

‘Snow-washing’: What leaked banking records show about Canada’s role in money laundering

Every year, billions of dollars obtained through corruption spin through the global economy – and Canadian-registered shell companies are a favoured mechanism for making that money clean. The Globe pored through documents obtained by a journalism non-profit to see how it works

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A Calgary strip mall, a Montreal law office and a Saint John UPS store: What do these have in common? According to banking records reviewed by The Globe and Mail, they're addresses used in unusual transactions that illustrate how Canadian-based shell companies are used to move billions of dollars around the world.

It's called dark money, the billions of dollars that cycle through the international economy, hopping from one jurisdiction to the next, one shell company to another. The money often starts out "dirty" – the proceeds of corruption or other crimes – and ends up "clean" and ready to be spent.

A new leak of banking records suggests that Canada is playing a key role in helping to launder that dark money, with an increasing number of shell companies using a reputable-sounding Canadian address to add a sheen of legitimacy to their operations.

The phenomenon of "snow-washing," as experts call it, is one of the revelations contained in a massive leak of more than 1.5 million transaction records from Lithuania's Ukio Bankas – which collapsed in 2013 and is now the subject of multiple money-laundering investigations – as well as other sources. The banking records were obtained by the Organized Crime and Corruption Reporting Project (OCCRP), a non-profit consortium of investigative journalists, and shared with The Globe and Mail and other international media, and published for the first time Monday.

While previous leaks, including the Panama Papers, have revealed Canada's popularity as a jurisdiction for registering shell companies, the Ukio Bankas leaks show for the first time how those Canadian addresses are often typed right into the transaction records, adding a "clean" look to the money as it moves – even if it never touches a Canadian bank account.

Companies with Canadian addresses played a role in thousands of Ukio Bankas transactions, involving upward of US\$200-million. And that's only a small snapshot from one defunct bank.

The RCMP estimates that between \$5-billion and \$15-billion is laundered via Canada every year; some who study the issue believe the real problem is several times larger than that.

“Snow-washing is a thing,” said Mollie Hanley, spokeswoman for the London-based OpenCorporates, an online database that contains information on more than 125 million companies around the world. “Money is laundered through companies in Canada, using its clean reputation to appear to be respectable. This gives the impression to regulators that they’re a friendly, trustworthy company.”

The Lithuanian leaks open a large hole in that narrative. Ukio Bankas appears to have been the centre of a multibillion-dollar operation of what the OCCRP has dubbed the “Troika Laundromat,” a vast network of shell companies created by an arm of Troika Dialog, a Moscow-based investment bank. Troika Dialog was founded by Ruben Vardanyan, a businessman with close connections to both Russian President Vladimir Putin and Prime Minister Dmitry Medvedev.

Mr. Vardanyan has built a reputation in Russia and beyond as a “good” oligarch, known for his impressive philanthropy as well as for his immense wealth. That public perception allowed him to rub shoulders with not only the political elite in Russia and his native Armenia, but also with the likes of George and Amal Clooney. He is the founder of the prestigious Skolkovo school of management outside Moscow, which claims a mandate to train Russia’s future business leaders.

In an interview with the OCCRP, Mr. Vardanyan acknowledged that his bank helped its clients operate through offshore companies. However, he insisted that he was not aware of any illegal behaviour as a result. “We always acted according to the rules of the world financial market at that time,” he said.

The network identified by OCCRP consists of hundreds of shell companies that were established by Troika Dialog, using controversial “formation agents” that give birth to shell companies by the hundreds for their clients.

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Most of the front companies involved in the Troika Laundromat were registered in long-standing tax havens such as Belize, Seychelles and the British Virgin Islands, and all of them kept accounts at Ukio Bankas.

Those intermediary companies sent the money west, often via Austria’s Raiffeisen Bank or Germany’s Deutsche Bank – institutions that are themselves involved in multiple controversies – before the money was cycled back “clean” to other companies with accounts at Ukio.

Money frequently moved following a pattern – large, round-number sums transferred from one shell company to another at narrowly spaced intervals – considered to be a tell-tale sign of money laundering.

“It’s called dark money because you can’t shine a light on where it ultimately comes from,” said Graham Barrow, a London-based expert on combatting money laundering who has advised several banks and governments about how to tighten their controls.

“In a court of law, you might agree that these are almost certainly the proceeds of a crime – but which one?”

None of the bank records, taken alone, proves criminal wrongdoing. Nor are all the transactions connected to the Kremlin-linked Laundromat. But in the three case studies below – involving companies with addresses at a law office in Montreal, a UPS Store in Saint John and a strip mall in Calgary – money-laundering experts who reviewed some of the leaked files on behalf of The Globe said that many of the transactions defied commercial logic.

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Case Study No. 1: Montreal

Seven shell companies using the address of the Montreal law firm De Grandpré Chait sent large amounts of money to and from Ukio Bankas accounts. Between August, 2007 and December, 2012, the companies received a total of US\$46.3-million from other companies using Ukio Bankas accounts. The seven shell companies then sent back US\$47.9-million to the Lithuanian bank.

Eric Lalanne, the president of De Grandpré Chait, said the companies that appeared in the Lithuanian records were incorporated before Quebec adopted new verification standards in 2010 regarding the ownership of companies listed in the province. Mr. Lalanne said his firm strictly followed the new policy, and ended its relationship with the companies in question “years” ago.

Mr. Lalanne said his firm had never provided the companies with any financial services or advice.

“Our firm has never set up schemes involving interrelated shell companies using nominee directors so as to disguise the ownership of assets and protect the interests of fraudsters or money launderers,” Mr. Lalanne wrote in reply to e-mailed questions from The Globe. “We have never had any dealings with Ukio Bankas. If our address still appeared as the address of reference for any operating companies when Ukio Bankas went bankrupt, then this information would clearly have been inaccurate.”

All seven companies that did business with Ukio Bankas were founded or co-founded by Bernal Zamora, a Costa Rican national that the OpenCorporates database says has served as an officer for more than 500 companies, including 300 that have used Quebec addresses.

Ms. Hanley of the OpenCorporates website said Quebec has become one of the most opaque jurisdictions anywhere. The provincial government last year ordered OpenCorporates to stop

publishing information about Quebec companies – the first government anywhere to take such a step – stating that the provincial registry is the only legal holder of company information.

Case Study No. 2: UPS Store

Kara McCready, the owner of a UPS Store in Saint John, said there were “more than 20, less than 50” companies that used her store as an address. She said she charged them \$150 a year to provide mailbox services, and that she knew little else about them – a policy that has caused her an increasing amount of problems.

“I do get a little concerned. We’ve had people in here, private investigators, a law office ... inquisitive people” asking questions. Ms. McCready said providing a mailing address to companies that don’t have an office of their own was a common way for UPS stores to boost their bottom lines.

A company called Decter Ltd. received US\$2.5-million, over a series of transactions, from a shell company connected to the Troika Laundromat, and paid out US\$8.2-million to another two other companies in the network – all while its registered office address was Ms. McCready’s UPS Store. Some transfers were marked “payment for communications equipment,” while others were “for common stocks.”

New Brunswick records show that Decter Ltd. was founded by James Calderbank, a British citizen who lives in Dubai and who is listed as the director of hundreds of companies listed in tax havens around the world.

“You’ve got a New Brunswick company founded by a British serial director of companies living in Dubai and this company has a Lithuanian bank account. There’s just no plausible explanation for that,” said Oliver Bullough, author of the book *Moneyland*, which focuses on the world of offshore tax havens and the dark money that flows through them.

And Decter Ltd. was just one part of the puzzle connecting a nondescript commercial district of Saint John to a failed bank in Lithuania. The leaked banking records reveal that 11 other companies registered at the UPS Store did business with Ukio Bankas, including one firm, Burret Investments Ltd., that took in a whopping US\$14.7-million over just six weeks in 2007. Most of the transfers were marked “for building equipment.”

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Another company registered at the same UPS Store, Arctic Trade Ltd., later sent US\$16.5-million to three other shell companies with Ukio Bankas addresses between June, 2009 and April, 2010.

None of the firms has any kind of online presence indicating what they do or how they can be contacted.

Ms. McCready said her only involvement with many of the firms registered at her shop was to forward their mail on to Pam Gill, an Edmonton lawyer who established Decter Ltd., Burret Investments, Arctic Trade and several other companies registered at the UPS Store.

Ms. Gill, who runs a business called European Registry Solutions, told The Globe that she creates companies at her clients' request, including some firms that have been registered in New Brunswick, where lax foreign-ownership laws have earned the province comparisons with the U.S. state of Delaware.

But Ms. Gill said she didn't know the real owners of the companies she created. "Really anyone can incorporate a company – just go online and do it," she wrote in an e-mail. "It's just a service."

Case Study No. 3: Calgary

Another address of note in the Lithuanian files is Suite 160, 2323 32nd Ave. Northeast, which is located in a strip mall near Calgary International Airport. The address was used for a series of transactions involving a company called Brightwill Import Inc., which was founded by a Latvian national, Juri Vitman, who Mr. Barrow, the money-laundering expert, says is one of the most common names he sees in connection with the shell companies he monitors.

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Brightwill Import was registered in Alberta in 2010 as a foreign corporation with a head office in the Central American country of Belize. But it's the Calgary address that appeared on banking records, as Brightwill Import sent \$1.7-million from its account at another Lithuanian bank, UAB Medicinos, to another shell company, Bradley Projects LLP. Bradley Projects, in turn, was listed in London – with directors in Belize and Seychelles that were themselves shell companies – as well as a bank account at Ukio Bankas. The payments from Brightwill to Bradley were all marked "for furniture."

The Suite 160 address that Brightwill used belongs to Arvic Search Services, one of the few businesses still operating in the strip mall.

"Arvic Search Services Inc. operates legitimate and law-abiding business and is not involved in any illegal activity," Jonathan Denis, a lawyer and member of Arvic's board of directors who previously served as Alberta's provincial justice minister, wrote in an e-mailed reply to questions from The Globe. Mr. Denis said that answering questions about the companies registered at Suite 160 "would be a violation of client confidentiality."

Destination: Canada

Mr. Barrow said he's seen Canadian addresses – and the Calgary strip mall in particular – turn up more and more frequently in his research, particularly as previous leaks such as the Panama Papers have focused media attention on British addresses that clusters of shell companies were registered at. Company formation agents, he said, appear to be seeking new and lower-profile addresses of convenience.

The Dublin-based International Overseas Services – one of the main formation agents involved in setting up the Troika Laundromat – maintains a page on its website dedicated to explaining the benefits of opening a shell company in Canada.

Canada, it says, is a country with a strict taxation system. “Due to this, any structure established on Canadian territory is considered a highly prestigious vehicle,” the page reads. “However,” it goes on, “Canadian legislation does offer the opportunity of registering and using Canadian enterprises with a zero rate of tax” – provided the company conducts no actual business in the country.

Another formation agent, the Estonia-based Suntiger International, offers to create a company in Canada for €960. The “full package” – which comes with “one natural person as a nominee director and shareholder” – costs €2,400. Canada is one of 11 countries where Suntiger invents companies, alongside the likes of Britain, Panama, Belize, Nevis and the British Virgin Islands.

James Cohen, the executive director of Transparency International Canada, said “snow-washing” has become popular because it's relatively easy to open a company in Canada, and because this country lacks a freely searchable national registry such as the one maintained by Companies House in Britain. “As more of our partners in Europe take the path of transparency, we've become an increasingly soft target for those who want to hide their dirty money,” Mr. Cohen said.

Mr. Barrow argues that Canada gains little from playing host to the growing number of shell companies – and its citizens can lose out later when some of the “washed” money is invested in Canadian real estate.

“From Canada's point of view, it's only being used as an address. It's not bringing in any money other than the registration fees. The real money is just moving around Europe,” he said. “But it's all part of the same engine that's driving up real estate prices in places like Toronto and Vancouver.”

With reporting from Rick Cash, Stephanie Chambers in Toronto, Jana G. Pruden in Edmonton, and Justin Giovannetti in Calgary