

Replies from City Council of Amsterdam

Hearing on the ‘Impact of tax evasion and money laundering on local property markets, in particular in European cities’ -5 February 2019

Questions posed to the city representatives

- **Does money laundering in property entail volatility and stability concerns for property prices?**
- **What is the impact of the phenomenon on citizens and the local economy?**
- **Does it result in the exclusion of citizens from certain areas?**

Money laundering in property can definitely lead to further price increases and can have a major disruptive effect on the property market. Properties are becoming more expensive and (for example) homes are becoming unaffordable. Citizens with a low or average income are driven out of the city, which can lead to major problems where, for example, the housing of residents/families are concerned, but it's also problematic for teachers, nurses, police and other vital functions/jobs for a city, as it's almost impossible to find an affordable home.

Vague businesses, which serve as a cover and which actually partake in money laundering, have a negative effect on the neighbourhoods' image and quality of life, which can also lead to feelings of insecurity, or even the departure of residents.

- **Is there a link between money laundering in property and unoccupied buildings?**

The degree of impact is difficult to interpret. Vacant properties can be the result of money laundering. But vacant properties can also be the result of expats who have purchased a second home in Amsterdam and who spend very little time there, or because renovations are taking longer than anticipated, as property prices (both rental and sales) are increasing, resulting in more profit being generated for developers with a later completion.

- **Is money laundering prevalent in commercial properties (link to pop-up stores etc)?**

Yes, there is money laundering in commercial properties. Once in a while cases of money laundering in commercial properties are traced. As a municipality, we will always work together with other government parties in the region, such as the police, the tax authorities and the justice department (the so-called multi-agency approach or the identification of (organised) crime and the tackling of such practices). Criminal investigations often demand a great deal of time and the administrative approach needs to create barriers against money laundering whenever possible. As soon as a permit is needed for the establishment of a commercial property, or when we, as a municipality, enter into a property transaction with a party ourselves, we have the option of intervening; without a direct relationship like this, the possibilities for interventions by the municipal council are very limited.

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This is one of the reasons the Amsterdam council recently adopted an extension of the general local ordinance, whereby the mayor can indicate buildings, streets, areas or industries within which malicious practices have been identified, or which appear to be susceptible to criminality and which can subsequently become subject to licensing. And the municipality can carry out integrity screening based on this.

Business and finance constructions are now increasingly being put together in catering establishments, coffee shops and property companies, which increases the risk of money laundering because they are so intransparent that we, as a municipality, don't know who is behind them, where the money is coming from and how this money has been earned. This doesn't allow for the integrity of those entrepreneurs to be effectively assessed.

Some question marks have also arisen about the profitability of more than forty hairdressers in one of Amsterdam's districts, or the large number of phone shops in a street which don't look like they get many customers; or greengrocers who throw large amounts of fresh vegetables in the waste container, which makes you wonder how much is actually being sold in these shops. The large number of Nutella shops and ice cream shops, of which the local residents undoubtedly wonder whether they even have the right to exist and whether they may be functioning as a kind of cover for other practices.

- **What are the challenges in addressing money laundering through property?**

A question which forms part of this: who does the city belong to? There is no overarching supervisor in the property sector.

The municipality wants to be able to penetrate the property market, to clearly formulate the risk indicators where properties and undermining are concerned and acquire and analyse information (partly for this purpose) and subsequently be able to share this with partners, in order to arrive at an integrated approach.

So what is needed: Transparency of owners and financing and therefore:

1. Easy access to police and tax authority intelligence;
2. Cooperation with other parties, as the municipality only has a limited reach;
3. Internal priority and funds to mitigate risks.

What are the subsequent challenges:

- Privacy of financiers and property owners versus the government's desire to acquire complete and transparent information from the company in question. But the sharing of information within the government is also a challenge (between organisations which can intervene or create barriers in an administrative and judicial or fiscal manner).

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- **Has experience in your city shown that tools are missing to address this? How has the implementation of the anti-money laundering directives resulted in tools to address the phenomenon?**

One of the biggest bottlenecks is the lack of transparency in the property market, both in terms of ownership and financing. There is no European system, whilst the market is increasingly becoming international.

Instruments for the municipality following the implementation of the anti-money laundering directives:

- Yes, we have experienced problems with regard to the transparency of owners (UBO's) and financing, both at national level as well as international level. We are currently awaiting the implementation of the UBO register in NL – this tool could certainly help the municipality.

In addition, the municipality would like:

- Increased clarity in relation to the registering of property transactions in the land register and increased clarity in the registration of companies in the trade register. This would make the mutual knowledge sharing between cities regarding risks, indicators and phenomena much easier; this, in turn, would allow for joint barriers to be set up against malicious entrepreneurs and financiers which operate internationally.

- **What kind of measures have been introduced in your city to limit the impact? Could you provide the committee with concrete examples?**

The Netherlands has implemented the Bibob Act, based on which municipalities can include integrity considerations in their decision-making. The Act applies to certain public law matters (subsidies, some licenses) and for a number of private law transactions (property transactions, Construction, ICT and Environmental contracts). This gives the municipality research possibilities, but this Act is limited to within our country's borders.

- As the Amsterdam private law domain had more of a need for integrity to be taken into account and given a framework, Amsterdam introduced the Amsterdam Policy Rule on Integrity and Agreements (PIA) in 2015. This has been applicable across the entire municipality since 2017. The municipality will generally screen all possible contract counter parties for integrity, based on the PIA. An integrity clause will also be included for the purpose of screening throughout the contract period. This is therefore only applicable if the municipality itself is a party. The PIA will not be used for, for example, private land.
 - For example, we can list a number of examples in relation to land allocation, where the municipality decided against allocating the land because the integrity screening didn't show sufficient information regarding the origin of the finance, there was insufficient information about the eventual interested parties, insufficient cooperation was provided in relation to the provision of information, or other integrity risks became evident.
 - Contracts which include an integrity clause will be terminated if there are any serious integrity violations.

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- Projects have been launched to purchase structurally criminogenic buildings in certain vulnerable areas and to subsequently house functions in these buildings which will contribute to the quality of life in the area.
- Approximately 300 buildings in the city centre, which are located on leasehold land, are now subject to specific provisions, which will allow the government to maintain control of the ownership of these buildings. Based on these provisions, the owner will need to ask the municipality for permission to sell and the appropriate integrity screening will subsequently take place within that context.
- The municipality has also filed a declaration of forgery in case of entrepreneurs who had completed the so-called Bibob forms incorrectly, also resulting in convictions.
- The city centre's destination plan has been adjusted in order to block any monotonous and undesirable retail outlets.
- Any buildings associated with illegal activities will be closed (and have their licences withdrawn).
- The municipality's area estate agents know what happens in a specific area and this knowledge is linked to big data, which is subsequently analysed. This is currently still in its infancy.
- Public integrity scandals are a reason for proactively reviewing the existing relationships with suppliers.

- **Do you collaborate with other cities? Does this include non-EU cities?**

At national level:

We work closely together with a number of cities in The Netherlands. We share best practices and learn from each other's policies. Furthermore, we collaborate in big data projects with four bigger cities in the Netherlands, where we collect indicators of fraud and money laundering in the property sector and develop tools to fight abuse.

At European level:

We know the undermining effects in our city related to illicit money flows are certainly not an issue for just our city.

Which is why we are indeed very keen to engage in the sharing of experiences and strategies with other European cities.

In this respect, we organised a three day conference in 2018 called 'Flying Money', about illegal money flows and money laundering and how this affects our city.

A wide range experts and stakeholders were present, including representatives from 12 other European cities:

Antwerp, Barcelona, Berlin, Bologna, Bratislava, Bucharest, Buzau, Copenhagen, Gdansk, London, Malmö, Paris, Rome and Stockholm.

These cities commonly agreed there is a wish to engage in further and more structural ways of exchanging knowledge and instruments and to see where we can collaborate.

To this end, Amsterdam will host a follow-up event in 2019. We will be happy to welcome other cities as well.

One conclusion has been that, even though different European cities face problems related to criminal activity and illegal money flows, there is a variety in responsibilities (often a mixture of local, regional and national) and dedicated instruments and capacity to tackle the issues. Access to relevant and reliable data and information was, in any case, a common concern.

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We therefore believe in further European collaborations. We have established fruitful contact with DG Home and DG Just of the European Commission. And we have become members of the European Forum on Urban Security (EFUS), who seem interested in a collaboration on this issue.

What we also hope to achieve is to engage in a multi-level-governance approach to this: to have expertise at EU level (European Commission or other stakeholders), combined with expertise from the Member States, as well as experts from some European cities, to see how we can better align our expertise, knowledge-sharing and to find better ways of cooperating between these levels in Europe. The model for this approach could be the so-called thematic Partnerships of the 'Urban Agenda for the EU'. We will discuss this option with the Commission, together with a number of cities and interested Member States.

Within this same context, we are currently also working with the European Commission's Joint Research Centre on investigating the role of private investors in relation to the affordability of housing in European cities. We are jointly researching this question. An initial 'EU cities and the financialisation of the housing market' expert workshop will be held in Amsterdam on 18-19 February.

At international Level:

Our focus is on Europe, because of the fact the EU's European framework offers concrete options for closer collaborations. At legislative level, there is for example the Directive on Money Laundering. There are already relevant EU networks, such as the European Platform on Administrative Approach (lead by The Netherlands); the EU Expert Group on Money Laundering (lead by France and Denmark) and a Fin-Tech Expert Group 'Know your Customer' (lead by DG Fisma; DG CONNECT).

However, the underlying issues are clearly international and we are very much open to additional options for concrete international knowledge exchange and cooperation. We will address the issue of illegal money flows with our different international relations and contacts. The international dimensions of our collaborations still need to be developed and detailed.
