Jin.
40 Q So whatever was going on, I'm going to suggest
41 the casino and BCLC reported it, and for that
42 assertion, I'll take you, as well, to page 69 of
43 the report, which references a 2019 FINTRAC
44 report.
45 A Yes, okay.
46 Q And this is a report that documents numerous
47 examples of transactions that have been deemed

1 suspicious of money laundering or terrorist
2 financing at casinos, and there's a long list of
3 examples. Now, these, I'm going to suggest,
4 then, would be instances of suspicious
5 transactions that were reported to FINTRAC?
6 A Yes.
7 Q So FINTRAC was aware of these, and in other
8 words, there would be instances that were caught,
9 identified by the casinos as suspicious, and
10 reported, presumably by the reporting entity
11 BCLC?
12 A Sorry, are you referring to the FINTRAC report?
13 Q Yes, exactly, to these same examples.
14 A Again, these are -- would be suspicious
15 transaction reports or cash transaction reports
16 filed by a number of casinos or casino
17 representatives.
18 Q Well, and if --
19 A I don't know -- I don't know if BCLC is -- files
20 the reports, or directly from a casino, so I -- I
21 don't know.
22 Q That's fair.
23 A I can't address your question.
24 Q Okay. Now, in terms of other high-risk or
25 higher-risk sectors. You mention in your report
26 how underground systems and methods may
27 constitute even more of a threat, and indeed,
28 featured significantly, as I've mentioned, in
29 this Vancouver model?
30 A What I argue is that when you combine the
31 informal with the legitimate, that is what
32 constitutes the greatest threat. The greatest
33 threat -- what I consider the greatest threat is
34 informal value transfer systems, they transfer --
35 the ability to transfer money or value to be able
36 to invest in drugs and other criminal activities,
37 particularly drugs. So less about money
38 laundering, more about its ability to spirit cash
39 or funds or value internationally to finance
40 criminal activities.
41 Q And do you agree that illegal casinos also
42 featured in this Vancouver model? Illegal
43 casinos were used by Jin and his network?
44 A That's my understanding. My understanding is,
45 yes, the initial -- again, I'm sketchy on the
46 details of the investigations, but my -- what I
47 understand is the first investigation was into an

1 illegal gambling operation, and then that
2 basically exposed the broader money laundering
3 operation, which I believe then led into
4 E-Pirate, but that is --

5 Q Correct.

6 A -- again, I don't have all the -- yeah, I don't
7 have all the details. So based on the public
8 literature, that's what I understand, and it may
9 or may not be correct.

10 Q Okay. And we've already talked about how other
11 entities such as banks and corporations are the
12 sectors most vulnerable to money laundering. In
13 your annotated bibliography, which was made
14 Exhibit 8 earlier this week, you referenced the
15 work of C. Duhaime, D-u-h-a-i-m-e, called *Money*
16 *laundering at casinos - setting the record*
17 *straight*.

18 A I don't have the bibliography in front of me.

19 Q Okay, if it could be pulled up, at page 4,
20 Exhibit 8, page 4, please.

21 A I can find it in my computer, but --

22 Q Okay, and then further down, it might be page 4
23 of the actual bibliography --

24 A Can you spell the last name, and I'll just find
25 it.

26 Q Oh, page 4 of the PDF, then, maybe the previous
27 page.

28 A What was the name of the author?

29 Q Here, Duhaime.

30 A Yeah, how's that spelled?

31 Q D-u-h-a-i-m-e. Page 3 of the report.

32 A Okay, I'm just -- okay, yes. I found it, yes.

33 Q So I don't know if that's a study you reviewed or
34 are familiar with. If it's there in your
35 bibliography -- but in this work -- and this is
36 not part of the abstract, but in the actual
37 underlying study, the author notes that:

38
39 Studies show that deposit-taking
40 institutions (e.g. chartered banks, credit
41 unions, caisses populaires and trust
42 companies) and not casinos, present the
43 greatest money laundering risk and outnumber
44 all other laundering vehicles combined.

45

46 A Would you agree with that statement?

47 A Could you repeat that statement again?

1 Q That:

2
3 Studies show that deposit-taking
4 institutions (e.g. chartered banks, credit
5 unions, caisses populaires and trust
6 companies) and not casinos, present the
7 greatest money laundering risk and outnumber
8 all other laundering vehicles combined.
9

10 So that the banks, the credit unions, the trust
11 companies, those would outnumber, in terms of
12 money laundering risk, all other laundering --
13 money laundering vehicles combined?

14 A I don't want to -- I'm not sure if I want to say
15 all other laundering vehicles combined, but as I
16 stated in my report, that certainly banks and
17 deposit institutions are, without a doubt, the
18 primary disproportionate -- disproportionately
19 represented in money laundering operations.

20 Q And the author also recognizes that some money
21 laundering does occur in casinos, but that the
22 risks are contained and that -- now I'm quoting
23 him:

24
25 ... it is a drop in the bucket compared to
26 the much larger problem of money laundering
27 that occurs at more traditional venues (i.e.
28 deposit-taking institutions and money
29 services businesses).
30

31 Do you agree with that?

32 A I would certainly, again, just to repeat what I
33 said before, that again, deposit institutions and
34 the chartered banks, in particular in Canada, are
35 -- would be the main laundering conduits in
36 Canada. Again, it's difficult to, you know --

37 Q Sure.

38 A -- quantify in that respect, so --

39 Q Sure, but based on your media review, would you
40 not agree that there has been a disproportionate
41 level of attention on the casino sector as
42 compared to other sectors that are higher risk,
43 such as banks and corporations?

44 A Not in the context of British Columbia.

45 Q Well --

46 A I mean, casinos obviously -- I mean, I saw
47 casinos seem to have become the primary or one of

1 the primary laundering vehicles in B.C. So,
2 generally speaking, yes, I would agree with you,
3 but in the context of British Columbia, in this
4 particular case, the Vancouver model, I see very
5 little mention of banks other than some were
6 involved in facilitating the capital flight. But
7 I --, again, based on the public literature, news
8 media, Peter German's, FATF, FINTRAC, I didn't
9 see banks being used extensively by this
10 particular money laundering organization. They
11 seem to, for whatever reason, focus on casinos
12 and real estate. And I think, again, they were
13 catering to their particular population that they
14 were -- that was laundering the money.

15 So, again, you're dealing with primarily
16 with, you know, Asian gamblers and Asian property
17 buyers, and so they -- my assumption is they
18 wanted to work outside the banks and they wanted
19 to focus on areas, two areas that they thought
20 they could engage Chinese and Asian facilitators.
21 And so the vast majority of the people that are
22 gambling were ethnic Chinese, as I understand.
23 And the same with people that were being lent
24 money for real estate, developers, real estate
25 agents, homebuyers, were also Chinese.

26 So -- so, generally speaking, yes, I would
27 agree with you, but in this context, it seems
28 that casinos were used to -- as the primary
29 laundering vehicle, and that they avoided banks,
30 I guess because they felt that if they're going
31 to use Chinese nationals or local ethnic Chinese
32 as facilitators, then they I guess assumed that
33 gambling and real estate were the -- the vehicles
34 to use.

35 Q Correct me if I'm wrong, but you're simply
36 referring to this alleged Vancouver model and
37 capital flight from China, but where that fits
38 within money laundering generally that is
39 happening in British Columbia and other
40 laundering that may be done by drug organizations
41 or other criminal organizations -- I mean --

42 A I would --

43 Q -- on what basis do you exclude the fact that
44 there is other money laundering that is occurring
45 on a great scale or on a big scale in British
46 Columbia?

47 A Well, certainly if, you know, the -- say, the

1 findings of my study national are applied to
2 B.C., then, yes, then generally speaking, you
3 would assume that the banks are the primary, you
4 know, laundering vehicles relative to others in
5 the province.
6 Q Right, so that --
7 A But I don't have -- you know, I can only
8 speculate on that because my data -- and I've
9 never seen a study that breaks it down on a
10 provincial basis, so again, I can only speculate
11 and based on extrapolating my findings, for
12 example, to a provincial level that you're
13 correct, but again, in this context, the
14 Vancouver model, certainly casinos seem to
15 outweigh banks as a laundering vehicle.
16 Q And it may just be that up to now, laundering
17 through banks has not been sufficiently studied
18 or looked at, in the B.C. context?
19 A Yes, I think FINTRAC has tried to do that sort of
20 provincial analysis, but that doesn't estimate
21 money laundering, it simply more estimates the
22 filing of suspicious transaction reports and cash
23 transactions. So, yes, I agree with what you're
24 saying, there's -- I have not seen any sufficient
25 study that's able to break down findings of money
26 laundering on a provincial basis.
27 Q And in terms of your statement in your report
28 that casinos are one of the more vulnerable
29 sectors in B.C. in recent years, that -- which is
30 at page 3 of your report -- that, again, is based
31 on your media review and German's report, but no
32 independent information or no knowledge of the
33 controls in the casinos or -- or what is in fact
34 taking place, correct?
35 A I'm sorry, you'll have to restate that question.
36 Q Sorry. Simply that the assertion in your report
37 that casinos are one of the more vulnerable
38 sectors in B.C. in recent years is based on your
39 media review, and largely on that, and Peter
40 German's report.
41 A Yes, yes, yes.
42 Q And those assertions, even for Dr. German, I
43 think you've agreed with me, you've not verified
44 his sources --
45 A No.
46 Q -- and what he is basing that on?
47 A No.

1 Q And indeed, in your 2004 study, which was filed
2 as Exhibit 7, called *Money Laundering in Canada:
3 An Analysis of RCMP Cases*, you found that only
4 five out of 149 cases of money laundering that
5 you reviewed, so just over 3 percent of cases,
6 involved casinos, correct?

7 A Correct, yes.

8 Q And you've made a note in your report that one of
9 the most significant costs of money laundering
10 may be related to reporting obligations by
11 entities who have to report to FINTRAC?

12 A Sorry, could you repeat that?

13 Q Yes, and it's at page 128, if you need to
14 reference it. When I think you were discussing
15 the costs of money laundering, you asserted that
16 perhaps one of the most significant costs could
17 be related to reporting obligations.

18 A Yeah, that's -- you know, that's -- I mean,
19 technically, you know, money laundering doesn't
20 cost banks or casinos or real estate money. It
21 actually makes the money. So it's not -- so they
22 would -- yes, the expenses that go into
23 compliance, that's an expense for banks.
24 Laundering money, in many cases, is a revenue for
25 banks.

26 And, Christine, may I just point out, as
27 well, just on your recent point? The 2015
28 Finance Canada report, that has bricks and mortar
29 casinos at a high vulnerability rating to money
30 laundering, so this was --

31 Q But not very high?

32 A Very high -- it would be the next level. So
33 there's very high, then high, so --

34 Q And very high is where the banks are and the
35 corporations are?

36 A Exactly, yeah, and then bricks and mortar casinos
37 would be sort of one threat level beneath that.
38 But to address your question, yes, I -- the costs
39 of money laundering generally doesn't cost banks
40 or any other vehicle, it makes them money, but
41 certainly trying to comply with anti-money
42 laundering regulations is going to mean expense
43 for reporting entities, yes.

44 Q And it is because there are significant reporting
45 obligations on entities like casinos and
46 obligations to have in place various anti-money
47 laundering controls, correct?

1 A Correct.

2 Q Now, in terms of the difficulty quantifying money
3 laundering, in general or in casinos, you've
4 written -- and this is in the study you co-
5 authored with Margaret Beare, *Money Laundering in*
6 *Canada: Chasing Dirty and Dangerous Dollars*, you
7 -- you wrote there, with Mrs. Beare, that:

8
9 Estimates regarding the volume of money
10 laundering are invariably flawed,
11 and that the full extent of money laundering
12 in Canada remains unknown.

13 A Yes.

14 Q That's accurate?

15 A Yes, I would -- yes, that's accurate. In my
16 opinion, certainly, or in our opinion, yes.

17 Q And you observe there that -- or actually in this
18 report for this Commission, that the literature
19 on the subject of the costs of money laundering
20 tends to be replete with hypotheses, conjectures,
21 anecdotal evidence and alarmist rhetoric?

22 A Yes, that's my opinion.

23 Q And so while, as you state, the news media,
24 government officials, studies and consulting
25 reports have put forth the argument that money
26 laundering has negatively affected the province,
27 and the real estate market, you'll agree with me
28 that we continue to have very little evidence
29 that that is necessarily the case?

30 A Well, I'm sure those -- you know, again, as you
31 well know, a study was -- a model was created and
32 published by the extra panel on money laundering
33 and real estate that's implemented what they
34 consider a rigorous model, so I wouldn't --
35 wouldn't agree with that, what you're stating.
36 Again, it's my opinion, I think they did a
37 rigorous study, but again, they even acknowledged
38 that there is, you know, limitations to the
39 veracity and the accuracy of their estimates,
40 so --

41 Q And I expect there will be an opportunity to
42 consider evidence that on underlying --

43 A Right.

44 Q That report and Dr. German's other report in
45 respect of dirty money in casinos?

46 A Right. And, again, there, I'm not an expert in
47 the kind of modelling, specifically the model

1 that they did, as well, but in general, yeah, I
2 again stick with my original opinion that it's
3 extremely difficult to generate reliable
4 estimates of the scope and the impact of money
5 laundering on society, on economic sectors, et
6 cetera, et cetera.

7 Q And, indeed, you spoke about a bit of the
8 hysteria that you didn't abide by, or you didn't
9 endorse, that has been fairly present in -- both
10 in the media and government statements?

11 A Right.

12 Q Those are my questions. Thank you very much.

13 A Thank you.

14 MR. MARTLAND: Mr. Commissioner --

15 THE COMMISSIONER: Yes. Thank you, Ms. Mainville.

16 Yes, Mr. Martland.

17 MR. MARTLAND: Thank you. Just going to advise, the
18 next participant is the Province.

19 THE COMMISSIONER: Thank you. Ms. Hughes.

20 MS. HUGHES: Thank you, Commissioner.

21
22 EXAMINATION BY MS. HUGHES:

23
24 Q Professor Schneider, I take it you can hear me?

25 A I can hear you.

26 Q Excellent, thank you. Following up on some of
27 the questions that my friends have already asked
28 of you, my list is dwindling, and so hopefully we
29 can move through this fairly quickly. Turning
30 back first to the nature of the work that you did
31 for the Commission, namely, that literature that
32 you put together. And I think you'll agree with
33 me that, in the usual course, literature reviews
34 are normally an account of what's being published
35 on a topic by accredited scholars and
36 researchers; that's right?

37 A Not necessarily. Again, it refers to -- again, I
38 think it varies by discipline and it varies by,
39 you know, one -- I've seen certainly seen plenty
40 of literature reviews that -- not just scholarly
41 literature, but grey literature, the news media.
42 Again, in criminology you don't have the benefit
43 of being able to, you know, study phenomenon
44 that's up in the open, that's public. We often
45 have to rely on -- we don't have the opportunity
46 to engage in rigorous scholarly studies of
47 criminal phenomenon, so we do have to rely

1 probably more on the news media than others. So,
2 within the field of criminology, there's probably
3 a greater reliance on news media. And certainly
4 within organized crime in particular, there's a
5 reliance on the news media, simply because of
6 this sort of paucity of scholarly reporting. But
7 in general, yes, generally a literature review --
8 as I tell my students, I want you to focus on
9 scholarly sources, but not at the expense of
10 government reports, of law enforcement reports,
11 of the news media. You know, so from my
12 perspective, a literature review should be
13 comprehensive and you should triangulate your
14 data from various sources, one of which is the
15 news media. But certainly, you know, social
16 sciences to some extent, yes, generally speaking,
17 you're focusing on scholarly -- scholarly
18 research, peer-reviewed research.

19 Q That's right, and -- and as you indicated when
20 you were answering questions put to you by my
21 friend, Mr. Skwarok yesterday, you did agree with
22 him, that relying on a lot of news media is not
23 typical in a literature review?

24 A Certainly --

25 Q Do you recall giving that evidence?

26 A Yes. Yes, I would agree, yeah.

27 Q Okay, and so I think you'll agree with me, as
28 well then, that in particular, as it relates to
29 the section of your literature review dealing
30 with casinos, where you rely heavily on news
31 media, that's not what one would typically expect
32 in a literature review?

33 A Again, you know, I can't generalize. I'm not an
34 expert in literature reviews and the universe of
35 literature reviews. Again, I rely -- you know,
36 I'm going to use a source that's credible. All
37 right? And I'll scrutinize the news media as
38 similar to I'll scrutinize a scholarly. You
39 know, I mean, I don't want to come off so pompous
40 academic that just thinks, you know, if you're a
41 journalist, that you're not producing credible
42 information. So, again, you know, I want, in
43 this context, you know, not speaking about
44 literature reviews in general, in this context, I
45 wanted the most comprehensive accounting of the
46 issues that I could find, and that included
47 obviously having to rely on the news media, and I

1 was -- you know, critically analyzed the sources.
2 I included those sources that I thought were
3 credible, based on a number of criteria. I
4 excluded those that I felt weren't credible.
5 But, yeah, generally speaking, the news media is
6 -- you know, from scholarly perspective, is not a
7 predominant source. But, again, in criminology
8 and organized crime, and in my work particular, I
9 see the news media as almost indispensable source
10 of information that I can triangulate with other
11 sources.

12 Q And that -- thank you, Professor. That leads me
13 to my next question in the sense that you've
14 spoken repeatedly, both in your testimony on
15 Monday and yesterday, about the importance of
16 critically analyzing your sources and
17 triangulating your data.

18 A Right.

19 Q And I take it that you made efforts to do that
20 when you were preparing this literature review?

21 A I certainly made efforts. Whether or not I was
22 successful is another question. I did the best I
23 could. Certainly there may be articles there
24 that slipped through that probably weren't
25 critically analyzed sufficiently enough. Maybe I
26 excluded some that should be included. So, yes,
27 I did the best I could, but that certainly
28 doesn't mean that it's perfect. There's
29 certainly --

30 Q Right, and I think, you know, given the
31 particular constraints under which you were
32 preparing this report, you've fairly admitted
33 that you didn't have the opportunity to fact
34 check, for lack of better way of putting it, the
35 information in the news media articles; is that
36 right?

37 A Yeah, exactly. Yeah, and certainly what Mr.
38 Martland brought up about my revisiting some of
39 the report and fact checking and checking
40 citations does indicate that there were some
41 flaws in the literature review and that I need to
42 go back and -- so I have been, as we talked about
43 yesterday, looking at changes, which is mostly
44 just identifying further citations for some of
45 the more contentious points. And, again, going
46 through it and doing a little more substantive
47 editing. So I acknowledge that, yeah, your point

1 is that certainly there is errors in here that I
2 hope to be able to address.

3 Q And I think you'll agree with me that where time
4 permits or other circumstances permit, one of the
5 ways in which you can attempt to triangulate your
6 data would be to look at other available
7 documents that could either help improve the
8 credibility of the news media reporting or
9 perhaps question the credibility of that
10 reporting; isn't that right?

11 A Sure, yeah.

12 Q And I think we can agree that there are many
13 forms of publicly available information that you
14 could use to do that. For example, you could go
15 look online to see documents from court
16 registries where a newspaper article refers to a
17 court case having been filed; is that right?

18 A Sure. Although, again, I did not do that.

19 Q Right, and again, another option for fact
20 checking some of the reporting would be to access
21 land title search documentation through the Land
22 Title office, right?

23 A Right. And, again, that was beyond my mandate.
24 My mandate was literature. So what you're
25 referring to are more primary documents, primary
26 sources that I didn't access.

27 Q Right, but when you were talking about wanting to
28 critically analyze or triangulate your data --

29 A Right.

30 Q -- I think you agreed that one of the ways in
31 which you could have done that would have been to
32 consult other publicly available information?

33 A Right, certainly, but again, that was beyond my
34 mandate. My mandate was to look at the
35 literature, the publicly available literature,
36 and not access primary documents, because I
37 simply did not have the time or resources to do
38 so. So, again --

39 Q Right, so that --

40 A -- the assumption is that, you know -- and,
41 again, perhaps this is at times a weak
42 assumption, that the source -- the media sources
43 were accurate in their reporting on a particular
44 primary document, and I had to trust their
45 reporting. And, again, that may be flawed. There
46 may be certainly cases -- and it's not certainly
47 restricted to the media. That same critique can

1 be made of government reports, of consulting
2 reports, of scholarly reports, as well, so --
3 but, yes, in general, if you are including the
4 resources to be able to access primary documents,
5 whether land registry documents or court
6 documents, that certainly can be used to verify
7 the accuracy of a media report.

8 Q Right, and just to round that out, two other
9 sources that you could go to to try and verify
10 the accuracy of those reports would be freedom of
11 information request responses or with respect to
12 statements made in legislature, to Hansard; isn't
13 that right?

14 A Well, there's a whole -- a whole range of sources
15 I could use, primary sources I could have fact
16 checked for instance, some of which you mention,
17 yeah.

18 Q And that just didn't happen here?

19 A No, it was not -- I was responsible -- I was
20 asked to write a literature review, "literature"
21 being the optimal word here, not court cases or
22 land registry documents or other primary
23 documents.

24 Q Okay, so when you're using the term "literature"
25 then you're including, of course then, the news
26 media articles, as well?

27 A Yes, in this context, yeah.

28 Q In this context, okay. And you'll agree with me,
29 then, that the source documents, the different
30 types of documents you've just discussed,
31 generally speaking, are a more reliable source of
32 factual information than the news media?

33 A Certainly, you know, any original source will be
34 more accurate than any source that reports on it,
35 whether it's the news media or scholarly or
36 otherwise, yeah. So, generally, yes, I agree
37 with that.

38 Q And so you can also agree with me, then, that to
39 the extent that your review relies more on media
40 articles than source documents, that will impact
41 the accuracy of the -- at least the factual
42 information in that review; is that right?

43 A No, I disagree with that. I mean, if you feel
44 that somehow the media is inherently terrible at
45 reporting facts and are completely unreliable,
46 then yeah, you can make that assumption, but I
47 don't make that assumption. I mean, these are --

1 again, there was a lot of reporting that went
2 into this -- this criminal conspiracy, some very
3 good journalists. They did their own analysis.
4 You know, I won't name names, but again, some of
5 these journalists did a very good job, very
6 credible. The media was credible, I found
7 credible on this, so -- and, again, certainly
8 there's maybe mistakes, but there can be errors
9 in any source. Certainly there's inherent
10 aspects of the news media that -- that undermine
11 accuracy of the reporting, especially if they
12 have deadlines to meet. But, again, any source
13 can have errors in it. You know, the news media
14 -- notwithstanding my disclaimer -- the news
15 media is certainly susceptible to mistakes. But
16 so are scholars and consultants and -- so any
17 source in this literature review can have errors
18 in it.

19 Q Are you placing then, Professor, a news media
20 article on the same footing as, for example, a
21 FINTRAC report with respect to accuracy of the
22 data?

23 A Again, you're talking about two different animals
24 here. They're different methodologies.
25 Certainly FINTRAC has access to certain sources
26 that journalists or scholars don't have access.
27 The media has access to sources that FINTRAC
28 doesn't have access to. So the journalists are
29 very good at, you know, obtaining, you know, off
30 the record comments or documents. They're more
31 timely in their reporting. So, again, you're
32 talking about two different methodologies, two
33 different ways of analyzing or reporting on a
34 particular issue. So, again, both have their
35 strengths and weaknesses.

36 Again, I understand, you know, trying to
37 undermine the credibility of the report because
38 it's based on news media. But, again, it's -- I
39 acknowledge, again, that there could be
40 inaccuracies in the reporting, that whether it's
41 media or my own studies or other reports, I --
42 you know, again, the media has its faults,
43 without a doubt, especially on reporting on
44 crime, on organized crime, and can be
45 sensationalized, and -- but at the same time,
46 they can make a significant contribution to
47 understanding a particular issue, especially in

1 this context where you simply have a significant
2 paucity or lack of reliable information from
3 other sources. Again, my job was to be able to
4 try to -- to review and submit as comprehensive
5 an understanding of money laundering, and
6 particular, the Vancouver model, and I simply had
7 to rely on the news media to do so.

8 Q Right, and so I think just -- just to make one
9 point clear there. It's not that there's a lack
10 of potentially access to reliable sources or the
11 source documentation. We've just discussed the
12 various ways in which those documents can be
13 available. So it's not that there's a lack of
14 access in this case. It's that in these
15 circumstances, fairly, you didn't have the
16 opportunity to consult them when you were doing
17 your literature review; is that right?

18 A Right. But again, I would --

19 Q Yeah.

20 A -- maybe disagree a bit with your original
21 statement, because if you're dealing with crime,
22 for example, and you want to go to the land
23 registry office and look up the title of an
24 owner, well, that could be a nominee, could be a
25 beneficial owner. So therefore that document is
26 not accurate. The news media or a scholar may
27 actually find out who the beneficial owner is, so
28 the media is accurate on that. Court cases. I
29 mean, if you're talking about criminal
30 operations, organized crime, you know, and
31 they're going to file a -- you know, take out a
32 mortgage or -- you know, we've talked about, in
33 this report, you know, how steps were taken to
34 obfuscate or hide actual criminal ownership of an
35 asset. So if you want to again refer to your
36 example of the land registry title, again, that
37 can be erroneous because of the use of a nominee
38 or beneficial ownership. So, primary documents
39 can have erroneous information, deliberately
40 erroneous information, as well.

41 Q But certainly, though, you'll agree with me that
42 the primary source documents reflect, you know,
43 whether or not it's the beneficial owner is a
44 different question from who is the owner on title
45 to a piece of property?

46 A I'm sorry, I don't understand the question.

47 Q You'll agree with me that whether or not there's

1 a beneficial owner, that's a different issue than
2 the fact of who is shown in the land title
3 registry document?

4 A Of course.

5 Q Yes, but --

6 A But if I was to use that for research purposes,
7 and I would rely on the nominee, then I would be
8 wrong. If I relied on the news media or a
9 government report or a police investigation that
10 exposed the real -- so within the context of
11 organized crime research, that's the -- the point
12 I'm trying to make.

13 Q Fair enough. And, again, you would agree that to
14 the extent that a police investigation or, you
15 know, a news media reporting from a source or
16 whatnot, again, those reports would also
17 eventually be proven to be accurate or not
18 accurate?

19 A Sure.

20 Q Yeah, and so I think what we come down to here
21 is, in the circumstances in which you drafted
22 this particular literature review, you
23 essentially accepted the facts reported in the
24 media articles, in the FINTRAC reports and the
25 documents you cited, at face value, there was
26 not, -- as you said, that second level, to go and
27 check any of the source documentation?

28 A I didn't accept it at face value. I used my so-
29 called expertise and experience in this field. I
30 triangulated with other sources of public
31 information, theoretical models, scholarly
32 literature. If I saw, you know, an article --
33 and, again, keep in mind, I excluded a number of
34 news media articles that made claims that were
35 not consistent with what I believed would be
36 accurate. Some of these particularly damning
37 accusations that were just, you know, beyond the
38 pale, as far as I was concerned, so -- so, no, I
39 would disagree with that. Again, primary source
40 of documents -- and, again, certainly a lot of my
41 articles do report on primary documents, and so
42 I'm relying on the news media's ability to
43 accurately reflect those documents. And so, yes
44 -- and that, again, I, to some extent, have to
45 accept that as face value, that that reporting is
46 accurate, and they may very well not be. So
47 certainly within the context of --

1 Q Right.

2 A -- those articles -- and there's a lot of them
3 that I cite -- where the news media cites a
4 confidential report that, you know, I don't have
5 access to, then yes, I have to again trust them
6 on face value that their reporting is accurate,
7 or that particular document.

8 Q Right, and so I think then, based on what you've
9 just said, you'll agree with me that your
10 literature review is only accurate to the extent
11 that the underlying materials are accurate?

12 A Certainly in those situations, yes. Yes, in
13 those --

14 Q And so to the extent there are factual errors in
15 the sources that you cite, that will undermine
16 the accuracy of your work?

17 A Yes. Yes, it would.

18 Q And indeed, as Mr. Martland has identified for
19 us, you're currently in the process of making
20 some revisions to your report; is that right?

21 A Only to the extent that correcting some citations
22 and actually adding some citations that were
23 originally left out, and doing a more substantive
24 review of the sources. But, yes, I'm in the
25 midst of -- yes, doing a final edit, you can say.

26 Q Right, and -- and so I think you'll agree that
27 certainly given the constraints within which you
28 provided this report, it's not necessarily
29 representative of the standards of work you
30 usually strive to produce?

31 A I certainly would have liked more time to do a
32 substantive review, without a doubt. Yeah,
33 certainly not -- and that's my fault, if anyone's
34 fault. I'm not blaming anyone. And so
35 certainly, you know, I think it's -- again, it
36 was -- I won't say it's rushed, but there was a
37 limited time to get it done, and under, you know,
38 extenuating circumstances of a pandemic and a
39 child that needs to be home-schooled, that's --
40 again, I -- you know, I'm confident that the
41 overall findings and the picture that's painted
42 through the literature review is accurate, and
43 certainly some of the details here and there may
44 not be accurate. I certainly accept that, yeah.

45 MS. HUGHES: All right. Well, thank you,
46 Commissioner. Subject to anything that may arise
47 from what I understand will be a revised version

1 of the report -- it's unclear to me whether or
2 not there are intending to be any substantial
3 changes. I understand there may be additions to
4 some of the citations. So, subject to anything
5 arising out of the revised report, those are my
6 questions.

7 THE COMMISSIONER: All right, thank you, Ms. Hughes.

8 MR. MARTLAND: Mr. Commissioner, next I have counsel
9 for the B.C. Lottery Corporation.

10 THE COMMISSIONER: Mr. Smart.

11 MR. SMART: Yes, thank you. I've lost -- I've got
12 Kevin Westell on my screen. Let me see.

13 MR. WESTELL: That's unfortunate.
14

15 EXAMINATION BY MR. SMART:
16

17 Q Professor Schneider, as Commissioner Cullen just
18 said, I'm -- my last name is Smart, and I'm
19 acting for the B.C. Lottery Corporation, and I
20 just have a few questions for you on, I think,
21 different topics that other counsel -- on topics
22 other counsel haven't asked you about, other than
23 Mr. Martland. I want to start with, you --
24 looking at your background, you've been involved
25 in researching and writing about crime --
26 organized crime and money laundering for about 30
27 years?

28 A About that, yeah. That's correct.

29 Q Does it appear to you that money laundering has
30 become more sophisticated over time?

31 A You know, it's a very good question. When you
32 look at it historically, you know, back in the
33 days of prohibition, you've had some large
34 corporations in the liquor industry that used
35 very sophisticated money laundering methods. You
36 know, it's hard to say whether there's been an
37 evolution of sophistication because, again, there
38 was very sophisticated methods used years ago and
39 there's very rudimentary methods used years ago,
40 and the same today.

41 So certainly as the offenders have adapted
42 to the anti-money laundering regimes and
43 legislation, that they have found ways to adapt
44 and be resilient, and certainly that would be
45 reflected in greater sophistication. But at the
46 same time, that adaptation might be just
47 reverting back to cash smuggling, something more

1 rudimentary.

2 So it's difficult to say. I'm sorry, I
3 don't try to -- I'm not trying to be difficult
4 here, but certainly we've seen evolution
5 techniques and methods, and certainly there has
6 been some sophisticated methods used today that
7 haven't been used in the past. But I would deem
8 it as -- if you want to look at a historical
9 perspective, is that the bad guys have been very
10 adaptable. Which doesn't necessarily mean being
11 more sophisticated. They've adapted -- they
12 adapt quite well to emerging enforcements and
13 emerging trends.

14 Q Do you think that affects the ability to try to
15 prevent or reduce money laundering?

16 A Certainly when they adapt to emerging enforcement
17 regimes, legislation, then yes, that does -- yes,
18 I would agree, that would make it more difficult
19 to combat the problem.

20 Q You spoke on Monday about the emergence of third
21 party money launderers.

22 A Mm-hmm.

23 Q And I think you referred to Silver International
24 as a British Columbia example. What's the effect
25 of that on money laundering and trying to reduce
26 or prevent it?

27 A Well, certainly I would argue that when you have
28 individuals that specialize in money laundering
29 and that market their services and that have
30 expertise in this area, that is going to make it
31 much more difficult to combat. The fact that
32 Silver International has reportedly had 40
33 different criminal organizations delivering cash
34 to them, based on some media reports and other
35 reports, that suggests that there is great demand
36 for these kinds of services. And so, yeah, I see
37 -- I think in my conclusion I note that this is
38 a particularly -- particularly high threat, I
39 would argue, in the field of money laundering is
40 those individuals and groups that really
41 specialize in this field, if I could put it that
42 way.

43 Q All right. Is that a relatively recent phenomena
44 sort of in Canada in the last 10 years of sort of
45 outsourcing to these specialized groups?

46 A It's not recent. There's -- I mentioned earlier
47 -- I think I mentioned earlier the Caruana-

1 Cuntrera organization, which was affiliated with
2 the Montreal mafia. They really evolved into
3 money laundering specialists. There's certainly
4 case studies of individuals, lawyers, and not all
5 lawyers, but lawyers that have taken upon
6 themselves to specialize in money laundering,
7 either for one particular group or for others.
8 So it's not a particularly new -- I would say
9 it's -- you know, the first cases I saw probably
10 were in the mid-1980s. But I would speculate
11 that you'll see a -- seen a growth in the number
12 of individuals that specialize in money
13 laundering. But I say that more anecdotally than
14 based on scientific evidence.

15 Q So an organization like the Silver International,
16 is that relatively recent?

17 A I don't know how long they've been around. Do
18 you mean as an example or --

19 Q Yeah, as an example. Maybe you can't -- if you
20 don't know, then I --

21 A Well, there are -- again, I've provided examples
22 of organizations that formed companies that, on
23 the surface, appear to be legitimate money
24 service businesses, but instead -- or in addition
25 to legitimate services, they focus on illegal
26 services, as well. So there's a few case studies
27 in the literature review, the one from North
28 York, as well, that -- where an individual
29 operated apparently a legitimate money service
30 business which was really involved in underground
31 money laundering. So -- so it's not a new
32 phenomenon for criminal offenders to set up a
33 shell company or even a real company, offer
34 legitimate money service business or money
35 service transactions and then also engage in
36 illegal transactions as well. Again, I'm not
37 sure if Silver was involved in any kind of
38 legitimate business at all, or if it exclusively
39 was illegal.

40 Q Okay. You mentioned on Monday that I think what
41 you would call commercial and economic crimes
42 produce more money laundering than drug
43 trafficking?

44 A Well, I didn't say more money laundering. I said
45 they have -- you know, commercial economic crime,
46 corporate crime, may very well have a greater
47 impact on society, and cost -- in terms of cost

1 to society, impact on society. So if I -- you
2 know -- certainly with the securities markets,
3 the capital markets, which are very vulnerable to
4 crime, I would argue that the amount of money
5 laundered through security markets is greater
6 with respect to securities-related offences than,
7 say, external offences like drug trafficking or
8 fraud -- or drug trafficking, let's leave it at
9 that.

10 Q Yes. I got the sense that you were concerned
11 that there wasn't enough focus on those kinds of
12 crimes by police agencies?

13 A That is a concern of mine, yes.

14 Q There used to be -- the RCMP used to have
15 specialized commercial crime sections, didn't
16 they?

17 A They did, yes.

18 Q And those have been largely disbanded and sort of
19 subsumed into financial crimes, but very much
20 given a much lesser role?

21 A That's my understanding, yes.

22 Q Do you see that as a question of resources?

23 A It's a question of resources. It's also a
24 question of the complexity of investigating
25 commercial crime offences. It's also, in post-
26 911, a significant amount of resources was
27 shifted from commercial crime and organized crime
28 to national security enforcement, terrorist
29 enforcement, so --

30 Q Yes.

31 A -- a lot of resources were taken from commercial
32 crime and organized crime into national security.
33 And they've certainly robbed the commercial crime
34 section disproportionately to fund the resource
35 and national security unit.

36 Q Do you think it's relevant to this inquiry into
37 money laundering whether more resources should be
38 put into those kinds of securities offences,
39 market manipulation, those kinds of crime?

40 A I believe so, yes.

41 Q Okay. The third area I wanted to ask you about
42 is, at page -- page 35 of your report, you refer
43 to a book, *Hunting El Chapo*.

44 A Mm-hmm.

45 Q And I don't know the -- do you have that in front
46 of you?

47 A I don't have the book, but I have my --

1 Q Yes.

2 A -- literature review up.

3 Q Yes.

4 A Yes, I do --

5 Q So I'm just going to -- you're saying:

6

7 In his 2018 book *Hunting El Chapo*, Former
8 US...

9

10 I guess that's "Drug Enforcement Agent" --

11

12 ... Andrew Hogan claims the Sinaloa cartel
13 was making almost \$3 million a day from
14 selling cocaine and heroin in major Canadian
15 cities. Hogan - who was part of a task force
16 that spent seven years on the trail of the
17 head of the Sinaloa cartel, Joaquín "El
18 Chapo" Guzmán, before capturing him in 2014 -
19 said the DEA was caught off-guard by the
20 Chapo's "deep infiltration" of Canada.

21

22 And you quote from the book:

23

24 "In terms of profit, Chapo was doing more
25 cocaine business in Canada than in the United
26 States," Hogan writes. "It was a
27 straightforward price-point issue: retail
28 cocaine on the streets of Los Angeles or
29 Chicago sold for \$25,000 per kilo, while in
30 major Canadian cities it sold for upwards of
31 \$35,000 per kilo."

32

33 Were you surprised by that? You obviously read
34 the book. Were you surprised by that observation
35 by the DEA agent?

36 A I wasn't too surprised because there's other
37 sources, intelligence sources, that indicate that
38 Mexican cartels are starting to infiltrate
39 Canada.

40 Q Yes, but that amount?

41 A Oh, the amounts. No, again, cocaine has always
42 been -- fetched at a higher profit margin in
43 Canada than the U.S., even back when the
44 Colombians were dominating the field.

45 Q I managed to get a copy of the book over the
46 weekend, and I've looked at it, and I don't know
47 whether Mr. Martland is going to try to assist me

1 to see if I could take you to the page that you
2 took the quote from, from the book. I don't know
3 whether that's possible or not.

4 MR. MARTLAND: Well, maybe just by way of addressing
5 that. The Registrar was provided a copy by
6 email. Mr. Smart emailed it to me this morning,
7 and so if she has that at hand -- I should
8 preface it perhaps, since I'm speaking with this,
9 our rules under Rule 56, there's a general
10 requirement of five days notice to put something
11 to a witness. Rule 58, Mr. Commissioner, is --
12 because we're addressing this for the first time,
13 I'll read it out.

14
15 The Commissioner has discretion to adjust or
16 vary notice periods and to determine whether
17 the introduction of a subject matter or a
18 record to a witness should be denied, allowed
19 or allowed on such term as he directs.

20
21 It's pretty clear from the context of the
22 questions thus far what is being proposed to be
23 put to the witness. I don't -- it may make some
24 sense that that document is brought up and then,
25 Mr. Commissioner, you can assess whether it's
26 appropriate that the question be allowed through
27 the document.

28 I'm hoping that Ms. Leung, our Registrar,
29 may have, through the email, a copy of that
30 excerpt from the *Hunting El Chapo* book, and if
31 so, if that could be displayed, please.

32 MR. SMART: And if I under --

33 THE REGISTRAR: Just one moment.

34 THE COMMISSIONER: If I understand it, there's just
35 one page; is that correct, Mr. Martland?

36 MR. MARTLAND: I think so, and Mr. Smart can advise,
37 but I think that's right.

38 MR. SMART: I just photocopied the cover of the book
39 and page 110 from the book, which is where this
40 quote comes from.

41 A I think one -- I have that page, Mr. Smart, and I
42 know in one case the -- the page citation is an
43 error, and actually that's been fixed.

44 Q Okay.

45 A I'm not sure that's --

46 MR. SMART: So, Mr. Commissioner, I just didn't -- I
47 didn't read the book. I started reading the book

1 on the weekend, and last night I -- there's a
2 passage on this page I wanted to ask Professor
3 Schneider about. And I initially thought of just
4 reading it to him and see if he could recall it,
5 but I thought it would be more helpful if I could
6 actually show him the page so there's no
7 misunderstanding that I'm reading accurately what
8 has been said.

9 THE COMMISSIONER: All right. All right, I think, in
10 view of the relatively short reference that is
11 contained in the proposed exhibit, I will
12 exercise my discretion in favour of allowing you
13 to put that to the witness --

14 MR. SMART: Thank you.

15 THE COMMISSIONER: -- Mr. Smart.

16 MR. SMART: Thank you.

17 Q So, Professor Schneider, the quote that you have
18 at page 35 of your literature review, we can see
19 in the third paragraph in the book, the authors
20 have said:

21
22 We knew, too, about Chapo's vast
23 distribution network throughout the United
24 States, but were caught off-guard by his
25 deep infiltration of Canada. In terms of
26 profit, Chapo was doing more cocaine
27 business in Canada than in the United
28 States. It was a straightforward price-
29 point issue: retail cocaine on the streets
30 of Los Angeles or Chicago sold for \$25,000
31 per kilo, while in major Canadian cities it
32 sold for upwards of \$35,000 per kilo.
33

34 That's where that quote came from that you
35 inserted in your literature review, obviously,
36 correct?

37 A Yes. Yeah, mm-hmm.

38 Q I just wanted to ask you about -- if we could
39 just move up a few lines.

40 A Mm-hmm.

41 MR. SMART: If Madam Registrar could assist us. Thank
42 you. No, up. I'm sorry, I guess move down a few
43 lines. I'm sorry. Thank you.

44 Q The quote then carries on:

45
46 His key cartel...
47

1 They would say "lieutenants" and we'd -- one of
2 us says "lieutenant" and the other "lieutenant."
3

4 ... could exploit weaknesses in the Canadian
5 system: the top-heavy structure of the Royal
6 Canadian Mounted Police hampered law
7 enforcement efforts for even the most
8 routine drug arrests and prosecution.
9

10 It was a perfect match for Chabo: hindered
11 law enforcement and an insatiable Canadian
12 appetite for high-grade coke.
13

14 So what I wanted to ask you about was what
15 comment you have on the DEA agent's observation
16 that there's a weakness in the Canadian policing
17 system or the RCMP for dealing with drug arrests
18 and prosecution? "The top-heavy structure of the
19 Royal Canadian Mounted Police." What do you --
20 do you have any comments about that, Professor
21 Schneider?

22 A With all due respect, no, I don't have a comment
23 on that. I mean, that's his opinion, and I don't
24 necessarily agree with it or disagree with it, so
25 -- but I don't -- I mean, beyond the scope of my
26 literature review is assessing law enforcement's
27 ability to combat money laundering or drug
28 trafficking in Canada.

29 Q You've done quite a bit of work for the RCMP, and
30 you do work for the RCMP now?

31 A I have some -- yes, some work for the RCMP, yes.

32 Q I note the footnote at the bottom, the footnote
33 under "Prosecution." You see what I read to you,
34 and there's a footnote, it says:

35
36 Unlike the United States, whose federal law
37 enforcement system comprises many
38 specialization agencies -- DEA...

39
40 Being Drug Enforcement Agency. "HSI," I think
41 it's Home Land Security. "ATS," I'm not sure,
42 and "FBI."
43

44 ... Canada has only the RCMP, also known as
45 the Mounties.
46

47 Do you have a comment whether it would be more

1 effective in dealing with money laundering and
2 organized crime and drug trafficking if we had
3 specialized units such as organizations as they
4 have in United States?

5 A Again, sorry, I just -- I don't have a comment on
6 that at this time. It's a very complex question,
7 and the issue of the best law enforcement
8 structure is one that, you know, I can't really
9 comment on in this context, as well. I mean,
10 suffice to say, there is as much problems in
11 having five or six federal agencies that are
12 quite competitive and don't cooperate with one
13 another, than having -- and that's, you know,
14 again, not an accurate statement. We have other
15 federal law enforcement agencies. Canada Border
16 Services Agency is a federal law enforcement
17 agency, as well. So the statement itself is not
18 that accurate and, you know, there's pros and
19 cons of having a centralized enforcement and
20 decentralized, and certainly there is a lot of
21 problems with the American federal enforcements,
22 as well. So, but in general, I'll refrain from
23 commenting on what is, you know, a preferred sort
24 of structure to address organized crime or drug
25 trafficking, from a law enforcement point of
26 view.

27 Q But you considered the authors of this book
28 credible, sufficiently credible to quote from the
29 book, didn't you?

30 A Sure. The quote is more factual. His footnote
31 and his critique of the RCMP is based on his
32 opinion which, again, I may or may not agree
33 with.

34 MR. SMART: Okay. Mr. Commissioner, I don't -- I
35 leave it to you whether you want this marked as
36 an exhibit. I simply wanted to have it on the
37 screen so there's no misunderstanding what I was
38 reading to him.

39 THE COMMISSIONER: I think it should be marked as the
40 next exhibit. It has been referred to, so we'll
41 make it Exhibit 9.

42 MR. SMART: Thank you.

43
44 EXHIBIT 9: Excerpt from *Hunting El Chapo*
45

46 MR. SMART: And I just have one -- one other area --

47 THE COMMISSIONER: Mr. Smart --

43 Stephen Schneider (for Commission)
Examination by Mr. Smart, Counsel for the B.C.
Lottery Corporation

1 MR. SMART: Sorry.

2 THE COMMISSIONER: -- are you concluded with the
3 exhibit now?

4 MR. SMART: I am, thank you.

5 THE COMMISSIONER: All right. Thank you, Madam
6 Registrar. Yes, Mr. Smart.

7 MR. SMART: Thank you.

8 Q Just one last area, Professor Schneider. The
9 B.C. Lottery Corporation has a website where
10 anyone that searches it can find efforts that the
11 B.C. Lottery Corporation has undertaken over the
12 last number of years to combat money laundering.
13 It includes independent audits done by FINTRAC
14 and accounting firms. Did you review the -- this
15 BCLC website as part of your literature review?

16 A I did, but I -- again, it wasn't part of my
17 mandate to look at enforcement or policies or
18 anything that dealt with money laundering
19 control. My mandate was to look more just to the
20 nature and scope of money -- or the nature and
21 effects of money laundering. I'm familiar with
22 the website, I did visit it, but really there
23 wasn't anything there of substantive nature for
24 me to contribute to my mandate for a literature
25 review.

26 Q Okay, and you would not have made inquiries of
27 anyone at the B.C. Lottery Corporation to obtain
28 their response to some of the media reports?

29 A No. Again, that would involve, you know, primary
30 research --

31 Q Yes.

32 A -- which, again, was beyond my mandate.

33 Q All right. Thank you, Professor Schneider.

34 A Thank you very much, sir.

35 THE COMMISSIONER: Thank you, Mr. Smart.

36 MR. MARTLAND: Mr. Commissioner, it might be a
37 convenient point for me to raise this, really for
38 the benefit of participants, because we have this
39 rule about notice, and then a situation where
40 something was put this morning, and I didn't
41 obviously raise any great objection to it.
42 Really, for the benefit of participants, I
43 anticipate Commission counsel will be more
44 concerned in particular in areas where there's
45 some risk of an unfairness to the witness or a
46 lack of adequate notice to a witness.

47 The aim of that rule is to have -- in a

1 situation like this, we're in a different sort of
2 a proceeding than a trial or another process, and
3 so in that context, not all the witnesses will
4 necessarily have counsel or be aligned with a
5 participant or party in our proceeding. So I
6 think our expectation as counsel is, wherever
7 possible -- and I think almost everyone's done it
8 -- that counsel and participants will advise us
9 in advance, following that rule. But we do
10 appreciate there may be areas and moments when
11 something needs to be put forward that's just
12 occurred.

13 I'm in the Commission's -- in your hands,
14 Mr. Commissioner, as to whether we take a break
15 or move to the next participant, counsel for Mr.
16 Lightbody.

17 THE COMMISSIONER: I think we should take 15 minutes
18 at this point. Thank you.

19 THE REGISTRAR: This hearing is adjourned for a 15-
20 minute break until 11:26 a.m. Please mute
21 yourself and turn off your video. Thank you.

22
23 (WITNESS STOOD DOWN)

24
25 (PROCEEDINGS ADJOURNED)
26 (PROCEEDINGS RECONVENED)

27
28 THE REGISTRAR: Thank you for waiting. The hearing is
29 now resumed.

30
31 STEPHEN SCHNEIDER, a witness
32 called for the Commission,
33 recalled.

34
35 THE COMMISSIONER: Thank you. Mr. Martland, I
36 understand we are now at the point where Mr.
37 McFee, for Mr. Lightbody, will begin his cross-
38 examination.

39 MR. MARTLAND: That's right. Thank you.

40 THE COMMISSIONER: Thank you.

41
42 EXAMINATION BY MR. McFEE:

43
44 Q Professor Schneider, can you hear me fine?

45 A A bit of an echo, but yes, I can hear you.

46 Q Okay. Well, we'll do the best. If you have any
47 difficulty with the echo, let me know.

45 Stephen Schneider (for Commission)
Examination by Mr. McFee, Counsel for James
Lightbody

1 A Sure.

2 Q As the Commissioner has indicated, I represent
3 James Lightbody, who is the CEO and President of
4 the B.C. Lottery Corporation. I just want to
5 pick up on some aspects of your testimony that's
6 been canvassed by some of my colleagues, just to
7 clarify a few things. As I understood your
8 literature review and your evidence that you've
9 given, an integral component of a literature
10 review requires the reviewer to engage in a
11 critical analysis of the existing works on the
12 subject?

13 A Correct.

14 Q And as I understood your evidence, it appears
15 that some sources are, by the methodology used in
16 their creation and the rigors of review to which
17 the sources are subjected, inherently more
18 reliable than others?

19 A Again, it's difficult to generalize. In general,
20 you know, being a scholar working in an academic
21 field, there certainly is a tendency to say
22 that's -- you know, the rigorous peer review
23 process we go through is -- results in more
24 rigour and accuracy than, say, the news media or
25 others. But we know full well that there's
26 plenty of errors in academic papers, and so, I
27 mean, I can't really generalize on a statement
28 like that. I mean, there's strengths and
29 weaknesses of all different kinds of literature.
30 Certainly a peer review process adds obviously a
31 level of rigor to the particular literature or
32 research, again, there's errors in that. So, but
33 again, I'm not sure if I want to generalize --
34 to make a general statement, in answer to your
35 question.

36 Q But at page 9 of your literature review -- do you
37 have that handy?

38 A I can, yeah.

39 Q In the second paragraph of page 9.

40 A If you can -- yes.

41 Q It starts with:

42
43 A literature review surveys scholarly
44 articles, books, and other sources...

45
46 Do you have that?

47 A Uh-huh.

46 Stephen Schneider (for Commission)
Examination by Mr. McFee, Counsel for James
Lightbody

1 Q If you go to the sentence, you say:

2
3 Most scholarly literature reviews attempt to
4 maintain a high level of quality and
5 precision by ensuring only the most reliable
6 and rigorous sources are included, which
7 means the sources should be published and
8 peer-reviewed.
9

10 A Right.

11 Q I took that sentence to mean indicating to the
12 reader that scholarly reviews are generally
13 fairly reliable and have been subjected to an
14 appropriate level of review that you generally
15 accept them as credible and reliable?

16 A True, but the next sentence acknowledges that:

17
18 ... other sources such as unpublished
19 documents or reports (the grey literature)
20 as well as the news media and non-fiction
21 books may be included, especially to fill...
22 voids in the scholarly literature.
23

24 So --

25 Q I'm focusing on the last part of that sentence,
26 "especially to fill any voids in the scholarly
27 literature."

28 A Mm-hmm.

29 Q It appears to me to be there's a preference for
30 scholarly literature and you go to the other
31 sources to fill voids? Is that --

32 A Well, I -- sorry, go on.

33 Q Is that accurate?

34 A Sorry, could you repeat the question?

35 Q That last portion of that sentence indicated to
36 me that there's a preference to scholarly review,
37 that you refer to these other sources generally
38 to fill any voids in scholarly literature.

39 A Yes, and certainly within the context of this
40 literature review, yes, that's relevant.

41 Q But you go on in the next sentence and say:

42
43 Regardless of the source, a literature
44 review must ensure all sources are subject
45 to a critical analysis.
46

47 A Right.

47 Stephen Schneider (for Commission)
Examination by Mr. McFee, Counsel for James
Lightbody

1 Q Now, let me take you down to the bottom of that
2 same page, the last paragraph starting with,
3 "Among other sources..."

4 A Uh-huh.

5 Q
6 ... this review relies on the news media for
7 descriptive case study information on money
8 laundering in Canada and B.C.
9

10 And you say:

11
12 This dependence is due to the widespread
13 coverage and timely reporting of pertinent
14 issues, events, and developments by the news
15 media collectively.
16

17 But you then go on and say:

18
19 The reader is exhorted, however, to
20 critically analyze journalistic accounts of
21 organized crime and money laundering.
22

23 And I take it that as a literature reviewer,
24 you're giving that caution to the reader, but you
25 also took that caution to heart and applied it
26 when you're preparing this literature review?

27 A As I mentioned before, I certainly did the best I
28 could to critically analyze the news media
29 articles that I relied on, as well as all the
30 sources. Again, whether I was successful in
31 screening out those that may not be particularly
32 accurate, I may have lapsed there, but like I
33 said, I did the best I can to be -- to be
34 critical in my analysis of all the sources for
35 this lit review.

36 Q In terms of the critical analysis, your evidence
37 and response to the questions you've been asked
38 earlier, you described a triangulation of the
39 data. And I take it that's comparing the known
40 source for consistency of content with the source
41 under review?

42 A Yes.

43 Q And in your evidence yesterday, I understood you
44 to say that when you triangulate the data, you'll
45 exclude a source if you deem it to be erroneous
46 or an outlier?

47 A Generally speaking, but again, if I feel the

1 source is credible enough, then -- and if it's an
2 outlier and it's credible, then I'll include it.
3 I mean, the one thing about organized crime is
4 that nothing surprises me anymore. So if there
5 is, you know, an accusation made in the media --
6 you know, an example, the one I mentioned before
7 about, you know, these human ATMs coming in and
8 handing cash -- handing cash to gamblers, seems,
9 you know, a bit of an outlier, a bit outrageous.
10 And, again, I debated whether to include that or
11 not. But in the end, I did include it. It was,
12 again, apparently an eyewitness testimony and it
13 was consistent with the idea that cash is
14 introduced into casinos, and -- but yeah, so in
15 general, there may be an outlier, but it still
16 may be a credible source and I still -- even if
17 it's not necessarily consistent with all the
18 other data, you know, I may include it.

19 Q That brings me sort of to where I'd like you to
20 give us some help. What process did you utilize
21 to determine what news articles to include and
22 what to exclude? Because you did tell Ms. Hughes
23 that you've excluded some articles.

24 A Sure. Generally speaking, they -- you know, they
25 were a credible source. You know, if it's news
26 media, is a credible news media source or
27 credible journalist, or both, that it was
28 consistent with the other literature, scholarly
29 or otherwise, that it was consistent with
30 theoretical literature, consistent with, you
31 know, other research that's been done in the
32 field, reports or otherwise. And certainly
33 within the context of the Vancouver model and,
34 you know, the casinos and real estate it was,
35 again, comparing the information gathered on this
36 -- on Vancouver, B.C. in particular, but again,
37 based on my knowledge of money laundering,
38 organized crime, you know, ethnic Chinese
39 organized crime, organized crime in B.C. So,
40 again, it was, you know, analyzing the particular
41 source, but then also comparing it to
42 information, both theoretical and empirical
43 that's been reported elsewhere previously.

44 Q So how do you, as a literature reviewer, engage
45 in that kind of critical analysis if the source
46 is the only work that describes that particular
47 topic or event?

49 Stephen Schneider (for Commission)
Examination by Mr. McFee, Counsel for James
Lightbody

1 A Well, mostly I, again, rely on the source itself.
2 So, again, if it's a credible source like -- you
3 know, I feel the *Vancouver Sun* or *Global News*, to
4 some extent, they did very -- some very good
5 reporting on this, and I felt the source was
6 credible, and so I included it.

7 Q On that concept, if I could ask you to look,
8 please, to page 74 of your report, please?

9 A Mm-hmm.

10 Q If you look at the second paragraph of that. Do
11 you have the second paragraph, "The Liberal
12 Government in B.C.?"

13 A Yes.

14 Q
15 ... in power from 2001 to 2017, has been
16 criticized for not only ignoring the money
17 laundering problem in B.C. casinos but
18 enflaming it.

19
20 A Mm-hmm.

21 Q You go on to quote from a *Global News* report of
22 March 2019.

23 A Mm-hmm.

24 Q And that's the only source of information you
25 have for that assertion, correct?

26 A It's the only source I documented, but there are
27 certainly other sources that had the same
28 criticism.

29 Q Well, did you view this as a relatively serious
30 allegation, that government officials might
31 interfere despite the concerns of the Province's
32 gaming regulations?

33 A Certainly it's a serious allegation, I suppose,
34 yeah.

35 Q And in that context, what critical analysis did
36 you engage in of this news article before you
37 decided to include it in your literature review?

38 A Well, it was reported in a number of sources, and
39 the -- it was acknowledged by the then Finance
40 Minister stated that they in fact did intervene,
41 that it's a senior level intervention in the
42 public interest to maximize casino revenue. So
43 the article itself cited a senior, I guess,
44 Liberal Government minister who acknowledged that
45 there was an intervention by said minister.

46 Q Well, except the article seems to say despite
47 money laundering concerns from the Province's

- 1 gaming regulators. It would appear to indicate
2 that the Province is intervening and perhaps
3 overriding the gaming regulators. Did you make
4 any contact with the gaming regulators to
5 determine if that was accurate?
- 6 A No. Again, that was beyond my mandate. I relied
7 on public sources and it wasn't my mandate to
8 conduct any primary research, including
9 interviews.
- 10 Q Well, if the regulators indeed had approved
11 purported increasing -- or proposed increasing
12 betting limits, that would certainly
13 figuratively, from your perspective, take the air
14 out of the balloon in that article, wouldn't it?
- 15 A Sorry, can you repeat that?
- 16 Q If, in fact, the regulator approved the proposed
17 increase in the betting limits, that would
18 figuratively take the air out of the balloon in
19 terms of [indiscernible] that news article,
20 wouldn't it?
- 21 A I mean, not necessarily, in my opinion. I mean,
22 there could have been pressure put on the
23 regulator by their political operative, by their
24 political people. So, again, I'm not a political
25 scientist. I don't -- I can't say I have
26 expertise on the relationship between political
27 people and the civil servants. So, again, I --
28 what I saw there was a credible argument that had
29 been reported in a number of sources. Numerous
30 sources. I simply used this source because it
31 had very specific details. But, again, it was a
32 number of sources attest to the same allegation,
33 and whether or not the regulator agreed with it
34 or not, again, that's beyond my expertise to make
35 a comment on whether that takes the air out of a
36 tire or undermines the allegation made by the
37 sources.
- 38 Q Do you agree with me that most things in life
39 have to be evaluated in the context in which they
40 occur?
- 41 A Do I agree with that? I mean, it's a pretty
42 broad statement. Sure, to some extent, yes.
- 43 Q Did you ascertain if this proposed increase in
44 betting limit was to apply to the casino as a
45 whole or to a limited number of games?
- 46 A I didn't drill down that far, no. I, again,
47 relied on what was in the sources and the

1 literature and reported on that.
2 Q And did you ascertain that this proposed increase
3 in the betting limits was to apply to the
4 totality of the casino proper or just the limited
5 rooms, VIP rooms?
6 A It seemed according to the articles, that was
7 limited to a particular room, the baccarat rooms,
8 I believe.
9 Q Did you ascertain what the existing maximum high
10 roller betting limit was before this proposed
11 increase, to give some context to that?
12 A Well, the article I quote -- correct me if I'm
13 wrong -- indicates that it went from \$5,000 per
14 hand to \$100,000 per hand. So the previous would
15 be \$5,000, according to the -- to the report.
16 Q Did you ascertain if that was accurate?
17 A Again, I relied on the source.
18 Q Without any further investigation of that
19 allegation?
20 A Again, I did review other articles on that, and I
21 can't remember whether or not they got into the
22 specifics of that particular number. But, again,
23 that's an example of where I relied on the
24 source, I thought it was credible, and it may
25 very well be wrong, I don't know, but my --
26 Q Did you -- I'm sorry?
27 A No, go ahead.
28 Q Did you ascertain if the proposed increase in the
29 betting limits were mandatory in the sense that
30 all casino operators were to make this limit
31 available to patrons or whether the casino
32 operators retained a discretion to allow a patron
33 to place a bet at maximum limit or not?
34 A Well, that's a level of detail that I simply was
35 not going to get into at that point, and so the
36 answer to your question is no.
37 Q And so the limit, I take it then, of the critical
38 analysis before you decided to include this news
39 article was that you deemed it to be from a
40 credible news source?
41 A Credible source, and again, the allegations that
42 were made against the Liberal Government was in a
43 number of media articles.
44 Q Well, you've looked at news media articles
45 before, and news media has a tendency sometimes
46 to repeat itself, doesn't it?
47 A Yes. Certainly.

- 1 Q And an unfounded allegation can find its way from
2 one reporting to another, correct? Do you agree
3 with that?
- 4 A Can you repeat the question?
- 5 Q An unfounded allegation can be repeated in one
6 news media and then another?
- 7 A It could be, potentially, yeah.
- 8 Q So let's change topics a bit. Let's address the
9 concept of the capital flight of funds from
10 Mainland China and how that bears upon money
11 laundering in B.C. That's a topic you've
12 addressed in your literature review?
- 13 A Yes.
- 14 Q And perhaps we could start with a few basic
15 concepts. China has rapidly evolved into an
16 industrialized modern nation? You'll accept
17 that?
- 18 A I'm not an expert on China, so I can't comment on
19 that.
- 20 Q You'll agree with me that China's got the second-
21 largest economy in the world?
- 22 A I don't know that. Again, not my area.
- 23 Q So do you agree with me that China has many
24 wealthy industrialists and businesspeople?
- 25 A Again, not my area.
- 26 Q Just from your anecdotal experience in life,
27 would you agree with that?
- 28 A Sir, I don't know. It's not my area.
- 29 Q Well, you did outline in your literature review
30 that the Government of the People's Republic of
31 China has in place internal currency controls
32 that you described at page 26 of your review?
- 33 A Yes.
- 34 Q And would you agree that Canada doesn't have
35 similar currency restrictions on the amount of
36 currency that leaves Canada?
- 37 A That, again, not my area of expertise, but I do
38 understand that we do not.
- 39 Q And you set out -- and if I could just ask you to
40 look at it, page 12 of your report, please.
- 41 A Page 12?
- 42 Q Yes. A portion of the *Criminal Code of Canada*
43 respecting the definition of "money laundering".
- 44 A Uh-huh, yeah.
- 45 Q 462.31(1), you have that?
- 46 A Right, yeah.
- 47 Q And it requires that to commit the offence of

1 money laundering, the property or proceeds must
2 be obtained or derived, directly or indirectly,
3 as a result of, (a) the commission of -- in
4 Canada -- of a designated offence, or:

5
6 b) an act or omission anywhere that, if it
7 had occurred in Canada, would have
8 constituted a designated offence.
9

10 A Yes, but nowhere in my report do I say that
11 capital flight is being laundered in Canada.

12 Q But you understand that there's a dual
13 criminality provision there; that's a concept?

14 A I understand that concept, yes.

15 Q And the Chinese nationals, they just search the
16 People's Republic of China's currency control,
17 that's not committing a designated offence or an
18 act or omission that, if occurred in Canada,
19 would constitute a designated offence? Would you
20 agree on that?

21 A If it's not an offence in Canada, then yes.

22 Q And as a result, for the purpose of addressing
23 money laundering in Canada, which is what we're
24 addressing here, the fact that a Chinese national
25 skirted or evaded the People's Republic of
26 China's currency control is of no moment; would
27 you agree with that?

28 A I'm sorry, I don't understand the question.

29 Q For the purposes of addressing money laundering
30 in Canada, the fact that a Chinese national
31 skirted or evaded People's Republic of China's
32 currency controls is of no moment for the offence
33 in Canada, correct?

34 A Correct. As I understand it. I'm not a lawyer.
35 It's not -- again, criminal law is not my area of
36 expertise, but --

37 Q But certainly you've got vast experience in money
38 laundering --

39 A Right.

40 Q -- [indiscernible] Chinese industrialist skirts
41 or evades the Chinese government's currency
42 controls, brings his or her hard-earned monies to
43 Canada to engage in gaming, for instance, that's
44 clearly not necessarily bringing proceeds of
45 crime to Canada, correct?

46 A Correct.

47 Q And rather --

1 A Nor do I say that in my report.

2 Q No, no, I understand that. But rather, he'd be
3 bringing entirely clean money that's evaded the
4 People's Republic of China's currency controls,
5 correct?

6 A Yes, correct.

7 Q And in terms of your evidence, you described, or
8 characterized on a few occasions, as I understand
9 it, deputization of the private sector and
10 financial institutions in terms of the battle
11 against money laundering, correct?

12 A That's the term I used, yeah.

13 Q By "deputization" it means gathering information
14 and handing it over to the law enforcement
15 agencies?

16 A That's part of it, yes.

17 Q And you wouldn't expect the public sector or
18 Crown corporations in Canada to be concerned
19 about or handing over any information with
20 respect to whether their clientele or patrons may
21 or may not have evaded Chinese currency controls,
22 would you? That's not the type of deputization
23 you're talking about?

24 A No. Again, certainly -- certainly if they -- if
25 it's not a crime -- if an offence has taken place
26 in another country that's not a crime in Canada,
27 proceeds of that end up in Canada, certainly from
28 a criminal law point of view then I would
29 understand that it would not be something to be
30 acted upon in criminal investigation. But if it
31 is illicit funds in another country, and I was
32 working at a casino or a bank and I somehow knew
33 that this money had been spirited out of China
34 illegally, even though it's not a criminal
35 offence in Canada, I still would feel personally
36 something that I would report.

37 Q That's a personal subject view, you don't see any
38 requirement of that in Canadian Law
39 [indiscernible]?

40 A No, that is -- that's entirely personal
41 conjecture, yeah.

42 MR. McFEE: Those are my questions for you. Thank
43 you.

44 THE COMMISSIONER: Thank you, Mr. McFee.

45 MR. MARTLAND: Mr. Commissioner, the next --

46 THE COMMISSIONER: Ms. Camley? Is it Ms. Camley for
47 BMW now, Mr. --

1 MR. MARTLAND: Ms. Camley, for BMW, exactly, yeah.
2 THE COMMISSIONER: Thank you.
3 MS. CAMLEY: Mr. Commissioner.

4
5 EXAMINATION BY MS. CAMLEY:
6

7 Q Hello, Professor Schneider.

8 A Hello.

9 Q I just have a few questions for you. So
10 yesterday my friend, Ms. Herbst, for the Law
11 Society, took you through your 2004 report at
12 Exhibit 7.

13 A Mm-hmm.

14 Q That the sample for your study consisted of files
15 that were successfully closed by the RCMP between
16 the years 1993 and 1998, correct?

17 A Yes.

18 Q And that out of that sample of 149 cases, only 18
19 cases are British Columbia cases, right?

20 A Correct.

21 Q Okay. So turning back to Exhibit 7, which again,
22 is your 2004 study, at page 58. Do you have that
23 there?

24 A Yes, I do.

25 Q And so at paragraphs 1 and 2 -- I'll give you a
26 second to have a look at those.

27 A Thank you. Page 58?

28 Q That's correct.

29 A Okay. Yes, I'm there.

30 Q And so you've set out at page 58 in paragraphs 1
31 and 2 money laundering concerns as it relates to
32 motor vehicles. Do you see that?

33 A Mm-hmm, yes.

34 Q And you set out there that they include things
35 like use of cash, bank drafts, personal cheques,
36 to make car purchases?

37 A Mm-hmm.

38 Q So nominee purchasers.

39 A Mm-hmm.

40 Q Quickly reselling a car, purchase with cash, and
41 under-invoicing. Do you see that?

42 A On page?

43 Q Page 58 --

44 A Yes.

45 Q -- paragraph --

46 A Yes, I do, uh-huh.

47 Q Okay, and you agree with me that -- turning to

1 Exhibit 6, which is your literature review at
2 page 77 --
3 A Mm-hmm.
4 Q -- in the first paragraph under "Money Laundering
5 Techniques Used with Motor Vehicles" --
6 A Okay, yeah.
7 Q Okay, I'll give you a second to read that
8 paragraph.
9 A Yes, okay.
10 Q And you'll see that you footnoted at the bottom
11 there, paragraph -- or, sorry, footnote 241?
12 A Mm-hmm.
13 Q And that's -- that is the information that you've
14 taken from page 58 of your 2004 report, correct?
15 A Correct.
16 Q Okay, and you cite your 2004 report as the
17 authority for the techniques used to launder
18 money through the purchase of motor vehicles,
19 right?
20 A Not necessarily authority, just there's not a lot
21 of research on this topic, and so I cite this. I
22 cite some -- Peter German's work on this method.
23 So I don't -- it's one source. I don't
24 necessarily consider it the authoritative source
25 on money laundering through vehicles.
26 Q One source of very few sources; you'll agree with
27 me about that?
28 A I would agree with that, yeah.
29 Q Okay, so in BMW's opening submissions in
30 February, it advised the Commission that it
31 employs various mechanisms to combat money
32 laundering at an industry level, and those
33 include the implementation of export prevention
34 policies, including know your client -- sorry --
35 know your customer processes, the use of red flag
36 checklists, continued education of its dealers,
37 auditing dealerships, the use of non-export
38 agreements, and the enforcement of these non-
39 export agreements, through civil litigation.
40 Now, you'll agree with me that your literature
41 review at Exhibit 6 does not contain any detailed
42 discussion about this recent -- about recent
43 research efforts on the efforts of private
44 companies like BMW to combat money laundering?
45 A No.
46 Q You don't agree with me about that?
47 A Oh, I -- no, that -- again, was beyond my mandate

57 Stephen Schneider (for Commission)
Examination by Mr. Westell, Counsel for the
Canadian Bar Association, B.C. Branch, and the
Criminal Defence Advocacy Society

1 to look at any anti-money laundering measures,
2 whether by the private sector or otherwise. So,
3 no, I did not look -- I did not touch on that in
4 my literature review.

5 Q Okay, great. And you'll agree with me that your
6 2004 study also doesn't take into account any
7 anti-money laundering insights or efforts of
8 private companies?

9 A That's correct.

10 Q Okay, and in reviewing your CV, is it fair to say
11 that you do not have any particular recent
12 expertise or insights into the luxury car
13 industry or what efforts are being undertaken to
14 combat money laundering at an industry level?

15 A That's correct.

16 Q And finally sort of specifically dealing with the
17 concept of under-invoicing as set out at page 58,
18 and again, in your recent literature review at
19 page 77. Your literature review doesn't refer to
20 any recent data with respect to under-invoicing
21 in the automotive sector; is that correct?

22 A No, I believe I rely on -- on my study for that.

23 Q Okay, so then you'll agree with me that we don't
24 actually know at this point whether or not under-
25 invoicing is still an issue in respect of money
26 laundering issues in the automotive industry?

27 A Based -- I assume it still is, but I don't have
28 any empirical or even anecdotal evidence to back
29 that up. So, yeah, I would agree generally with
30 your statement.

31 MS. CAMLEY: Okay, those are my questions. Thank you.

32 THE COMMISSIONER: Thank you, Ms. Camley. And I
33 understand, Mr. Martland, we're now at Mr.
34 Westell for the Canadian Bar Association of B.C.
35 and the Criminal Defence organization?

36 MR. MARTLAND: That's right, the Criminal Defence
37 Advocacy Society. Yes, thank you.

38 MR. WESTELL: Thank you very much, Mr. Commissioner
39 and Mr. Martland.

40

41 EXAMINATION BY MR. WESTELL:

42

43 Q Hello, Professor Schneider. I just have a few
44 areas to cover with you. And I will try to move
45 relatively efficiently through these areas and
46 attempt the best I can not to be redundant with
47 what's been commented upon already and asked

1 about.

2 You identify in your testimony, and it was
3 covered a bit today with Mr. Smart, that one of
4 the biggest problems with the law enforcement
5 issue and stemming the tide of money laundering
6 is that police forces don't seem to have the
7 resources or expert knowledge to go after the
8 really big problems in commercial fraud. Now,
9 I'm paraphrasing. So, would you agree with that
10 statement and agree that that's your position?

11 A Well, I would say that they are good at
12 identifying the high-level intense threats, so
13 they generally focus on those criminal groups
14 that pose the greatest threat. But do they have
15 the resources to tackle all of these high-
16 intensity threats or all criminal organizations?
17 No, they do not have -- they do not have the
18 resources for that, for sure.

19 Q In your view, what resources are they missing,
20 specifically with respect to money laundering in
21 commercial crime?

22 A Well, I have to -- you know, again, that's an
23 area of inquiry that I'd rather not get into,
24 because I feel at this time I simply don't have
25 adequate knowledge or preparation to answer that.

26 Q Thank you.

27 A You know, again, I mean, the formation of these
28 units has changed so much over the years, it's
29 hard to keep track. Generally speaking, when the
30 Integrated Anti-Drug Profiteering Units were
31 around and the Integrated Proceeds of Crime
32 Units, they did have the resources and the
33 expertise, including forensic accountants and
34 paralegals, and even Crown lawyers that were on
35 their staff. So they certainly have been in a
36 position where they have dedicated resources and
37 dedicated expertise to address this problem.
38 And, again, there's been a number of realignments
39 where, you know, money laundering or terrorist
40 finance has been so lumped into financial crimes
41 units. But, you know, I really at this point
42 don't feel I have adequate knowledge to be able
43 to comment intelligently on enforcement issues at
44 this point.

45 Q Okay. So, and that would include -- you don't
46 have -- you don't feel you have the competency to
47 intelligently comment on police training and

- 1 police recruitment or police expertise?
2 A No. No, I couldn't comment on that. I'm sorry.
3 Q Thank you. Moving on to another area. You
4 highlight in your report, and some of the other
5 literature in the past, including your book,
6 *Money Laundering in Canada*, you co-wrote with the
7 late Professor Beare -- I'm not going to raise
8 the book or enter the book -- but just speaking
9 generalities about that book -- [indiscernible]
10 difficulties around lawyers and the way that
11 lawyers have tended to be used in relation to
12 money laundering schemes, correct?
13 A Correct.
14 Q And you don't mention specifically in your report
15 that's filed, Exhibit 7, or the book, anything
16 about criminal defence lawyers, correct?
17 A I don't believe I do. Certainly, to some extent,
18 the issue has been raised of criminal defence
19 lawyers being paid in proceeds of crime, and some
20 of -- you know, made the accusation that's money
21 laundering. But it's not an issue that I've
22 pursued or commented on, to the best of my
23 knowledge.
24 Q Mm-hmm. The focus of your literature has tended
25 to be -- I'm speaking broadly here -- corporate
26 lawyers, commercial lawyers, real estate lawyers;
27 that's been the class of lawyer that are most
28 highlighted in your work, correct?
29 A Correct, yes.
30 Q And just, you know, around your -- your view of
31 the legal procession, to the extent that they
32 might form your opinions, you certainly highlight
33 the fact that the existence as a concept and as a
34 dynamic within our legal system these broad areas
35 such as solicitor-client privilege, the duty of
36 confidentiality, the duty of loyalty,
37 independence of the bar, and the existence of
38 trust accounts. You've highlighted that those --
39 the existence of those dynamics are part of what
40 makes money laundering -- lawyers an attractive --
41 -- attractive liaisons in the money laundering
42 business, correct?
43 A Correct.
44 Q You'd agree with me that all of those -- let's
45 start with solicitor-client privilege and let's
46 lump it in with the duty of confidentiality and
47 the duty of loyalty. You'd agree with me, to the

1 extent you feel comfortable answering this, that
2 those principles and those aspects of our legal
3 system, there's a high pro-social value to
4 society in the existence of those concepts,
5 correct?
6 A I would agree with that, yes.
7 Q And you would not hold the opinion that they're
8 there to help lawyers or members of the legal
9 profession do unsavory things, correct?
10 A In general --
11 Q In terms of --
12 A -- yes, I certainly would agree in general that,
13 sir, those are sacrosanct principles that just
14 happen to get abused by criminal offenders and
15 some lawyers, but in general, yes, I agree with
16 you.
17 Q And I know that's -- I'm asking you a rather
18 obvious question -- but because of the public
19 facing nature of this inquiry, I wanted to just
20 sort of clarify that as a concept.
21 A Mm-hmm.
22 Q And in terms of trust accounts, you say the same
23 thing, there are good reasons why lawyers use
24 trust accounts and use them to provide legitimate
25 services with their clients, correct?
26 A I would agree with that, yeah.
27 Q And I just want to touch on what I think is your
28 view -- and I realize this is not -- not the
29 focus of your analysis or the focus of your
30 response here -- but you made several comments
31 through your testimony about the fact that one
32 problematic aspect of criminality, and especially
33 the criminal -- the criminal element in the world
34 and money launderers, is that they are -- due to
35 greed, they can be extremely persistent and will
36 often continue to work to find new and different
37 and more creative ways to continue to break the
38 law and money launder, correct?
39 A Correct.
40 Q And I take it that you -- or you highlight the
41 fact that there is a view out there -- let's say
42 it that way -- that one of the reasons that money
43 laundering has taken root the way it has in
44 Canada and British Columbia is that we here have
45 a -- I guess a system soft on crime approach,
46 correct? Let's say that's the view that you
47 identified as being out there in the literature

61 Stephen Schneider (for Commission)
Examination by Mr. Westell, Counsel for the
Canadian Bar Association, B.C. Branch, and the
Criminal Defence Advocacy Society

1 that you've reviewed, correct?

2 A Right. I've documented -- certainly that's been
3 documented specifically by Peter German in his
4 report. So, you know, I don't necessarily agree
5 with it, but it certainly is a valid point that's
6 made by --

7 Q Right.

8 A -- a credible source.

9 Q And that was something I just -- what you just
10 said is what I want to highlight, is that you, in
11 your capacity as an expert in money laundering,
12 don't necessarily take the view that a tough or
13 tougher on crime approach is going to make much
14 of a positive difference, correct?

15 A Correct.

16 Q And with respect to the fact that we have a
17 constitutionalized set of civil rights, laws in
18 this country, called the *Canadian Charter of*
19 *Rights and Freedoms*, following a theme that I was
20 dealing with under a different topic, you agree
21 that in general the purpose behind the *Charter of*
22 *Rights* is a laudable one, correct?

23 A I very much agree with that, yes.

24 Q No less than anyone else, I'm sure that you're a
25 proponent of the importance of civil rights and
26 constitutional civil rights, correct?

27 A Correct.

28 Q And I guess sort of moving on from those themes.
29 The idea underlying or the concern underlying,
30 you know, the use of the *Charter of Rights and*
31 *Freedoms* to defend people accused of money
32 laundering and the fact that we have less severe
33 sentencing regimes than some other countries is
34 this idea that in some -- and it's certainly a
35 popular one in the media, in the media sources
36 that you followed, is that general deterrence is
37 an effective means to control crime, correct?

38 A I don't generally agree with that, no.

39 Q Right --

40 A That concept.

41 Q Next question. That said [indiscernible] you
42 don't generally -- you know, based on your
43 thoughts and your comments about the persistence
44 of the criminal element, you're not necessarily
45 of the view that a larger emphasis on general
46 deterrence is going to help stem the tide in any
47 meaningful way, correct?

62 Stephen Schneider (for Commission)
Examination by Mr. Westell, Counsel for the
Canadian Bar Association, B.C. Branch, and the
Criminal Defence Advocacy Society

1 A Correct, I agree with that statement.
2 Q And I don't -- and I'm just going to end here
3 with just talking a little bit about your
4 credentials. And I'm not meaning to do this as
5 in any attacking fashion. I just need to put
6 this into context. And Mr. Martland's already
7 done some of this. And let me say for the outset
8 and for the record that my client and I don't
9 dispute formally your qualifications to be -- to
10 call yourself an expert in money laundering, but
11 that you have this particular perspective. And
12 you have degrees in political science, correct?
13 A Correct.
14 Q International economic development?
15 A Correct.
16 Q And community and regional planning, correct?
17 A Correct.
18 Q You don't have a law degree?
19 A I do not have a law degree.
20 Q You don't have a criminology degree?
21 A Not a criminology degree, although I've taken
22 many criminology courses, and the running theme
23 through all my research in those disciplines have
24 been crime and crime prevention --
25 Q And you --
26 A -- and organized crime.
27 Q Sorry. You've worked with policing agencies, but
28 you are not and have never been a police officer
29 of any kind?
30 A No.
31 Q You've never received formal police training?
32 A No.
33 Q And you studied anti-money laundering legislation
34 and policy in your capacity as a consultant, as
35 an academic, correct?
36 A Yes.
37 Q But you've never -- you are not and have never
38 been a legislator or a legislation drafter of any
39 kind, correct?
40 A I've -- when I was with the Federal Government, I
41 contributed to legislation and policy, but as a
42 researcher, I've never actively taken part in
43 writing legislation specifically, but I have, as
44 a researcher, provided -- did research that fed
45 into some of the early money laundering
46 legislation in Canada.
47 MR. WESTELL: Thank you very much, Professor

1 Schneider. Those are my only questions for this
2 witness --

3 A Thank you.

4 MR. WESTELL: -- Mr. Martland, Mr. Commissioner.

5 THE COMMISSIONER: Thank you, Mr. Westell. And, Mr.
6 Martland, I think we're now at Ms. Tweedie, for
7 the B.C. Civil Liberties Association; is that
8 correct?

9 MR. MARTLAND: Yes, it is.

10 THE COMMISSIONER: Thank you. Ms. Tweedie.

11 MS. TWEEDIE: Thank you, Mr. Commissioner, and thank
12 you, Mr. Martland.

13

14 EXAMINATION BY MS. TWEEDIE:

15

16 Q Professor Schneider, I just have a few questions
17 for you today, and I thank you for your time.
18 You stated in your testimony yesterday that money
19 laundering isn't tied to any nationality, yet
20 your literature review has an undeniable focus on
21 Chinese organized crime and Chinese capital
22 flight. Is it safe to say that there is an
23 overarching perception that Chinese organized
24 crime and capital flight plays a large role in
25 money laundering in Canada and B.C. and Vancouver
26 in particular?

27 A Well, certainly it has been in Vancouver for the
28 last 10 years, but there's a real lack of data on
29 Canada as a whole on -- on the extent to which
30 Chinese groups or, you know, outlaw biker groups
31 or -- so certainly in the context of the
32 Vancouver model, I would argue that money
33 laundering by ethnic Chinese, Chinese nationals,
34 seems to be predominant.

35 Q Thank you. So you'd agree that there is a
36 perception that -- of Chinese people being
37 significantly involved in money laundering in
38 Vancouver and that this perception is fuelled by
39 news media?

40 A Certainly I haven't delved into that issue at
41 all. I haven't heard about it. Again, maybe I
42 have my head in the sand, but certainly I can
43 understand that the publicity that has
44 accompanied this issue has certainly -- can give
45 rise to, you know, racist, anti-Chinese, anti-
46 Asian sentiment, absolutely. But it's not,
47 again, something that I have looked into in depth

1 or followed as part of this literature review.

2 Q Thank you. And the fact that there's a paucity
3 of research in the area of money laundering has
4 been very well-documented, in your testimony --
5 and just to confirm, of course, research in the
6 area of measuring Chinese organized crime and
7 capital flight, that is also very much based on
8 estimates and it's impossible to confirm its
9 accuracy; is that correct?

10 A Again, I'm not an expert on capital flight and
11 the ability to -- I mean, I've seen a lot of
12 estimates of what's come out of China, academic,
13 various media reports, but I -- I don't have the
14 expertise to comment on whether the estimates of
15 capital flight are accurate or not.

16 Q But as a general concept, these estimates that --
17 estimates regarding the extent to which capital
18 flight is related to money laundering, those are
19 necessarily -- we're not able to prove that those
20 numbers are accurate; is that correct?

21 A I would agree with that, yes.

22 Q In your testimony yesterday, you referenced
23 Chinese people buying real estate in B.C. because
24 Asian investors want to have somewhere that their
25 children can live, and indeed, your literature
26 report also states that the Vancouver real estate
27 market is an attractive place for wealthy Chinese
28 investors because it's a desirable location for
29 family members to live and to go to school. And
30 related to this concept, you cite Peter German in
31 your report. And right now I'm looking at --
32 pardon me. I believe it's at page 26 of your
33 report where Mr. German -- pardon me, I'm having
34 trouble locating -- yes, here we go. At page 26
35 of your report, Mr. German asserts, at the
36 bottom, that:

37
38 ... "Much of the foreign capital that enters
39 the B.C. real estate market is of legitimate
40 origin" and "includes capital invested by
41 foreign corporations and enterprising
42 individuals who see an opportunity to profit
43 from a rapidly appreciating market, and by
44 others who wish to insure against political
45 risk at home." Nevertheless, he
46 acknowledges, "... foreign capital that has
47 an unlawful origin is likely the dominant

1 form of recent money laundering in B.C.
2

3 I take this to mean that Mr. German is
4 acknowledging that there is no way to know, of
5 course, how much of this capital is coming -- is
6 of unlawful origin. Would you agree with that
7 statement?

8 A Again, I can't speak on behalf of Dr. German on
9 that.

10 Q However, you would agree that he -- he makes --
11 when he states that -- he is acknowledging in the
12 sentence that much of the foreign capital is of
13 legitimate origin, you would agree with that?

14 A Again, not an expert, yeah, but I would -- again,
15 I would generally acknowledge, without any
16 expertise in this area, that the amounts of
17 investment coming from foreign sources, whether
18 it's Asia or otherwise, in Canada, far exceeds
19 the amount of, you know, dirty money or capital
20 flight that comes into Canada.

21 Q And on that same page, page 26, you cite a report
22 that was conducted between 2002 and 2011,
23 estimating that illicit financial outflows from
24 China were in the range of 1.08 trillion. I just
25 want to confirm that those are the most recent
26 numbers that you were able to find in this area
27 and -- or if there have been further studies that
28 you know of since 2011 estimating illicit
29 financial outflows from China?

30 A Again, not being an expert in this field, my I
31 guess capacity would be limited to find the most
32 up to date, but certainly that was an endeavour
33 of mine was to find the most up to date one, and
34 that is the one that's most up to date and was a
35 credible source. There were news media sources
36 that were more recent, but I felt that this --
37 these studies were more credible. And so that is
38 the most recent I could find that were credible.

39 Q Thank you. There's just one more area of your
40 report that I'd like to turn to, and that's at
41 page 28 of your report. And here you reference a
42 CBSA report that provides statistics on the
43 frequency and scope of seizures by Canadian
44 border officials. And we have some statistics
45 here that show that CBSA seized \$17.4 million
46 from Chinese nationals. And I would like to
47 clarify that this money seized by the CBSA, to

1 your knowledge, of course, there is no -- there
2 is no proof that this money that is seized is
3 from illicit sources; is that correct?

4 A No, it's seized on the balance of probability,
5 but this study, as I understand it, no, it
6 doesn't prove beyond a reasonable doubt that --
7 that it was from illicit sources.

8 MS. TWEEDIE: Those are all my questions. Thank you
9 very much.

10 A Thank you.

11 THE COMMISSIONER: Thank you, Ms. Tweedie. Mr.
12 Martland, do you have any re-examination?

13 MR. MARTLAND: No, Mr. Commissioner, I don't have any
14 re-examination. I think that concludes -- maybe
15 I'll just pause for a moment and see if there's
16 any participant who had questions they had yet to
17 ask or wish to raise now.

18 THE COMMISSIONER: Yes, thank you.

19 MR. MARTLAND: I built in extra time knowing that it's
20 not always immediate to hit the unmute button.
21 But I don't hear anyone raising anything, so I
22 think that leaves us in the position where we're
23 able to conclude with Professor Schneider.

24 There's one issue from today's evidence that
25 would be obvious, which is that this question of
26 revisions to the literature review remains
27 unaddressed at this point, and once Professor
28 Schneider has prepared revisions, we'll circulate
29 those and address them with participants and
30 canvass to see if there's an objection to the
31 revisions being entered as an exhibit, if there's
32 any issues arising. So I don't think we need to
33 try to guess ahead to that right now. Otherwise,
34 I think we're in a position to excuse the witness
35 and then adjourn until tomorrow, 9:30.

36 THE COMMISSIONER: All right. Thank you, Mr.
37 Martland. And, Professor Schneider, thank you
38 for your time. It's been, I'm sure, an
39 interesting, yet challenging way to spend your
40 hours over the last three days, but we're very
41 appreciative of your contributions to the
42 inquiry. Thank you. You are now excused.

43 MR. SCHNEIDER: Thank you, Justice Cullen.

44 THE COMMISSIONER: And I think that means that we will
45 adjourn until tomorrow at 9:30, if there's
46 nothing else to deal with, Mr. Martland, and then
47 we will resume with Mr. Lord tomorrow at 9:30; is

67 Stephen Schneider (for Commission)
Examination by Ms. Tweedie, Counsel for the B.C.
Civil Liberties Association

1 that correct?

2 MR. MARTLAND: Yes, that's the plan.

3 THE COMMISSIONER: Thank you. We will adjourn.
4
5
6

7 (PROCEEDINGS ADJOURNED TO MAY 28, 2020, AT
8 9:30 A.M.)
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