RCMP issues warning on diamonds; Industry called a target for money launderers

Stanley Tromp, Financial Post, 10 Aug. 2011

The RCMP has warned that Canada's fast-growing diamond industry is at serious risk for money laundering by organized crime and terrorists, according to a document released to the Financial Post under the Access to Information Act.

"The Canadian diamond industry remains largely unregulated," the partially censored report says, and leaves dealers vulnerable to money laundering and a law enforcement system ill-equipped to handle the problem.

"The RCMP can only enforce existing legislation," said RCMP Sergeant Julie Gagnon. "The trade in precious metals and stones is a self-regulated industry where instances of money laundering do occur."

She said an update to the 2009 Project SHYNE report by the RCMP's criminal intelligence branch is expected to be publicly released this fall. Canada is the world's third largest producer of rough diamonds, and in the next decade its share will likely rise.

But in the global context, Canada is a reasonably new diamond net exporter, the report says, "with no tradition in policymaking or industry regulatiofiln."

The diamond exploration boom that began in the early 1990s in the far north is well known, but the secondary diamond industry is also expected to grow in Canada, leading to more cutting and polishing centres.

It is the immense profit potential in these secondary industries that could be lucrative for organized crime groups in Canada, the report adds.

There are 6,500 dealers of precious metals and stones in Canada's highly fragmented market. Unlike other industries with easy entrances, the jewellery business is often a family affair and fuelled by personal contacts, and as a result it is so much harder for police to access.

Diamond smuggling could be used to import or export criminal profits through airports because the items are so small, odourless, non-metallic and easily hidden (even within a person's body), and they are not considered "monetary instruments" in law.

A major problem is the "value manipulation" of diamonds. Dealers can alter the jewellery's price by falsifying documents, or by not declaring the nature of diamonds at the point of sale. As well, retailers now often buy more diamonds from underground markets than from legitimate wholesale dealers, perhaps party due to more jewellery store robberies across Canada, which has helped lead to "the growth of a parallel, illicit market among dealers."

Auction houses are at special risk from money launderers for three reasons, the report noted. First, auction houses are not covered under the rules of Financial Transactions and Reports Analysis Centre of Canada (FINTRAC). In law, they are not considered to "purchase or sell" jewellery in the auction process, but are "mere intermediaries or agents" between buyers and sellers.

Second, at the largest auction houses, bidders can be sophisticated in knowing the true value of the jewellery, and they can be agents for the real buyer who wants anonymity. Third, jewellery pieces are often sold as a part of an entire lot, and the lot numbers are compiled in a catalogue that is distributed only to industry insiders.

Information on dealers' sales and clientele is "guarded with the utmost secrecy," the report stated.

Pierre Leblanc, president of Canadian Diamond Consultants Inc., said in an interview that the jewellery industry is so competitive, it is fair that such commercially sensitive information be guarded closely.

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