



DUBAI: A GLOBAL HUB FOR ILLICIT TRADE AND SANCTIONS EVASION

HUBS OF ILLICIT TRADE (HIT) PROJECT

Regional Report

Dr. Yulia Krylova

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ACRONYMS & ABBREVIATIONS

| | |
|-----------------|---|
| AITI | Anti-Illicit Trade Institute |
| AML/CFT | Anti-Money Laundering and Countering Financing of Terrorism |
| APCs | Armored personnel carriers |
| AQIM | Al-Qaeda in the Islamic Maghreb |
| ASGM | Artisanal and small-scale gold mining |
| CNTC | China Tobacco |
| DGCX | Dubai Gold and Commodities Exchange |
| DGD | Dubai Good Delivery Standard |
| DMCC | Dubai Multi Commodities Centre |
| DRC | Democratic Republic of the Congo |
| DRI | India's Directorate of Revenue Intelligence |
| ECOWAS | Economic Community of West African States |
| EU | European Union |
| FARC | Revolutionary Armed Forces of Colombia – People's Army |
| FATF | Financial Action Task Force |
| FCTC | Framework Convention on Tobacco Control |
| FinCEN | Financial Crimes Enforcement Network (United States) |
| FTZs | Free trade zones |
| GCC | Gulf Cooperation Council |
| GNA | Government of National Accord (Libya) |
| HKHS | Haji Khairullah Haji Sattar Money Exchange |
| ICIJ | International Consortium of Investigative Journalists |
| IED | Improvised explosive device |
| IRGC | Islamic Revolutionary Guard Corps |
| IRISL | Islamic Republic of Iran Shipping Lines |
| ISIL | Islamic State of Iraq and the Levant |
| ITP | Protocol to Eliminate Illicit Trade in Tobacco Products |
| JNIM | Jama'a Nusrat ul-Islam wa al-Muslimin |
| KDP | Kurdistan Democratic Party |
| LBMA | London Bullion Market Association |
| LNA | Libyan National Army |
| MENAFATF | Middle East and North Africa Financial Action Task Force |
| OCCRP | Organized Crime and Corruption Reporting Project |
| OECD | Organisation for Economic Co-operation and Development |
| PMC | Private military company |
| PUK | Patriotic Union of Kurdistan |
| SMI | Syrian Military Intelligence |
| SSRC | Syrian Scientific Studies and Research Center |
| TOW | Tube-Launched, optically tracked, wireless-guided missiles |
| TraCCC | Terrorism, Transnational Crime and Corruption Center |
| UAE | United Arab Emirates |
| UBO | Ultimate beneficial owners |
| UN | United Nations |
| UNODC | United Nations Office on Drugs and Crime |
| UNHCR | United Nations High Commissioner for Refugees |
| WCO | World Customs Organization |
| WTO | World Trade Organization |
| 3TG | Tin, tantalum, tungsten, and gold |

EXECUTIVE SUMMARY

This regional report was written within the *Hubs of Illicit Trade* project, a strategic evidence-based research initiative that was launched by the Terrorism, Transnational Crime and Corruption Center (TraCCC) and the Anti-Illicit Trade Institute (AITI) at George Mason University in 2022. Its key objective is to inform policymakers and communities about the interconnected harms and multiple compounding threats associated with hubs of illicit trade and to provide recommendations for their disruption by tackling their interconnected nature. This report focuses on Dubai as a global hub for illicit trade, money laundering, and sanctions evasion. Its key findings are summarized below:

KEY FINDINGS

- ❖ Dubai is the largest global hub for the black-market gold trade and one of the largest global hubs for arms trafficking, trade in illicit cigarettes, counterfeit goods, and drugs, and human trafficking and smuggling.
- ❖ Under a recent increase in the number of international and national sanctions imposed on Iran, North Korea, Venezuela, Russia, Belarus, and other countries, Dubai's role as a secret jurisdiction for sanctions evasion is becoming more prominent.
- ❖ With several crypto exchanges, including Binance, Kraken, Crypto.com, and Bybit, setting up their presence in Dubai and Abu Dhabi, the United Arab Emirates (UAE) is transforming into one of the global crypto hubs. Due to their limited transparency, lacking or limited information about ultimate beneficial owners, and inter-jurisdictional issues, crypto transactions create additional vulnerabilities in Dubai's financial infrastructure.
- ❖ Illicit trade actors often exploit vulnerabilities of Dubai's free trade zones (FTZs), including weak procedures to inspect goods and a lack of adequate cooperation between zone and customs authorities. Apart from FTZ regulations and infrastructure, key enabling factors for illicit trade include Dubai's strategic location at the nexus of trading routes connecting Asia, Africa, the Middle East, the Americas, and Europe; corruption; huge volumes of container freight and passenger traffic; as well as multiple ethnic diasporas who reside in the city and are engaged in trade activities.
- ❖ Dubai plays a significant role in the global offshore business industry. Its highly developed financial infrastructure and deficiencies in anti-money laundering regulations make Dubai one of the largest hubs for all types of money laundering, including trade-based money laundering and money laundering through gold and real estate.
- ❖ Illicit gold trade often converges with the smuggling of vehicles, alcohol, drugs, and counterfeit goods, as well as trafficking in arms and persons. Organized criminal groups and terrorist organizations often use the same routes to smuggle illicit commodities to and from Dubai.
- ❖ Illicit trade and money laundering in Dubai rely on a wide range of financial and non-financial enablers: banks, money or value transfer services (such as traditional hawala and e-hawala), dealers in precious metals and stones, lawyers, trust and company service providers, finance companies, foreign commercial operators, shipping, postal and courier service companies, real estate agents, insurers, auditors, and accountants.
- ❖ Illicit trades carried out in Dubai fuel conflicts and violence within and outside the region. There is strong evidence that proceeds of these illicit trades are used to finance terrorist organizations and armed groups, including, but not limited to, the Islamic Revolutionary Guard Corps (IRGC), the Islamic State of Iraq and the Levant (ISIL), Jama'a Nusrat ul-Islam wa al-Muslimin (JNIM), Hizballah, Al Qaida, the Taliban, and Colombian militant groups.

This research is based on a combination of qualitative and quantitative data. Research methods include a case study analysis, in-depth interviews with subject matter experts, industry representatives, government and law enforcement officials, and staff of academic and nongovernmental organizations. Secondary sources of information cover scholarly publications, investigative media publications, court documents and legislation, official statements, assessments, and evaluations, and reports by national law enforcement agencies, governments, and regional and international organizations. The data collection also includes seizure and trade data from the United Nations (UN) Comtrade database. For money-laundering analyses, the research uses data from the Sayari beneficial ownership platform, the Financial Crimes Enforcement Network (FinCEN) files, and the International Consortium of Investigative Journalists (ICIJ) offshore leaks databases. The triangulation of various sources and methods facilitates data validation through their cross-verification.

This report provides examples of illicit practices and schemes used by smugglers, identifies current trends in illicit activities, and analyzes key enabling factors behind their expansion. A myriad of illicit commodities and services are traded in Dubai every day, but this report focuses primarily on illicit gold, cigarettes, and arms. This selection allows for the right balance between offering plenty of detailed information and discovering general trends in illicit activities.










This report consists of eight sections. Following the introduction, Sections 2-4 analyze Dubai-based illicit trades in gold, cigarettes, and arms. Section 5 explores different types of illicit trade beneficiaries, including legitimate companies supporting smuggling and trafficking. Section 6 investigates the enabling environment for the proliferation and expansion of illicit trades in Dubai, with a focus on FTZs, financial and money-laundering infrastructure, corruption, and the role of diasporic and transient populations. Section 7 presents a summary of national anti-illicit trade efforts, followed by the concluding section featuring major policy recommendations for disrupting illicit activities in Dubai. The report structure and key takeaways are summarized below:

| REPORT STRUCTURE | KEY TAKEAWAYS |
|--|---|
|  <p>1. Introduction: Dubai's profile</p> | <ul style="list-style-type: none"> > Dubai plays a critical role in the UAE economy, with its non-oil trade value reaching 47% of the UAE total trade value in 2020. > FTZs were responsible for about 40% of the UAE trade volume in 2020, with over 30 of them located in Dubai. > The top trade commodities in Dubai are gold, telecoms, diamonds, petroleum oils, and jewelry. Illicit trades mirror key licit commodities traded in Dubai, which serves as a provenance and transit point for a wide range of counterfeit and contraband goods. > In 2021, of Dubai's 3.5 million population, 92% were non-Emirati nationals due to a large segment of migrant workers. The latter are often trafficked into forced labor, including through the abuse of the kafala (sponsoring) system. Dubai also serves as a transit point for human trafficking and smuggling to other states. |
|  <p>2. Illicit gold trade</p> | <ul style="list-style-type: none"> > Almost half of the gold coming to the UAE and Dubai, in particular, is from conflict-affected and fragile states located primarily in Sub-Saharan Africa and the Middle East and North Africa. > Security is a key challenge in Sub-Saharan Africa's gold mining, with many countries facing the threat of extremism and terrorism. > Over 80% of gold in conflict-affected states is produced illegally, mostly through artisanal and small-scale gold mining linked with forced labor, violence, and environmental destruction. > Gold is widely used for sanctions evasion, money laundering, and illegal currency transfers. |
|  <p>3. Illicit cigarette trade</p> | <ul style="list-style-type: none"> > The UAE is one of the key provenance economies for smuggled tobacco products. Overall, the UAE is responsible for up to 20-25% of all illicit cigarettes in the global market. > Most illicit cigarettes are manufactured in facilities located in FTZs, such as Jafza in Dubai. > FTZs also play a critical role in the transshipments of illicit cigarettes from other countries. |
|  <p>4. Arms trafficking</p> | <ul style="list-style-type: none"> > The UAE is one of the largest arms importers in the world. In 2021, the World Customs Organization ranked the UAE third in the world on the number of seized illicit weapons and ammunition. > A significant part of arms trafficking from the UAE is destined for conflict-affected states in the region, primarily Libya, Syria, Saudi-backed militias in Yemen, and South Sudan. |
|  <p>5. Illicit trade actors</p> | <ul style="list-style-type: none"> > Key beneficiaries of illicit trades include political elites and affiliated businessmen from various countries, corrupt officials, organized crime groups, and private security companies involved in arms trafficking, gold smuggling, and related operations. > In terms of supportive networks, illicit actors rely on a wide range of legally registered entities, including free zone manufacturers, suppliers, distributors, transport, postal, logistics, financial, and accounting companies. |
|  <p>6. Enabling environment</p> | <ul style="list-style-type: none"> > Smuggling networks exploit Dubai's transport, logistics, business, and financial infrastructure and take advantage of lax FTZ regulations. > Dubai also hosts various ethnic diasporas who play an important role in all types of smuggling networks operating in their home countries. |
|  <p>7. Anti-illicit trade efforts</p> | <ul style="list-style-type: none"> > The UAE has made certain progress in advancing its anti-illicit trade legislature, including the ratification of most international conventions regulating specific types of illicit trade. > Major reforms in the UAE include a mandatory registration framework for hawala providers and informal money transfer service providers, a new set of anti-money laundering laws setting obligations of financial actors to report suspicious transactions and conduct due diligence, the establishment of the financial intelligence unit, and new regulations on virtual assets. |
|  <p>8. Recommendations</p> | <ul style="list-style-type: none"> > Key steps include the ratification of the international protocols against illicit tobacco trade, migrant smuggling, and firearms trafficking. > Industry-specific strategies include the development of comprehensive mitigation plans based on analyses of the entire supply chains, suppliers of raw materials, operators, and related logistics. > It is vital to strengthen FTZ regulations and put pressure on FTZ authorities and companies to adopt stricter due diligence policies, and enhance control in Dubai's ports over transiting commodities, with stricter regulations regarding the required documentation and certificates authenticating the country of origin. > The UAE needs to follow recommendations and work closely with the Financial Action Task Force to be removed from its grey list of countries with high risks of money laundering. |

1. INTRODUCTION: DUBAI'S PROFILE

Dubai is the most populated city and the most populated of the seven emirates in the UAE.¹ The city of Dubai, located on the coast of the Persian Gulf, serves as a major trade hub at the regional and global levels. It plays an important role in the UAE economy. In 2020, for example, Dubai's non-oil trade value was estimated at US\$321.8 billion,² which constituted about 47.3% of the UAE's total trade value in the same year.³ A significant share of trade transactions in the UAE are carried out through FTZs. In Dubai, for instance, about 39% of the traded volume went through FTZs in 2020 (Table 1). Overall, the UAE has around 40 FTZs, with over 30 of them located in Dubai. The UAE also has two financial free zones: the Dubai International Financial Centre and the Abu Dhabi Global Market.











Table 1: Dubai's trade by type, 2020

| CATEGORY | TRADE VALUES (US\$ AND % OF THE TOTAL VALUE) | | | | | |
|------------------------------|--|---|--|---|---|--|
| Trade by flows |  | EXPORT US\$45.5 billion (14.1%) |  | IMPORT US\$186.8 billion (58.0%) |  | RE-EXPORT US\$89.6 billion (28.8%) |
| Trade by transportation mode |  | AIR US\$152.2 billion (47.3%) |  | SEA US\$114.6 billion (35.6%) |  | LAND US\$55.3 billion (17.2%) |
| Trade by type |  | DIRECT TRADE US\$193.6 billion (60.2%) |  | FREE TRADE ZONES US\$126.3 billion (39.2%) |  | CUSTOMS WAREHOUSES US\$1.9 billion (0.6%) |

Source: Dubai Customs (2022).⁴

Over recent years, gold remains the top commodity traded in Dubai. In 2020, its share of the total trade value reached 17.9% (Table 2), followed by telecoms, diamonds, petroleum oils, and jewelry. The available statistics for 2014-2020 demonstrate that China remains Dubai's top trading partner, followed by India and the United States (Table 2).

Table 2: Dubai's top trade partners and commodities, 2020

| CATEGORY | TOP FIVE BY PERCENTAGE OF THE TOTAL TRADE VALUE (%) | | | | | | | | | |
|-----------------|---|-----------------------|---|--------------------------|---|------------------------|---|-------------------------------|---|------------------------|
| Top commodities |  | GOLD 17.9% |  | TELECOMS 12.9% |  | DIAMOND 5.4% |  | PETROLEUM OILS 4.8% |  | JEWELRY 4.0% |
| Top partners |  | CHINA 11.9% |  | INDIA 7.5% |  | USA 5.1% |  | SAUDI ARABIA 4.5% |  | IRAQ 3.4% |

Source: Author's calculations based on Dubai Customs (2022).⁵

The gold and precious metals industry is core to the UAE's economy. In 2020, the UAE imported US\$246.9 billion worth of gold, more than any other country in the world.⁶ According to the Dubai Multi Commodities Centre, the volume of gold traded in Dubai accounts for around 25% of all global gold trade, with most of it traded in FTZs.⁷ Estimates based on the Dubai Customs Center and the United Nations (UN) Comtrade data show that around 86% of the UAE's gold trade is carried out through Dubai. Known as the City of Gold, Dubai is the largest global hub for the black-market gold trade and one of the most popular global hubs for money laundering. Dubai is also one of the largest global hubs for trafficking a wide range of contraband and counterfeit goods, including drugs, pharmaceuticals, excise commodities, arms, clothing, textiles, perfumery, foodstuff, electronics, cosmetics, and wildlife, among other things. To a large extent, these illicit trades concentrate in Dubai's FTZs and largest ports.

The UAE and Dubai also have high risks of human trafficking and migrant smuggling. In 2021, of Dubai's 3.5 million

population, 92% were non-Emirati nationals due to a large segment of migrant workers.⁸ The majority of migrant workers in Dubai are males, which results in a gender imbalance (e.g., 223 males per 100 females in 2021⁹). Most laborers who work in Dubai's construction and domestic service sectors come from South Asia, primarily from India, Bangladesh, and Pakistan.¹⁰ There are various indicators that migrant workers are often trafficked into forced labor, including debt bondage, passport confiscation, delayed or nonpayment of wages, fraud, and contract switching.¹¹

To monitor the migrant population, the UAE uses the kafala (sponsoring) system, which allows Emirati citizens to employ migrant workers. Since employers are responsible for migrant workers' visas and legal status, this system creates multiple opportunities for their exploitation. Reports by international human rights organizations document abusive conditions faced by migrant workers in Dubai, many of whom work and live in hazardous and deadly conditions.¹² Upon arrival in Dubai, traffickers often transport migrant laborers to other countries, primarily the Gulf Cooperation Council member states.¹³ During the 2021 Belarus-European Union border crisis, Dubai also served as a transit point for trafficking people from Iraq to Belarus on their way to the European Union.¹⁴

Apart from labor trafficking, Dubai serves as a hub for sex trafficking, which is facilitated by several factors. Dubai is a popular tourist destination, and its tourism industry attracts sex traffickers. Its hotel areas have a high concentration of sex workers because of access to high-income customers. Sex trafficking tends to concentrate in areas with significant transit populations and gender imbalances.¹⁵ Dubai's male-dominated industries and its large migrant segment make it a magnet for sex traffickers. Also, many female domestic workers who travel to Dubai from South Asia, Sub-Saharan Africa, and Southeast Asia often suffer from sexual abuse at the hands of their employers.¹⁶

There is also anecdotal evidence of Dubai-based smuggling gangs using migrant workers to transport illicit goods. For example, in 2017, customs officials at Rajiv Gandhi International Airport (RGI) seized 18 cases of gold smuggled from Dubai by migrant laborers.¹⁷ In another case, in 2020, migrant workers who were stranded in Dubai due to the coronavirus lockdown were offered free tickets in exchange for smuggling cigarettes.¹⁸ The next sections of this report present detailed analyses of Dubai's illicit trades in gold, cigarettes, and arms, followed by an in-depth review of illicit trade actors, enabling factors, and anti-illicit trade efforts.

2. ILLICIT GOLD TRADE IN DUBAI

Gold is widely used for money laundering because it has a transparent and relatively stable price, a high value to weight, and a comparatively low level of provenance traceability.¹⁹ These characteristics also make gold attractive for sanctions evasion. Under a recent increase in the number of sanctions against countries, Dubai’s role as a secret jurisdiction for sanctions evasion is becoming more prominent. North Korea and Venezuela are illustrative examples of how Dubai’s gold market is used to evade sanctions and support modern dictatorships.

2.1. Sanctions evasion via gold trade

In 2020, UN investigators found that “the Democratic People’s Republic of Korea continues to access the international financial system and evade sanctions through ... bulk cash and gold smuggling, the use of offshore and joint ventures to hide beneficial ownership information, and the continued theft and use of virtual currencies such as Bitcoin to evade sanctions and fund global cyberattacks.”²⁰ Smuggling of gold and cash violates multiple sanctions prohibiting transfers of financial assets to and from North Korea for financing its nuclear and ballistic missile programs. Specifically, UN Security Council Resolution 2270 of 2016 prohibits the supply, selling, or transfer of gold, directly or indirectly from North Korea or by North Korean nationals.²¹ Currently, the UN is investigating North Korea’s involvement in gold mining in the Democratic Republic of the Congo and its provision of military training and arms sales to the Presidential Guard of this country.²²

“[T]he Democratic People’s Republic of Korea continues to access the international financial system and evade sanctions through... bulk cash and gold smuggling, the use of offshore and joint ventures to hide beneficial ownership information...”

Dubai plays an important role in North Korea’s gold smuggling. In 2020, UN investigators identified two North Korean officials, Pak Sin Hyok and Ri Kuk Myong (both of whom worked at the Economic and Commercial Section of the North Korean Embassy in Tehran) as participants of a gold and cash smuggling network that had been active since at least 2009.²³

Table 3: North Korean official gold smugglers

| NAME | TITLE |
|---------------|--|
| Pak Sin Hyok | Economic and Commercial Counselor, DPRK Embassy in Iran |
| Ri Kuk Myong | Economic and Commercial Secretary, DPRK Embassy in Iran |
| Mun Chol Yong | Former DPRK Secretary-level diplomat to Tehran |
| Kim Yong Chol | Former Korea Mining Development Trading Corporation (KOMID) chief representative to Tehran |
| Jang Yong Son | Former KOMID deputy representative to Tehran |
| Han Chol Ho | Former Saeng Pil Trading Corporation (SPTC) chief representative to Tehran |
| Yang Thae Ho | Former SPTC deputy representative to Tehran |
| Pak Sin Hyok | Economic and Commercial Counselor, DPRK Embassy in Iran |

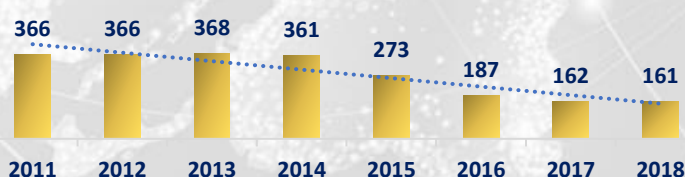
Source: Adapted from UN Security Council (2020).²⁴

Three Iranian individuals involved in this network, all residents of Dubai, were linked to several North Korean officials and former diplomats (Table 3). UN investigators documented more than 282 flights between Tehran and Dubai by North Korean diplomats, Kim Yong Chol and Jang Jong Son, who were designated in 2016.²⁵ Similarly to gold and cash couriers, they boarded return flights from Dubai to Tehran within a few hours of their arrival in the UAE. It was also confirmed that several designated individuals were traveling under false names or with fake passports.²⁶

Venezuela is another example of sanctions evasion through gold smuggling. Since 2006, this country has been under U.S. sanctions imposed in response to a lack of Venezuela’s cooperation on antidrug and counterterrorism efforts, human rights abuses, corruption, increasing authoritarianism, and anti-democratic actions. As of January 2021, the U.S. Treasury imposed financial sanctions on 113 Venezuelans and at least eight entities.²⁷

To avoid the negative impacts of sanctions on the economy, Venezuela’s government increasingly turned to the sale of gold as a source of income to keep Maduro’s regime afloat. As a result, Venezuela’s gold reserves fell from 365.8 tons to 161.2 tons between 2011 and 2018 (Figure 1). In 2019, the U.S. Treasury sanctioned Venezuelan state-run ferrous metals mining company Minerven and its President

Figure 1: Venezuela’s gold reserves, tons



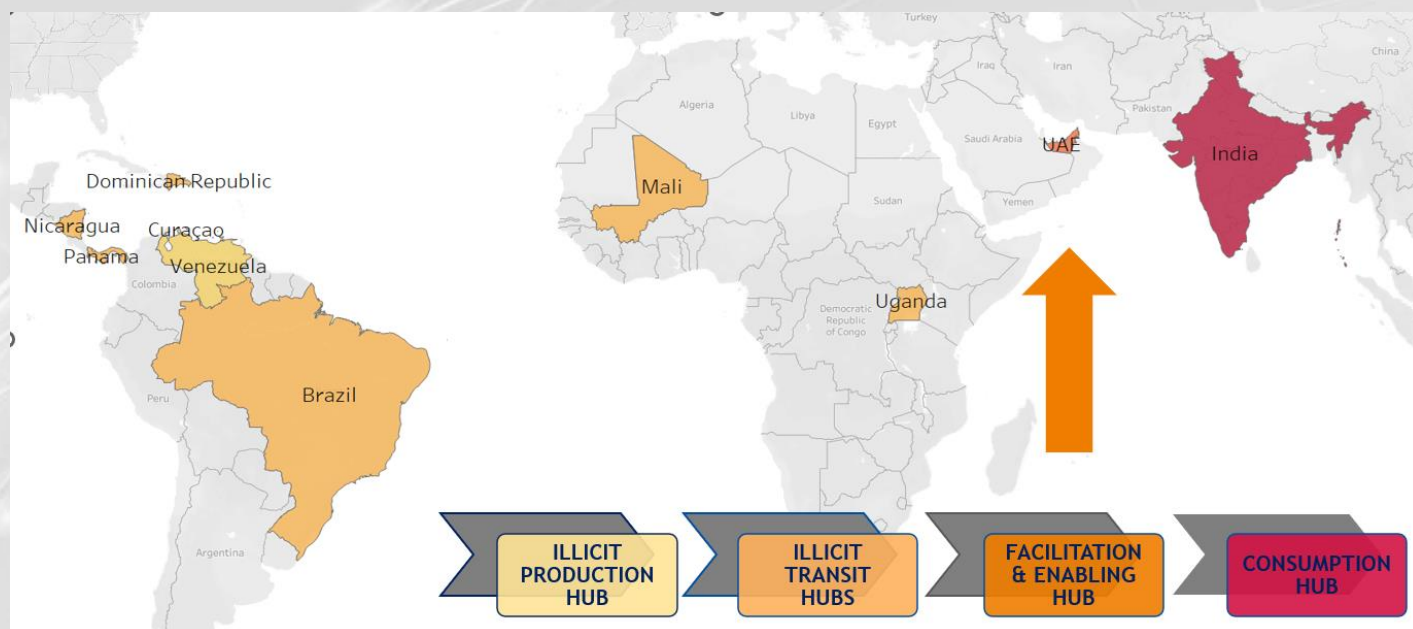
Source: World Gold Council (2022).²⁸

Adrian Antonio Perdomo Mata for “targeting the illicit gold operations that have continued to prop up the illegitimate regime of former President Nicolas Maduro.”²⁹ The White House Administration also warned businesses, traders, brokers, bankers, and other facilitators not to “deal in gold, oil, or other Venezuelan commodities being stolen from the Venezuelan people by the Maduro mafia.”³⁰

International gold flows from the Central Bank of Venezuela go primarily to the UAE. Thus, in 2018, of 73 tons of Venezuela’s gold transfers, around 49 tons (67%) were transported to Dubai.³¹ Its major recipient in Dubai was reportedly Goetz Gold LLC. Its owner Alain Goetz also owned the African Gold Refinery in Uganda, which received 7.4 tons of gold from Venezuela in 2019.³² In 2020, Goetz was convicted of money laundering through his gold business in Belgium. In 2022, the U.S. Treasury designated Goetz and the African Gold Refinery in Uganda for their involvement in the illicit movement of gold valued at hundreds of millions of dollars per year.³³ Apart from Uganda, Mali served as another transit country for Venezuela’s gold, reportedly transported to Dubai by Russian-owned airplanes.³⁴

Several Latin American and Caribbean countries, including Colombia, Brazil, Suriname, Guyana, Panama, the Dominican Republic, Aruba, and Curaçao, also serve as transit hubs for Venezuelan gold (Figure 2).³⁵ For example, around 90% of 160 tons of gold transported through Curaçao and Aruba between 2014 and 2018 was of Venezuelan origin.³⁶ In addition, some reports point to Nicaragua and other Central American countries as important transit points for gold from Venezuela before it appears in Dubai, which serves as a major facilitation hub for gold laundering.³⁷

Figure 2: Major transit points of Venezuelan gold on its way to Dubai’s market



Source: Author.

Apart from Venezuela’s military and political elite, Colombian militant groups are among the key actors participating and benefiting from illicit gold flows from this country.³⁸ These groups expanded their operation into Venezuela after the 2011 nationalization of the country’s mining industry and the opening of the Arco Minero Orinoco, a new mining area. Colombian armed groups who exploit Venezuela’s gold mining as their income stream include the National Liberation Army and the dissident groups of the former Revolutionary Armed Forces of Colombia (FARC). Gold smuggled by these groups from Venezuela often ends up in Dubai. For example, Dubai’s gold trader Kaloti Precious Metals (KPM)ⁱ has an extensive record of importing gold from such high-risk jurisdictions as Colombia.³⁹ Trade data from Panjiva show that U.S.-based Kaloti Metal and Logistics LLC imported US\$72 million worth of gold from Colombia between October 2015 and April 2018.⁴⁰ At the same time, Colombia’s legal mining production is significantly less than its gold export. To a large extent, this disparity is attributed to gold smuggling from Venezuela and other countries to Colombia, where it is laundered before being exported to Dubai and other gold hubs.

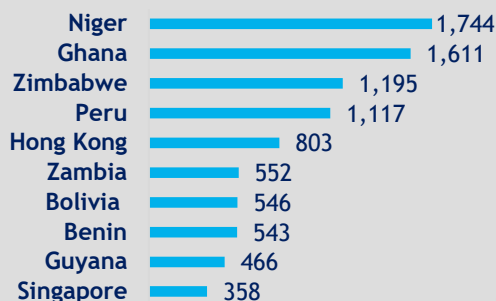
ⁱ The U.S. Treasury identified KPM as a money laundering threat, however, its three-year investigation did not result in legal action against this company.

2.2. Gold smuggling from conflict-ridden and fragile countries

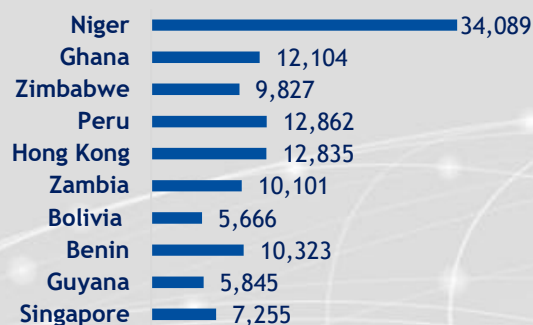
While there are no exact numbers on the total value of Dubai’s illicit gold trade, some estimates are based on an analysis of the UN Comtrade database. Comparisons of the UAE records of imported gold and the corresponding records of exported gold by its trade partners give a general idea about the amount of Dubai’s illicit gold (Figure 3).

Figure 3: The top countries with the largest value gaps in gold imported by the UAE, 2020ⁱⁱ

a. Trade value gaps (US\$, millions)



b. Net-weight gaps (kg)



Source: Author’s calculations based on UN Comtrade (n.d.).⁴¹

In 2020, Niger, Ghana, and Zimbabwe had the largest gaps between their gold exports to the UAE and the UAE import records (Figure 3). Similar trade disparities were observed in Latin American countries (Peru, Bolivia, and Colombia), Asian gold markets (Hong Kong and Singapore), and European gold hubs (Switzerland and Türkiye). Another issue was related to artificially inflated gold trade statistics through the so-called “gold round-tripping,” a common practice used for fraudulent purposes in India and other countries (Box 1). In 2022, India’s Directorate of Revenue Intelligence pointed out the large-scale round-tripping of gold jewelry by traders who wanted to increase their turnover to enhance their credit limits and financing from banks.⁴² A similar situation is observed with gems. For example, the Office of the Comptroller and Auditor General of India indicates that “the value of imports of pearls in India being much higher than the value of global production of pearls is indicative of trade mis-invoicing and round-tripping of funds which have been flagged as critical concerns in respect of gems and jewelry sector.”⁴³ Like gold, India imports pearls primarily from the UAE, whose role in global pearl production is negligible.⁴⁴

Box 1: Gold round-tripping

Round-tripping is one of the largest activities in the Dubai gold market. The World Gold Council defines round-tripping as “the act of exporting gold (in the form of jewelry, bars, or coins) with the sole purpose of melting it down before re-importing it back to the original exporting country.” In India, it is commonly used to get access to concessional finance and the replenishment of precious metals duty-free after selling it in international exhibitions. For example, most gold jewelry sent by Indian traders to Dubai in 2015-2016 was re-exported back after melting it down, so that the same gold could cross the Arabian Sea many times. Among other things, financial credits received from gold round-tripping were used to fund the construction boom in Mumbai, which resulted in inflated real estate prices.

In 2017, the Indian government banned the export of jewelry above 22 carats because 24-carat coins and medallions were important round-tripping tools. However, round-tripping is still widespread in gold exports. Dubai’s FTZs play a significant role in these activities. In 2019, it was estimated that 78% of the gold imported into India for export purposes in the form of gold jewelry was used for round-tripping, with 72% of the jewelry transiting through FTZs located primarily in Dubai and Sharjah.

Sources: World Gold Council (n.d.); Grynberg & Singogo (2021); Sangeetha (2019).⁴⁵

Because trade in minerals, including tin, tantalum, tungsten, and gold (3TG), is often linked to armed conflicts, it is subject to a number of regulations and due diligence standards. For example, the Organisation for Economic Co-operation and Development (OECD) issued its “Due Diligence Guidance for Responsible Supply Chains from Conflict-Affected and High-Risk Areas.”⁴⁶ In the United States, Section 1502 of the Dodd-Frank Wall Street Reform and Consumer Protection Act requires U.S.-listed companies to disclose whether they use 3TG and whether these minerals originate in the Democratic Republic of the Congo or neighboring countries. The Conflict-Free Gold Standard introduced by the World Gold Council provides a mechanism to ensure that gold has been extracted in a




ⁱⁱ The figure reflects only those countries that reported their gold trade in the UN. For example, in 2020, the UAE reported imports from 113 countries, while only 53 countries reported their gold exports to the UAE.

manner that does not cause, support, or benefit armed conflicts or contribute to serious human rights abuses.⁴⁷ The London Bullion Market Association (LBMA), the international trade association representing the global over-the-counter bullion market, maintains the Good Delivery Lists for accredited gold and silver refineries that meet its stringent acceptance criteria.

The creation of the Dubai Gold and Commodities Exchange (DGCX) led to increasing local gold refining.⁴⁸ Currently, the UAE has over 10 refineries,⁴⁹ yet, they are not certified by the LBMA. In 2005, the Dubai Multi Commodities Centre (DMCC) adopted the Dubai Good Delivery (DGD) Standard for bullion traded on the DGCX.⁵⁰ Although the DMCC requires gold dealers operating in Dubai to have a due diligence policy aligned with the OECD standards, there is little enforcement. As a result, a significant amount of gold imported by the UAE does not meet the international conflict-free gold standards.

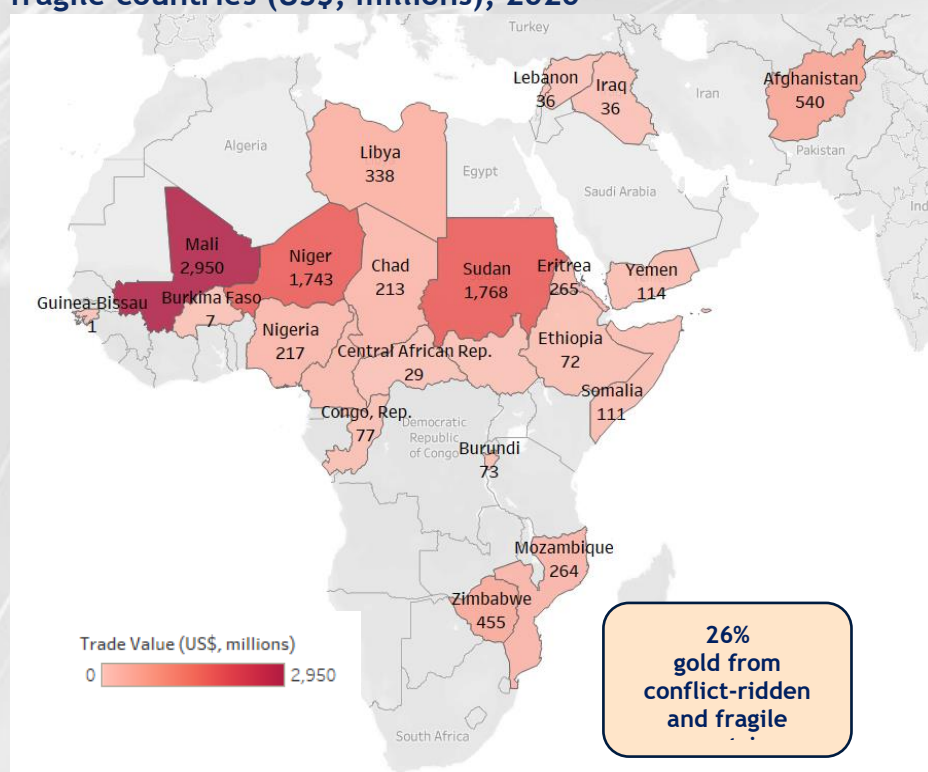
Gold smuggling from conflict-affected and fragile states to Dubai is an extremely profitable business for illicit actors. For example, in Mazowe, located 40 km outside the capital Harare in Zimbabwe, artisanal miners are selling gold to local buyers as cheap as US\$40 for 40 grams.⁵¹ Simple calculations show that illicit traders can receive significant profits for smuggling one kilogram of gold to Dubai (Table 4), even after paying bribes and making other informal payments to facilitators. At the same time, miners receive almost nothing, while their entire families, including children, must work long hours at the mine.

Table 4: Potential revenues generated by gold smuggling from Zimbabwe to Dubai, per one kilogram

| | AMOUNT | COSTS |
|---|------------|---|
|  | US\$1,000 | Costs of one kilogram of gold bought in Zimbabwe's mine |
|  | US\$330 | Air tickets from Robert Gabriel Mugabe International Airport (HRE) in Harare to Dubai International Airport (DXB) |
|  | US\$45,930 | Revenue from selling gold in a retail jewelry store in Dubai |

Source: Calculations based on Kayak metasearch engine (www.kayak.com) and Mint Jewels (<https://mintjewels.ae/>), accessed April 2, 2022.

Figure 4: The UAE gold import from conflict-affected and fragile countries (US\$, millions), 2020



Source: Author based on UN Comtrade (n.d.).⁵²

Based on the UN Comtrade data, the share of the UAE gold from conflict-affected and fragile states of its total gold trade value was estimated at 26% in 2020 (Figure 4). However, the actual number is much higher. A recent estimate of Dubai's gold originating from conflict-ridden states, including gold transported through their neighboring countries, reaches 46%.⁵³ The difference is explained by two reasons. First, the UN Comtrade database does not contain records from many conflict-affected and fragile countries. Second, it does not include gold that is laundered in third countries before arriving in the UAE and Dubai. In 2022, for example, the U.S. Treasury stated that "more than 90% of DRC [the Democratic Republic of the Congo] gold is smuggled to regional states, including Uganda and Rwanda, where it is then often refined and exported to

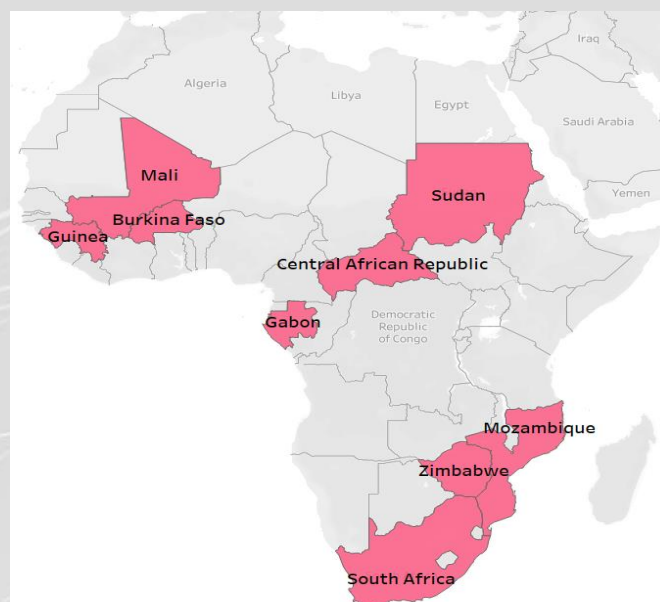
international markets, particularly the UAE."⁵⁴ Trade anomalies recorded in Uganda and Rwanda show that gold exports from these countries to the UAE significantly exceed their domestic production.

Conflict gold in Dubai and the UAE can be traced back primarily to countries in Sub-Saharan Africa and the Middle East and North Africa, including Somalia, Burkina Faso, Burundi, Cameroon, the Central African Republic, Chad, the

DRC, Ethiopia, Mali, Mozambique, Niger, Nigeria, and South Sudan. Fragile countries such as the Republic of the Congo, Eritrea, Guinea-Bissau, Sudan, and Zimbabwe are also characterized by high levels of institutional instability. Increased artisanal gold mining in conflict-affected and fragile states provides multiple opportunities for sanction evasion, money laundering, and terrorist financing. The specific properties of gold provide a high level of anonymity to trade transactions, which makes it extremely difficult to track its origin. In turn, this factor makes gold very attractive to both state and non-state actors involved in sanctions evasion, money laundering, and other criminal activities.

The key challenge in Sub-Saharan Africa’s gold mining is security, with many countries continuously facing the threat of extremism and terrorism. Several designated Russian actors have gold mining projects in Mali, Burkina Faso, Guinea, Sudan, the Central African Republic, and Mozambique, among other countries (Figure 5). In 2019, the Russian company Africa Gold signed an agreement on the exploration and production of gold in the Kingdom of Eswatini.⁵⁵ One of Russia’s largest investors in African mining projects is the Renova Group, which was designated by the U.S. Treasury in April 2018, together with its founder Viktor Vekselberg.⁵⁶ This company carries out the extraction of manganese ore and the exploration of uranium and gold in South Africa, Gabon, and Mozambique. Its total investment in Africa exceeds US\$1 billion.⁵⁷ Another large investor is Nordgold, a gold company founded by Russia’s steel tycoon Alexey Mordashov. In 2010, it acquired control over the Lefa mine in Guinea.⁵⁸ Three years later, Nordgold launched the new Bissa mine in Burkina Faso.⁵⁹ After Russia’s invasion of Ukraine in February 2022,

Figure 5: Designated Russian and Belarusian actors present in Sub-Saharan Africa’s mining



Source: Author.

Mordashov was sanctioned by the European Union and the United Kingdom.⁶⁰ Entities controlled or owned by Russia’s private military company Wagner Group were also involved in the mining industry in Sub-Saharan Africa, including Mali and other countries.






Mali is also an important transit hub for unrefined gold transported from Venezuela to Dubai and other gold markets.⁶¹ Mali applies export taxes to only the first 50 kilograms of gold exported per month, which makes it attractive to gold smugglers within and outside the region. A common way to smuggle gold to Dubai is by couriers transporting, on average, 10 kilograms per flight and up to 40 kilograms of gold per week.⁶² Flights between Bamako International Airport in Mali and Dubai International Airport are relatively inexpensive. In addition, the police and customs officers at Bamako International Airport were reported to accept bribes from smugglers.⁶³ Official reports on other conflict-affected countries, including South Sudan, the Central African Republic, Chad, and Libya, confirm that illicit gold trade often converges with the smuggling of vehicles, alcohol, drugs, counterfeit goods, and trafficking in arms and persons.⁶⁴

Although to a much lesser extent, designated actors from Belarus also benefit from African gold mining operations. In 2018, the Organized Crime and Corruption Reporting Project (OCCRP) revealed that Viktor Sheiman and his son Sergei Sheiman secretly owned an offshore company used for transactions with Zimbabwe’s state-owned mining company. Viktor Sheiman, a close ally of President Alexander Lukashenko, was sanctioned by the European Union and the United States over massive disappearances of Lukashenko’s critics.⁶⁵ In 2017, Viktor Sheiman traveled to Zimbabwe to expand bilateral economic cooperation and establish a joint mining venture, Zim Goldfields. The latter was 30% owned by Zimbabwe Mining Development Corporation, a state-owned mining company, and 70% owned by Midlands Goldfields Limited, a shell company linked to Sergei Sheiman and his partner Alexander Zingman,⁶⁶ who also owned another shell company Aftrade DMCC, based in Dubai.⁶⁷ Although Aftrade DMCC denied any connection to Zimbabwe’s gold operations, its official website states that it specializes in mining operations in the African market.⁶⁸

Illicit gold mining and trade have multiple negative impacts on the environment, society, governance, and the rule of law at the country and regional levels. Overall, it is estimated that over 80% of gold in conflict-affected and fragile states is produced illegally, mostly through artisanal and small-scale gold mining (ASGM).⁶⁹ Thus, UN experts estimate that over 95% of the gold sourced in the Central African Republic is illegally traded.⁷⁰ ASGM is associated with illegal mining, trafficking in persons, migrant smuggling, violence, and environmental destruction (Table 5). In

conflict-ridden and fragile countries, such as Venezuela, DRC, and Sudan, ASGM is used to support dictatorships, criminal and terrorist organizations, and armed groups conducting insurgencies.

Table 5: Major negative impacts of illicit gold trade

| CATEGORY | IMPACTS | EXAMPLES |
|---|--|--|
|  Budget revenues | Illicit gold trade robs governments of tax revenues, depriving citizens of significant resources. | Zimbabwe is losing about US\$1.8 billion of mineral revenues annually. |
|  Health impacts | Miners often have to work in harsh conditions and are exposed to toxic substances, such as mercury. At the same time, they have no or limited access to health care. | Mercury poisoning impacts the central nervous system, resulting in neurological conditions, e.g., tremors, coordination problems, vision impairment, headaches, memory loss, and concentration issues. |
|  Environmental impacts | Environmental impacts include clear-cutting forests, river dredging, and the use of toxic chemicals. | Over 2 thousand tons of mercury are released into the air, water, and land every year due to illicit gold mining. |
|  Forced and child labor | Illicit mining is linked to forced labor, with minors often subjected to harsh working conditions and physical abuse with no access to legal recourse. | From 10 to 15 million miners, including 4 to 5 million women and children, are involved in artisanal gold mines, often lacking decent working conditions. |
|  Corruption, crime, and violence | Illegal gold mining lines pockets of corrupt officials, smugglers, and facilitators. Armed groups and terrorists use the gold trade to finance their violent activities. Explosives and chemicals used in gold mines also serve military purposes. | There has been a sharp rise in violence from terrorist organizations in the Sahel region, including members of ISIL & Al-Qaida who benefit from illicit trades in that region. |

Sources: Human Rights Watch (2011); UNEP 2019; Chifamba (2020).⁷¹

In the ASGM case, it is relatively difficult to ensure its conflict-free origin, particularly if gold is smuggled in small quantities. In Dubai, for example, gold smuggled in personal luggage is often sold to local traders in the Gold Souk, a traditional market located in Dubai’s commercial business district in Deira, in the locality of Al Dhadaya. In 2018, UN experts investigating individuals and entities evading sanctions in South Sudan found that “At the Dubai Gold Souk, multiple traders ... did not enquire about the origin of the gold they purchased and were thus unable to determine whether they were trading in gold from South Sudan.”⁷² The only document required to sell gold at Dubai’s Gold Souk is a UAE customs form confirming that it was legally declared to customs officials upon arrival at an Emirati airport.⁷³ The gold bought by souk traders is then resold to DMCC buyers or UAE refineries, making it difficult to trace its actual origin.

“At the Dubai Gold Souk, multiple traders... did not enquire about the origin of the gold they purchased and were thus unable to determine whether they were trading in gold from South Sudan.”

2.3. The convergence of illicit gold trade with other types of smuggling

Over recent years, India remains one of the largest markets for smuggled gold. In particular, the southern state of Kerala often appears as a popular destination for Dubai’s gold. Historically, an important role of Kerala in the illicit gold trade can be traced back to the 1980s when migrant workers from this Indian state relied on the hawala system to send remittances back home. In an interview, a customs officer from Kerala explained the historic roots of gold smuggling in the following way:

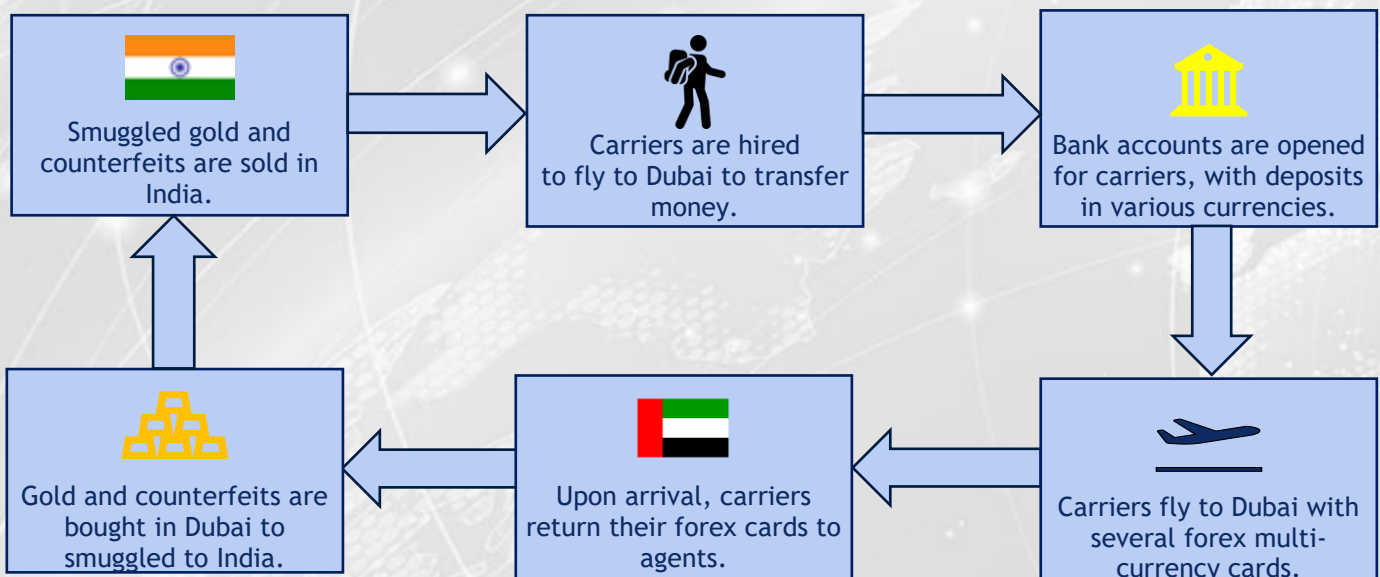
In the 1980s, Kerala witnessed the so-called “Gulf Boom,” when many Keralites migrated to the UAE and other Gulf Cooperation Council states. Although we do not know the exact number of Keralites living in Dubai, we estimate that there are over 700,000 expatriates in the Emirates. Nowadays, they have easy access to the banking system, but during the first migration wave, many of them were not able to use traditional banking. Instead, they had to rely on hawala to send money to their families. Originally, hawala used gold to transfer money between Kerala and Dubai. For example, gold smugglers received hawala money to buy gold and then brought it to Kerala’s local jewelers in exchange for money. Now, Kerala is facing a surge in gold smuggling by expatriates because of increased import taxes on gold.

In the 1990s, gold smuggling was insignificant as international and national prices were in the same range.⁷⁴ The current price differences are one of the key factors facilitating gold smuggling. To avoid customs duties, smugglers use various innovative methods. In Kerala, for example, gold was seized in the form of staple pins, TV capacitors, laptop batteries, and shoe soles.⁷⁵ It was hidden in capsules or electronic gadgets, converted into a paste, and wrapped in clothes and wigs, with some smugglers also using “dummy carriers” who intentionally turn themselves in to distract customs officers.⁷⁶ Due to high cigarette taxes, there has been an increase in the number of reported cases where gold was transported together with tobacco products from Dubai to Kerala’s airports. As an interviewed customs officer from Kerala explained such incidents as follows:

Many smugglers are using passengers as gold mules, often young women, to dodge customs duties. They also smuggle other goods, electronics, cigarettes, and perfumes. The Directorate of Revenue Intelligence allows Indian passengers who lived abroad for over one year to bring gold jewelry in personal luggage free of duty in the amount of 20 grams for men and 40 grams for women. However, gold in any other form than jewelry is not entitled to allowances. Indian citizens and persons of Indian origin who stay for more than six months abroad can pay customs duties at a discounted rate. In other cases, the customs duty rate is 38.5%. Yet, the gold weight should not exceed one kilogram per person. We often see the same people smuggling gold without paying duties because if we detain them, they just pay fines, and later return to their business. Due to the large numbers of flights and passengers from Dubai to Kerala, it is difficult to detect smugglers. Gold is also smuggled on vessels to Kerala’s ports, but after the Mumbai terror attack, it became quite risky due to stricter control.

Smugglers of gold and counterfeit goods constantly design new schemes to launder money. In an e-hawala scheme discovered by India’s police in 2018, smugglers used illegal currency transfers to support the illicit circulation of goods and money between Dubai and Mumbai. In this case, the police arrested one agent and 11 passengers flying to Dubai who carried cash and 55 multi-currency cards (five for each carrier) with deposits equivalent to around US\$1.2 million.⁷⁷ Investigators found that within one month, at least 54 carriers traveled to Dubai transferring funds equivalent to US\$5.9 million.⁷⁸ They were hired by a network of smugglers who provided them with passports and travel visas and opened bank accounts in their names with deposits in various currencies. Upon arrival in Dubai, carriers handed over their cards to agents who later used these funds to buy gold, electronics, and other goods to smuggle them back to India (Figure 6).

Figure 6: The circulation of money and goods in an e-hawala scheme



Source: Author.

The difference between this scheme and traditional hawala schemes is that the money received from gold sales is sent through the banking system, instead of a network of money brokers operating in different locations and transferring money by matching financial records without any physical money flows. E-hawala is also used for smuggling various counterfeit goods.

3. ILLICIT CIGARETTE TRADE AND TRAFFICKING

In 2020, the UAE exported cigarettes worth US\$3.9 billion to 126 countries,⁷⁹ making it one of the country’s biggest non-oil exports. Based on the UN Comtrade data, net exports of cigarettes from the UAE range from 100 billion to 150 billion sticks per year, yet, cigarette consumption in partnering countries indicates that a large proportion of these cigarettes are illicit. Like all high-duty commodities, cigarettes are particularly vulnerable to smuggling due to significant revenues generated by not paying taxes. According to expert estimates, the UAE might be responsible for up to 20-25% of the black cigarette market, meaning that it is one of the biggest contributors to the illicit cigarette trade in the world.⁸⁰

The UAE is one of the key provenance economies for smuggled tobacco products. As an Interpol report indicates,

“The presence of free trade zones, particularly the Jebel Ali Free Zone in Dubai, accounts for the ease of manufacturing illicit tobacco products and their dissemination into the region.”

“The presence of free trade zones, particularly the Jebel Ali Free Zone in Dubai, accounts for the ease of manufacturing illicit tobacco products and their dissemination into the region.”⁸¹ In 2016, for example, in the European Union alone, 1.3 billion illicit white cigarettesⁱⁱⁱ originated from Dubai’s largest FTZ – the Jebel Ali Free Zone (Jafza).⁸² Yet, significant numbers of illicit cigarettes are also exported from Jafza to non-European countries in Sub-Saharan Africa, the Middle East and North Africa, and the Indian subcontinent. In 2021, this zone was responsible for 23.8% of Dubai’s GDP.⁸³

It hosts over 20 factories manufacturing cigarettes and tobacco products. Many brands produced in these factories have been found in illicit markets outside the UAE (Table 6). Most of these cigarettes have no country-specific labeling and are either unspecified or duty-free. At the same time, according to interviews with subject matter experts, the latter are rarely sold through duty-free channels.

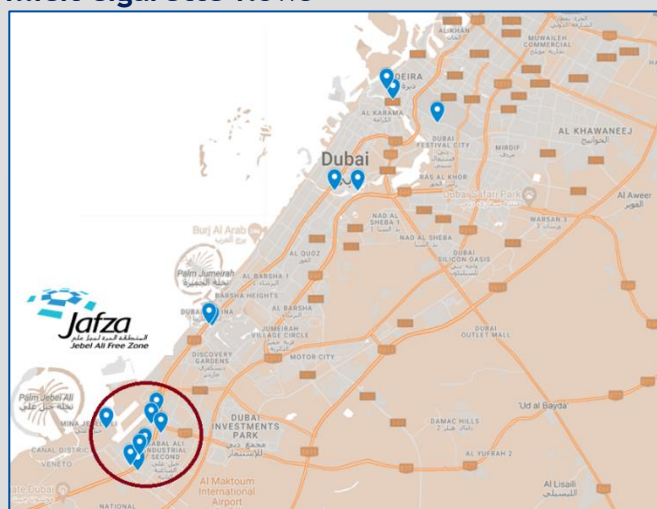
Table 6: Select tobacco companies in Dubai with illegal flows reported outside the UAE

| NAME | YEAR | LOCATION | BRANDS |
|--|------|--|------------------------------|
| BMJ INDUSTRIES FZ LLC | 2010 | Al Reem Tower, Riggat Al Buteen, with manufacturing facilities in Montenegro | <i>Mac, Oscar</i> |
| THE INDEPENDENT TOBACCO FZE | 2004 | Jebel Ali Free Zone, Dubai | <i>Business Royals</i> |
| GULBAHAR TOBACCO INTERNATIONAL FZE | 1996 | Jebel Ali Free Zone, Dubai, with production facilities in 3 other countries | <i>Milano, Cavallo, Mond</i> |
| AL WAHDANIA | 1982 | Ras Al Khaimah, with a registered address in Dubai | <i>Bon, 303</i> |
| JSS | NA | Exchange Tower Business Bay, Dubai | <i>Manchester</i> |
| KAANE AMERICAN INTERNATIONAL TOBACCO COMPANY FZE | 2002 | Jebel Ali Free Zone, Dubai | <i>Gold Mount</i> |
| AL MATUCO TOBACCO CO. FZE | 2005 | Dubai Airport Free Zone, Dubai | <i>M1, GMB</i> |
| ORCHID TOBACCO | 1987 | Jebel Ali Free Zone, Dubai; Karachi Free Zone, Pakistan | <i>Royal Orchid</i> |
| UNION CIGARETTES | NA | Jebel Ali Free Zone, Dubai | <i>Affair</i> |
| AL FURAT FZE | 2011 | Jebel Ali Free Zone, Dubai | <i>Elegance</i> |
| GLOBAL TOBACCO FZCO | 2001 | Jebel Ali Free Zone, Dubai | <i>Richman</i> |
| ASSPREN | 2014 | Jumeirah Lakes Tower, Dubai | <i>Asspren</i> |
| FIVE STAR INTERNATIONAL FZE | 1993 | Jebel Ali Free Zone, Dubai | <i>Smart, Rolon</i> |
| ORIENTAL GENERAL TRADING INC. | 1998 | Jebel Ali Free Zone, Dubai | <i>Oris, D&J</i> |

Sources: Author based on available studies and interviews with subject matter experts.

ⁱⁱⁱ Illicit whites are cigarettes that are produced legally, but with the intention of being smuggled to other regions or countries.

Figure 7: Locations of companies with illicit cigarette flows



Source: Author.

Most tobacco companies in Dubai with illegal flows reported outside the UAE are located in Jafza (Figure 7). Jafza is connected with Jebel Ali Port and is well interconnected with Al Maktoum International Airport. Huge volumes of containers at Jebel Ali Port, the ease of FTZ repackaging and relabeling, combined with the lack of oversight, make Jafza particularly convenient for smuggling. The zone’s “in-transit” system allows for temporary tax suspension for cigarettes shipped to third countries, however, their large numbers are diverted along the way. To disguise their illicit origin, cigarettes are often resold multiple times through several buyers. Dubai’s strategic location also makes it attractive to global tobacco manufacturers. For example, the world’s largest tobacco company – China National Tobacco Corporation (known as China Tobacco or CNTC) has long been focusing on the expansion of its overseas

operations, distribution offices, and factories in strategically important locations, including Dubai and Jafza, in particular (Table 7).

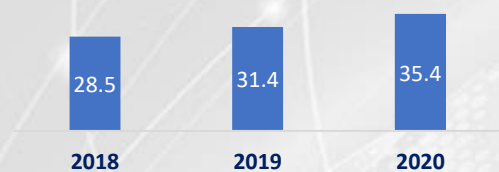
Connected with facilities in Singapore, Panama, Hong Kong, and other strategic markets, Dubai-based operations by Chinese actors represent an important component of the global illicit cigarette supply chain.⁸⁵ Their overseas manufacturing facilities produce brands of the Chinese parent company or licensed brands of other companies.

Table 7: Chinese tobacco operations in Dubai

| NAME | YEAR | LOCATION |
|--------------------------------|------|------------------|
| Dubai Rui Shi Da Ltd. | 1997 | Dubai |
| Universal Tobacco | 2012 | Dubai |
| Shandong Tobacco ME Trading Co | 2012 | Jebel Ali, Dubai |

Source: Fang (2017).⁸⁴

Figure 8: Acetate tow imported by the UAE, 2018-2020, kilotons



Source: UN Comtrade database(n.d.).⁸⁶

The UN Comtrade data on acetate tow imported by the UAE from the United States, the European Union, and Japan to manufacture filters suggest that the country’s illicit cigarette production has recently been on the rise.⁸⁷ The UAE’s trade records show that its import of acetate tow increased from 28.5 kilotons in 2018 to 35.4 kilotons in 2020 (Figure 8). At the same time, this increase was not fully reflected in the UAE’s official cigarette exports,⁸⁸ meaning that a significant share of these cigarettes entered illicit circulation, including within the UAE itself (Box 2).

Box 2: Internal smuggling from Dubai’s FTZs within the UAE

To avoid paying excise taxes, smugglers often use round-tripping from FTZs located in Dubai, claiming that cigarettes are exported to other countries, when in fact, they reenter the UAE and are sold on the domestic market. In the UAE, the import duty on cigarettes is 100% of the cost, insurance, and freight (CIF) value, plus a minimum duty of AED 200 (about US\$54.5) per 1,000 cigarettes. In 2016, the Gulf Cooperation Council Countries agreed to implement a harmonized excise tax at the rate of 100% on all tobacco products. In 2017, following Saudi Arabia, the UAE introduced a 100% excise tax on tobacco products. Cigarettes also face a value-added tax of 5%. Since 2019, the UAE’s Federal Tax Authority requires all cigarettes produced or imported into the UAE have a Digital Tax Stamp with end-to-end traceability. The red stamp is placed on tobacco products sold at all local markets, as well as at duty-free stores in arrival lounges. The green stamp has been earmarked for tobacco products sold at duty-free stores in departure lounges. Such measures, however, do not stop internal smuggling within the UAE. Overall, cigarette volumes sold through duty-free channels are substantially lower than declared, with their significant share being diverted and sold illegally.

Sources: FTA (2021); WTO (2022); interviews with subject matter experts.⁸⁹

Apart from illicit manufacturing, transshipments of tobacco products from an importing means of transport to an exporting means of transport represent a particular problem in FTZs.⁹⁰ There is evidence that Dubai plays a critical role as a transshipment hub for illicit cigarettes from Southeast Asian countries, including North and South Korea (Box 3), Indonesia, Malaysia, and other provenance economies.

Box 3: South and North Korean cigarette smuggling through Dubai

The trafficking of illicit cigarettes from North Korea allows this country to evade sanctions and provides an income source to support its totalitarian dictatorship. Between 2014 and 2017, port authorities in Manila and Malta confiscated North Korean shipments concealing millions of fake Marlboro cigarettes. Based on their packaging, these cigarettes were destined for the Middle Eastern market. One of the shipments seized in Manila was transported to the Jebel Ali Free Zone in Dubai, to be subsequently transshipped to Syria. Another shipment discovered in Malta was addressed to a Libyan businessman.

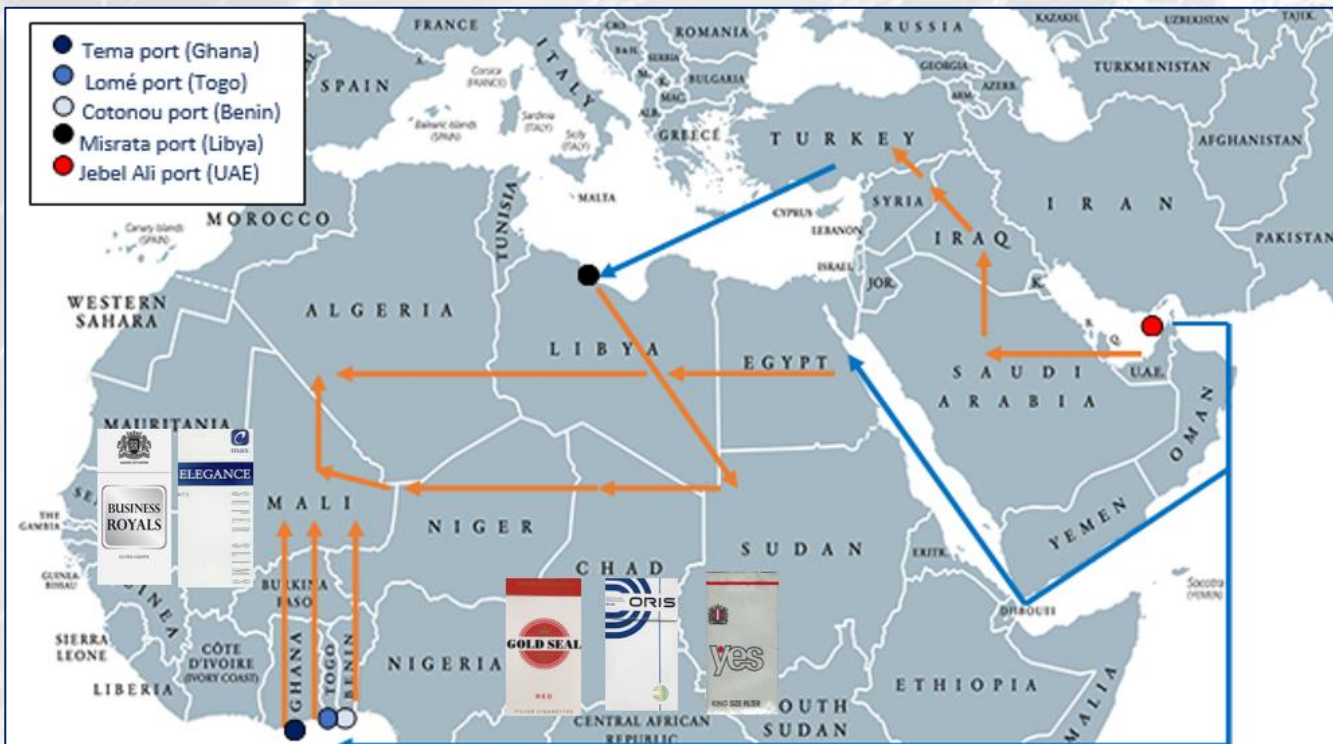
South Korea’s cigarettes are also trafficked through Dubai. For example, South Korean and UAE brands are extremely popular in Iran. The Iranian tobacco market is controlled by a state-owned monopoly called the Iranian Tobacco Company, yet a significant share of foreign cigarettes in this market are manufactured in or transshipped through Dubai. A growing number of Iranian suppliers source Korean cigarettes through Dubai-based distributors. One of the most popular South Korean brands is *Esse*, produced by the Korea Tobacco & Ginseng Corporation. This brand dominates South Korea’s domestic market and is heavily marketed in Dubai.

Sources: Aziani & Dugato (2019); Batmanghelidj (2014).⁹¹

3.1. The Maghreb route

The UAE is a key provenance country for illicit cigarettes transiting across the so-called “Maghreb route,” which connects countries in the Middle East and Northwestern Africa with the regional and European illicit markets. In 2016, reportedly, 7.4 billion illicit cigarettes (57%) in the Maghreb region originated from trademark owners based in FTZs located in the UAE.⁹² The Maghreb route is also popular among smugglers of hashish, humans, and arms. Along this route, UAE cigarettes flow in several directions. One of these directions goes to Algeria – a critical outflow market destined for European countries, including France, Italy, and Spain.⁹³ Apart from its production of illicit cigarettes, Algeria serves as a transit country for cigarettes produced in the UAE and Dubai, in particular. The number of paths used to traffic illicit cigarettes from the UAE to Algeria is estimated at over one hundred.⁹⁴ Some of these paths can be quite complicated, including the use of different modes of transportation and cross-border transfers (Figure 9).

Figure 9: Select paths of illicit cigarette smuggling from Dubai to Algeria



Source: Author based on UN Security Council (2020) & Aziani & Dugato (2019).⁹⁵

One of the shortest paths goes from Jebel Ali Port in Dubai to Egypt, from where cigarettes are transferred to Algeria through Libya.⁹⁶ One of the longest paths includes transfers of cigarettes from Dubai to Algeria through nine countries: Saudi Arabia, Iraq, Syria, Türkiye, Libya, Sudan, Chad, Niger, and Mali.⁹⁷ The path through West Africa is infamous for migrant smuggling via Libya to the Mediterranean coast. This path, known as the “Central route,” connects northern Niger with the town of Murzuq, south of Sebha, where migrants are kept before their transportation to Europe.⁹⁸ Migrant smuggling along this route also converges with cigarette trafficking. Recent UN Security Council reports on Mali drew attention to the irregular transit and re-export of several brands of cigarettes through Benin, Burkina Faso, Ghana, Niger, and Togo and their illicit introduction into northern Mali,⁹⁹ and then to Algeria and Libya.

Illicit whites are trafficked through West African countries in violation of their transit and re-export regulations requiring the labeling of cigarette packs in accordance with the declared destination country. As a 2021 UN Security Council report on Mali indicates, “Legally manufactured brands, mostly exported from the United Arab Emirates, continue to flood the region, with importers first declaring them upon transit, to be re-exported afterwards.”¹⁰⁰ According to the UN Comtrade database, the UAE did not export any cigarettes to Mali in 2019. Yet, in 2019, inspectors in Cotonou Port in Benin found 28 shipping containers with illicit whites brands *ORIS* and *Gold Seal* produced by Oriental Tobacco Company (the Jebel Ali Free Zone), *Yes* produced by Vision Tobacco (Fujairah Free Zone 3), and *Business Royals* produced by Independent Tobacco (the Jebel Ali Free Zone).¹⁰¹ These brands were transiting Benin in violation of its transit and re-export regulations on their way down the chain through Burkina Faso and Niger to Mali.^{iv} The same brands were reportedly trafficked through Mali in previous years. For example, in 2018, inspectors detected 245 containers of *ORIS*, *Gold Seal*, *Yes*, and *Business Royals* cigarettes entering illicit circulation in the wider Sahel region via Cotonou, Lomé, and Tema Ports.¹⁰² According to the 2018 estimates, the illicit cigarette trade via these ports represented a turnover of about US\$107 million and a loss of budget revenue in the amount of approximately US\$39 million to national governments in this region.¹⁰³

“Legally manufactured brands, mostly exported from the United Arab Emirates, continue to flood the [West African] region.”

In 2020, a UN investigation in Mali found a new illicit white brand, *Elegance*, produced by Al Furat Tobacco FZE located in the Jebel Ali Free Zone.¹⁰⁴ Similarly to other UAE brands, *Elegance* cigarettes were meant for re-exporting upon arrival and did not have any country-specific labeling. In 2020, 400 boxes of this brand were illicitly transported from Jebel Ali Port to Gao (a town in eastern Mali) via Tema Port in Ghana and the city of Niamey (the capital of Niger).¹⁰⁵ According to Al Furat Tobacco’s bill of lading, *Elegance* cigarettes were shipped to Mondial Tobacco Company in Niger, which was not authorized to import cigarettes to this country.¹⁰⁶

Illicit cigarette smuggling from Dubai fuels conflicts in partnering and neighboring countries, representing a critical income source for various armed groups and terrorist organizations. Based on the UN Comtrade database, in 2020, the top five countries with the largest exports of UAE-produced cigarettes were Iraq, Somalia, Afghanistan, Syria, and Libya. In that year, the UAE exported almost 45.7 billion cigarettes to these five countries.¹⁰⁷ At the same time, domestic consumption in some of these countries is much lower than their declared imports (Table 8).¹⁰⁸

Table 8: UAE cigarette exports to the top five countries, 2020 or the latest year available






| COUNTRY | POPULATION (15+ YR), MILLIONS | PREVALENCE OF TOBACCO USE (% OF ADULTS) | AVERAGE NUMBER OF CIGARETTES PER SMOKER (15+ YR) | CIGARETTE CONSUMPTION (INDUSTRY ESTIMATE), BILLIONS | CIGARETTES EXPORTED BY UAE (NET), BILLIONS |
|-------------|-------------------------------|---|--|---|--|
| Somalia | 8.6 | 24.0 | NA | 1.4 | 12.5 |
| Syria | 12.1 | 23.8 | 1,275 | 15.0 | 10.4 |
| Libya | 5.0 | 25.1 | 1,764 | 7.8 | 10.3 |
| Iraq | 25.1 | 18.5 | 1,244 | 35.0 | 7.1 |
| Afghanistan | 22.5 | 23.3 | NA | 30.0 | 5.3 |

Sources: UN Comtrade (n.d.); WHO (n.d.); Tobacco Atlas (n.d.); World Bank (n.d.); interviews with subject matter experts.¹⁰⁹

^{iv} The trafficking of illicit cigarettes goes also in the opposite direction. The Maghreb route interconnects and overlaps with the Eastern European and the Balkan routes. For example, UN investigators reported the trafficking of *American Legend* cigarettes produced by Karelia Tobacco Company from Greece to Mali. The same trading company Petacynic, based in Burkina Faso, was involved in illegal transactions related to inserting *American Legend* and UAE brands in Mali.

The risk of using proceeds of illicit cigarette trade to finance armed groups and conflict states in the wider Sahel region remains high.¹¹⁰ One of the beneficiaries of cigarette smuggling in this region is Al-Qaeda in the Islamic Maghreb (AQIM), considered the Al-Qaeda wealthiest branch. Its former Algerian military commander Mokhtar Belmokhtar (dubbed the “Marlboro Man”) was designated by the U.S. Treasury and the United Nations in 2003 for his role in cigarette smuggling across the Sahel region. There is evidence that terrorist organizations involved in cigarette smuggling in this region are also connected with organized crime groups operating in the Mediterranean Sea, including mafia groups in Malta and Italy. Apart from terrorist financing, the illicit trade in cigarettes has negative impacts on governments, society, the rule of law, criminality, and violence in the Sahel and other regions (Table 9).

Table 9: Major negative impacts of illicit cigarette trade

| CATEGORY | IMPACTS | EXAMPLES |
|---|--|---|
|  Budget revenues | The illicit cigarette trade robs governments of tax revenues, depriving citizens of significant resources. | The World Health Organization estimates that the global illicit cigarette trade results in a US\$40.5 billion tax revenue loss per year. |
|  Health impacts | Illicit cigarette trade lowers prices, encouraging consumption and undermining tobacco control policies. Cheap cigarettes also facilitate the spread of smoking among very young people. | Cheaply produced illicit cigarettes are not subject to quality control and regulations, and, therefore, contain all types of contaminants, including dirt, rat droppings, lead, cadmium, and other harmful substances. |
|  Undermining legitimate businesses | The trade in illicit cigarettes deprives legitimate companies in the industry of significant financial revenues that instead enrich criminal actors, armed groups, and terrorist organizations. | Dumping due to cheap illicit cigarettes flooding the UAE seriously hits legitimate businesses that often cannot survive under this unfair competition. |
|  Forced labor | Illicit cigarette production is often associated with forced labor. Migrant workers are often subjected to harsh working conditions and physical abuse. | Some indicators that migrant workers are trafficked into forced labor include debt bondage, passport confiscation, delayed or nonpayment of wages, and fraud. |
|  Corruption, crime, and violence | Proceeds of the illicit trade in cigarettes fuel conflicts at the country and regional levels. There is evidence that smugglers of arms and weapons often use the same routes and means of transportation. Terrorist organizations and insurgent groups are among the key actors benefitting from cigarette smuggling along the Maghreb route. | In 2020, the Saudi Navy interdicted vessels with large shipments of small arms and light weapons destined for Somalia’s militia groups and Houthis insurgents in Yemen. Arms were transported together with cigarettes loaded in Dubai, including <i>Esse</i> manufactured by the Korea Tobacco & Ginseng Corporation and other brands. |

Sources: WHO (2021); UN Security Council Report (2021).¹¹¹

Conflict-affected and fragile states with weak governance structures, such as Libya, for example, are particularly vulnerable to the negative impacts of illicit cigarette trade. Before the Arab Spring uprisings, Libya was one of the key markets and transit points for illicit cigarettes along the Maghreb route. After the fall of the Gaddafi regime, the volumes of the illicit trade in cigarettes and other commodities have been on the rise due to the country’s instability, increased poverty, and widespread violence.¹¹² To a certain extent, this negative trend can be attributed to the loss of state control over the illicit economy and its transfer to competing groups of criminal actors, armed groups, and terrorist organizations.

3.2. The Eastern-European route

Over recent years, cigarettes produced by UAE-based manufacturers, including Gulbahar Tobacco International, BMJ Industries, Orchid Tobacco, and J.S.S. Tobacco Ltd., have become more popular among Russian smokers primarily due to their low prices. A 2018 journalistic investigation in Saint Petersburg found at least ten sales points with *Cavallo* and *Milano* cigarettes produced by Gulbahar Tobacco International in *Apraksyn Dvor*, the city’s major small-scale tobacco trade market.¹¹³ According to traders, *Cavallo* and *Milano* cigarettes were illicitly transported to Russia through Azerbaijan without customs clearance.¹¹⁴ Smugglers of UAE-manufactured cigarettes also established supply channels through Central Asian countries, with large consignments reportedly entering Russia as transit cargo and diverting to local markets.¹¹⁵ In 2018, customs agencies seized 594 million UAE-manufactured cigarettes smuggled to Russia through Kazakhstan.¹¹⁶

In 2018, a pack of UAE cigarettes sold in *Apraksyn Dvor* cost less than US\$1.¹¹⁷ It was significantly lower than the average price of legally produced domestic cigarettes, and it was cheaper than the average price of cigarettes produced in the neighboring Belarus, one of the main suppliers of illegal cigarettes in the Russian market. Moreover, according to the Accounts Chamber of the Russian Federation, the average excise tax on cigarettes at the beginning of 2018 was at the level of US\$1.5 per pack.¹¹⁸ As cigarettes cannot cost less than taxes on them, it is indicative of excise tax evasion.^v

According to *Kantar TNS Russia*, an independent international consulting agency, between 2016 and 2021, the share of illegal tobacco products in Russia increased from 1.1% to 10.7%.¹¹⁹ A key reason behind this negative trend is a significant gap in excise tax rates in Russia and the neighboring countries of the Eurasian Economic Union (Belarus, Armenia, Kazakhstan, and Kyrgyzstan). Other reasons include weak law enforcement, ineffective anti-illicit trade measures, relatively small fines for smuggling, and corruption. Although Belarus keeps its leading position in the illicit cigarette market, the UAE supply of contraband cigarettes has been growing at a rapid pace, with its share reaching 6% in 2018.¹²⁰ Dumping due to cheap UAE-manufactured cigarettes seriously hit Russian cigarette manufacturers, many of whom responded by increasing their illicit production. As a result, in 2018, the Russian budget lost about US\$1 billion due to excise tax evasion.¹²¹

The city of Rostov-on-Don, infamous as a hub for illicit trade in southern Russia, was reported as a large distribution center for Gulbahar cigarettes.¹²² Originally founded in Afghanistan by Wahid Habibi, Gulbahar Tobacco International moved to the Jebel Ali Trade Zone in Dubai in 1995 due to the worsening security situation in the country.¹²³ The manufacturing facilities of Gulbahar Tobacco International are also located in three other countries. In 2019, it set up a new manufacturing company, Gulbahar Rus LLC, in Rostov City in northwestern Russia.¹²⁴

Milano and *Cavallo* cigarettes produced by Gulbahar are sold on various Russian online marketplaces.¹²⁵ Some of the online channels used by traders contain blogs promoting black market deals. For example, a blog post featuring *Cavallo Clip & Go* cigarettes dated February 21, 2021, clearly stated that these cigarettes were contraband since their packaging lacked duty-free labels, mandatory warnings, manufacturer's address, and other required information.¹²⁶ Anonymous groups engaged in small-scale illicit cigarette trade also actively use social messaging services, such as Telegram channels, and social media platforms, including VKontakte (a Russian version of Facebook). In 2020, the number of such small-scale illicit cigarette marketplaces was estimated at 600.¹²⁷ Their common feature is constantly changing administrators, which makes it difficult to identify the real owners of such groups.

A similar situation is observed in Ukraine where various UAE cigarette brands are sold illegally on online marketplaces and local sales points. For example, a 2018 journalistic investigation found illicit *M1*, *Mond* and *Milano*, and other UAE brands on Ukraine's black market.¹²⁸ These cigarettes were sold at very low prices – up to US\$0.3 per pack.¹²⁹ Some of these brands were linked to the Lugansk Tobacco Factory which was opened in 2018. Cigarettes produced in Lugansk were also seized in large quantities in Ukraine's neighboring countries.¹³⁰ The location of the Lugansk Tobacco Factory in a nongovernment-controlled area protects its owners against any potential legal action initiated by the actual trademark owners. The lack of oversight of manufacturing facilities in such zones is similar to FTZs where insufficient monitoring fosters abuse, as evidenced by Montenegro's tobacco factory case (Box 4).

Box 4: The involvement of Montenegro's FTZ factory in the illicit cigarette trade

In 2016, UAE-based BMJ Industries bought Montenegro's state-owned tobacco factory Duvanski Kombinat Podgorica (DKP) and opened a new production facility at this site located within a free economic zone approved by the Montenegrin government. While DKP remained open during the transition period, its BMJ-appointed director set up an illegal operation with the goal to produce 3.9 million packs of *Napoli Red*, *Napoli Blue*, and *Mac* cigarettes and sell them in domestic and international markets. In 2018, Isat Boljevic pleaded guilty to smuggling offenses and was jailed for nine months.

One of the illicit cigarette shipments from Montenegro was directed to Spain. In June 2017, a cargo ship named the *Med Patron* (owned by Paul Attard, a Maltese citizen) sailed from Montenegro's main port of Bar with illicit cigarettes on board. On June 24th, the *Med Patron* met with two other ships, the *Eisvogel* (a tug chartered by the same Maltese man) and the *Falkvaag* (a small cargo carrier owned by Alfa Maritime Shipping of Zuwara, Libya) about 10 nautical miles east of Malta. After a ship-to-ship transfer of 6,000 master cases with more than three million cigarette packs from the *Med Patron* to the *Falkvaag*, the *Eisvogel* towed them to Spain, where Spanish authorities seized the illicit cargo.

Sources: *Prebreza et al. (2019); Anesi et al. (2018).*¹³¹

^v Apart from pure contraband, some companies use semi-legal schemes where they pay excise taxes on some containers and evade taxes on others, which allows them to provide a certain share of legal products and keep their prices low at the same time.

3.3. The Indian route

India is the fourth largest illicit cigarette market globally.¹³² A 2020 report by India’s Directorate of Revenue Intelligence (DRI) shows that large quantities of cigarettes are smuggled from Dubai to India via sea routes in containerized cargo with mis-declared items and with FTZ clearance, while smaller quantities are smuggled from Dubai International Airport to local airports by passenger carriers.¹³³ The UAE serves as both a provenance country and a transit point for illicit cigarettes, mainly of Southeast Asian origin. For example, in a recent case, Indian officers seized two huge consignments of Southeast Asian cigarettes shipped through Dubai to Jawahar Lal Nehru Port in Navi Mumbai.¹³⁴

Since the UAE also serves as a hub for various counterfeit and pirated goods (Annex 2), illicit cigarettes are often smuggled with other commodities. In 2021, for example, Indian customs officers at Indira Gandhi International Airport seized illicit cigarettes together with counterfeit electronics smuggled by Nepalese nationals flying from Dubai.¹³⁵ In another case, Indian customs officers at Kempegowda International Airport in Bangalore detained several gang members from Dubai smuggling 26,800 cigarettes together with counterfeit perfumes and soap bars.¹³⁶ Two other gang members were caught with 166 grams of gold and 12,000 cigarettes.¹³⁷

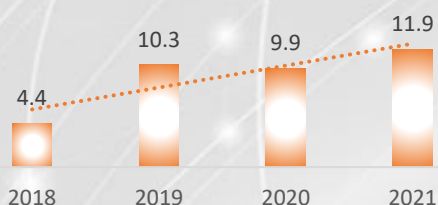
Compared to gold, cigarette smuggling entails a larger profit margin, ranging between 150% and 180%.¹³⁹ The duty-free allowance for travelers to India is 100 cigarettes (Table 10). The duty rate on tobacco products above this allowance is 30% in addition to a social welfare surcharge of 3%.¹⁴⁰ Imported cigarettes must also have a proper warning as prescribed by the Cigarettes and Tobacco Products Packaging and Labelling Rules, issued by India’s Ministry of Health and Family Welfare. Huge passenger traffic in India’s airports, coupled with relatively small fines in the case of detection, provide strong incentives for cigarette smugglers.

Table 10: Indian customs duty-free allowance: Tobacco products

| ITEMS | MAXIMUM ALLOWANCE |
|------------|-------------------|
| Cigarettes | 100 cigarettes |
| Cigars | 25 cigars |
| Tobacco | 125 grams |

Source: NRI (2022).¹³⁸

Figure 10: Cigarette seizures in India per fiscal year, US\$ millions



Source: DRI (2021).¹⁴¹

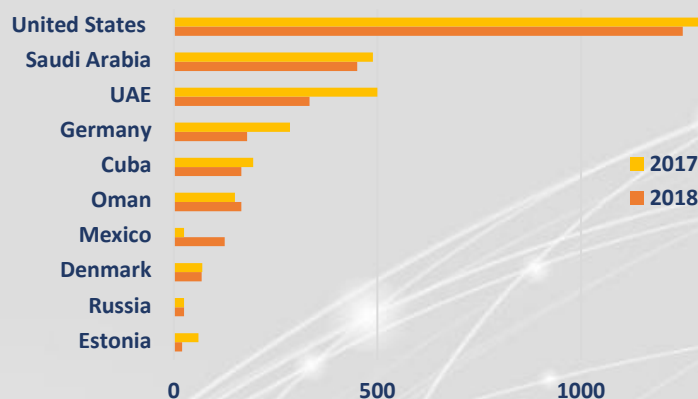
of the country’s cigarette market.¹⁴³ Over recent years, Dubai remains a major provenance and transit point for cigarette-concealed consignments shipped to India.

During the COVID-19 pandemic, cigarettes were among the top smuggled products to India, with the vast majority (65%) originating from the UAE.¹⁴² Due to restrictions on air travel during the pandemic, criminal groups increasingly use containerized sea cargo and trucks for cigarette smuggling to India. In the fiscal year 2021, the DRI confiscated contraband cigarettes worth US\$11.9 million, which constituted an increase of over 20% compared to the previous fiscal year (Figure 10). According to the Tobacco Institute of India, the trade in illicit cigarettes (including domestically manufactured and contraband tax-evaded cigarettes) accounts for one-third

4. ARMS TRAFFICKING IN VIOLATION OF SANCTIONS AND EMBARGOES

The UAE and Dubai, in particular, play an important role in the illicit trade in arms in violation of international sanctions and embargoes. The UAE is one of the largest arms importers in the world. In 2021, the World Customs Organization ranked the UAE third in the world on the number of illicit weapons and ammunition seizures.¹⁴⁴ A similar trend was observed previously, with the UAE being among the top countries with the largest numbers of seized weapons and ammunition between 2017 and 2018 (Figure 11).

Figure 11: The top countries by the number of arms seizures, 2017-2018



Source: WCO (2019).¹⁴⁵

In terms of products, the UAE reported seizures of all types of arms: parts of weapons, ammunition, pistols and revolvers, magazines, aiming devices, shotguns, rifles and assault rifles, slash-and-stab-weapons, and air, gas and stun weapons.¹⁴⁶ In terms of destination countries, a significant part of UAE's weapons and ammunition are destined for conflict-affected states, primarily Libya and Syria. The UAE also supplies arms to South Sudan and Saudi-backed militias in Yemen in contravention of the United Nations sanctions.¹⁴⁷

4.1. The Libyan route

In 2011, the UN imposed an arms embargo on Libya, which prohibited it from exporting arms and related materials. A 2021 UN Security Council report found that the arms embargo remains totally ineffective, with “extensive, blatant [violations] and with complete disregard for the sanctions measures” by UN member states supporting Libya’s rival sides – the Government of National Accord (GNA) Affiliated Forces and the Haftar Affiliated Force, also known as the Libyan National Army (LNA).¹⁴⁸

“The arms embargo remains totally ineffective... the violations are extensive, blatant and with complete disregard for the sanctions measures.”

The control of the entire supply chain by the UAE and other countries involved in arms transfers to Libya makes it difficult to detect and disrupt such activities. Another factor that complicates the detection and disruption of such operations is a lack of transparency in beneficial ownership and financial transactions by

designated entities and individuals. As a result, the implementation of the assets freeze and travel ban measures also remains ineffective.¹⁴⁹

Between October 2019 and November 2020 alone, the UN Security Council documented at least 54 arms transfers (either for the GNA Affiliated Forces or the Haftar Affiliated Force) committed by the UAE, Egypt, Türkiye, Russia, Jordan, and Syria.¹⁵⁰ Within this period, the UAE was responsible for at least eight documented arms transfers to Libya (Figure 12). Furthermore, between December 2019 and July 2020, the UN Security Council documented at least 65 suspicious flights by military aircraft from the UAE to Libya.¹⁵¹ The documented cases also included several commercial operators involved in illicit arms transfers from the UAE to Libya.

Figure 12: Arms embargo violations in Libya, October 2019-November 2020

a. For the GNA-affiliated forces



b. For the Haftar-affiliated forces



Source: Author based on data from UN Security Council (2021).¹⁵²

The UAE has long been providing support to the Haftar Affiliated Force, including deliveries of military equipment produced domestically. For example, according to the UN Security Council, in 2014, Libya’s Interior Ministry purchased firearms and ammunition from Caracal International LLC, a UAE-based arms manufacturer.¹⁵³ A contract on behalf of Libya’s Interior Ministry was signed by Temax Corporation, a broker company registered in the United States, with the end-user certificate mentioning 15,000 Caracal F pistols and 5 million rounds of 9mm ammunition.¹⁵⁴ A Dubai-based company, Aramex Emirates LLC, served as a carrier for this transaction.

In 2017, the UN Security Council documented the delivery of UAE vehicles to the Haftar Affiliated Force, including 549 armored and non-armored vehicles, 75 Panther T6 armored personnel carriers (APCs) produced by Minerva Special Purpose Vehicles LLC (based in Dubai), and 18 Tygra models APCs, produced by Mezcal Armored Vehicles (also based in Dubai).¹⁵⁵ Contracts for these transactions were brokered by Ard el Theqa General Trading, a Dubai-based company that designated Libya’s Ministry of the Interior as the end user.¹⁵⁶ In 2019, the UN Security Council documented 16 incidents of the illicit supply of armored vehicles to Libya, with at least nine of them produced in the UAE.¹⁵⁷ Some of them were designed and manufactured by Inkas Vehicles LLC located in Dubai Investments Park 2 (Box 5).

Box 5: Transfers of UAE-made Inkas Titan-DS armored personnel carriers



Image credit: Boone (2020, February 4).¹⁵⁸

In 2020, UN investigators found new APCs in the possession of the Haftar-Affiliated Force. These vehicles were identical to APCs designed and manufactured by Inkas Vehicles LLC located in Dubai Investment Park 2 (www.inkas.ae). According to one photograph, which appeared on Twitter on February 4, 2021, the Tariq Bin Ziyad Combat Group, a tactical unit of the Haftar Affiliated Force, was operating at least three UAE-made Inkas Titan-DS armored vehicles. Inkas^R Armoured Vehicles of Canada, the owner of the Inkas registered name, stated these vehicles were counterfeit products manufactured in the UAE without their authorization.

Sources: Abdul (2021, April 17); UN Security Council (2021).¹⁵⁹

Some manufacturers of APCs transferred to Libya are located in Dubai’s special zones (Table 11).

Dubai Industrial City is a FTZ within Dubai Wholesale City, one of the largest industrial hubs in the UAE. It was established to facilitate the industrial sector growth and expansion, including the light and medium manufacturing sectors with specific emphasis on base metals, transport equipment and parts, machinery and mechanical equipment, chemicals, and mineral products. Among its benefits offered to companies are 100% foreign ownership, 100% repatriation of capital and profits, no personal income taxes, no corporate taxes, and duty-free imports of machinery, equipment, and raw materials for production.¹⁶¹ Dubai Investments Park is a business park area that includes commercial, industrial,

Table 11: Select Dubai-based manufacturers of armored personnel carriers found in Libya

| NAME | YEAR | LOCATION | APC TYPES |
|--------------------------------------|------|------------------------|----------------|
| Minerva Special Purpose Vehicles LLC | 2013 | Dubai Industrial City | Panther T6 |
| Mezcal Armored Vehicles | 2012 | Dubai Investments Park | Tygra models |
| Inkas Vehicles LLC | 2012 | Dubai Investments Park | Inkas Titan-DS |

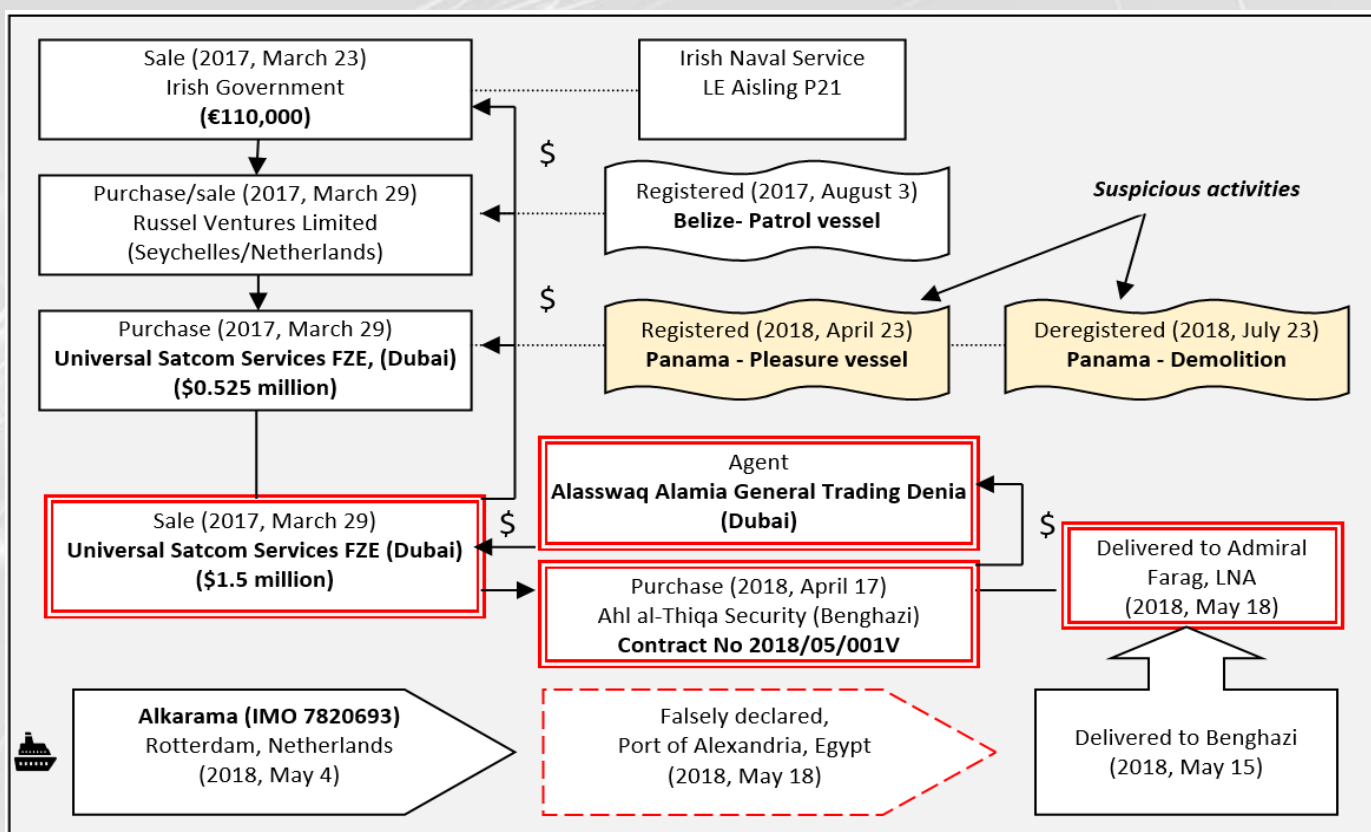
Source: Author based on UN Security Council (2021) and official websites of the companies.¹⁶⁰

and residential development. It offers benefits similar to FTZs. For example, there is no personal or corporate income taxation in Dubai Investments Park. It also offers some of the lowest import-export tariffs in the region. Both Dubai Industrial City and Dubai Investments Park are located near Al Maktoum Airport and Jebel Ali Port and give easy and convenient access to global air, sea, and road transportation points.

The UAE’s support for the Haftar Affiliated Force also includes re-exporting arms from other countries. In 2017, the UAE reportedly transferred to Libya Mi-24p attack helicopters originating from Belarus and at least one AT-802i aircraft for counter-insurgency and border protection produced by Iomax USA Inc, a U.S.-based company.¹⁶² In 2018, UN investigators also reported an attempted re-transfer of Mi-24v rotary-wing aircraft sold by the Czech state-owned company LOM PRAHA s.p. to the UAE.¹⁶³ Prior to this, there were also other reports of the UAE re-exporting firearms and ammunition produced in other countries to Libya. Some of these transactions were carried out by North Africa Shipping, a company that was founded in 1995 in Dubai to secure container shipments to Libya.¹⁶⁴

Schemes used for arms transfers to Libya are inherently complex and involve multiple interactions with public and private sector entities. To disguise the illicit nature of such transfers, these schemes rely on complex business structures with multiple shell companies and various levels of ownership and management. An illustrative example is the transfer of the naval vessel Alkarama (IMO 7820693) from the UAE to Libya in 2018. This transfer involved several trade transactions and Dubai-based intermediaries (Figure 13).

Figure 13: The supply chain for the offshore patrol vessel Alkarama



Source: Adapted from UN Security Council (2019).¹⁶⁵

Dubai-based intermediary companies helped keep the Alkarama vessel supply chain nontransparent. Strategies to disguise the transfer included: (i) changing the shipping register at each stage of the supply chain; (ii) modifying the use declaration to disguise the vessel’s true purpose; (iii) making a false declaration of demolition to Panama, the final flag registry of the vessel; and (iv) diverting en route from the declared port of destination of Alexandria in Egypt to Benghazi in Libya.¹⁶⁶

In 2020, UN investigators reported an increasing number of suspicious flights from the UAE to airfields in western Egypt and eastern Libya, which were identified as the planned “airbridge” components of the arms supply chain from the UAE to the Haftar Affiliated Force.^{vi} Some of the red flags related to these suspicious flights included: (i) incomplete air waybills without any customs valuation; (ii) inaccuracies between air waybills and cargo manifests;

^{vi} Term “airbridge” is referred to the route and means of delivering primarily military materials from one place to another along a supply chain by airlift.

(iii) the identification of the UAE Armed Forces as the consignee; (iv) lack of visible signals from the aircraft ADS-B transponders on open-source ADS-B monitoring shortly after entering airspace in provenance or destination points; (v) an increase in unscheduled flights on previously unused routes; and (vi) the use of joint military air bases known to be armed forces logistics hubs.¹⁶⁷ Arms embargo violations have multiple negative effects on Libyans (Box 6).

Box 6: Negative impacts of arms embargo violations on Libyans

The 2011 Arab Spring uprisings instigated Libya’s civil war that continues to date. This war, fueled by arms transfers led to mass displacement of Libyans. As of 2021, there were around 200,000 internally displaced Libyans. Civilians in residential areas are affected by the use of heavy weapons, violations of human rights, executions, unlawful killings, abductions, and gender-based violence. Between July 2020 and June 2021 alone, the number of civilian casualties was estimated at 986 people. The current situation in Libya is defined as a humanitarian crisis due to a lack of clean water, sanitation, food, and health care in many areas. The continued fighting and worsening economic situation left many Libyans below the poverty line.

According to the World Health Organization, more than 1.3 million Libyans do not have access to life-saving healthcare services. Many hospitals, clinics, and schools are closed or severely damaged. In 2016, 558 schools across Libya were nonfunctional. Due to political instability, the country is also facing a refugee crisis. The lack of government oversight facilitates human trafficking. After Qaddafi’s fall, Libya has become the key exit for refugees and migrants trying to get to Europe. Many of them face abuse, arbitrary detention, gender-based violence, and killings by Islamic extremists and militias.



Sources: WHO (2020); UNHCR (n.d.); Saleh (2021); Amnesty International (2017).¹⁶⁸

Apart from UN arms embargo violations, Libya’s authorities continued their efforts to illegally export crude oil and import aviation fuel. A matter of serious concern is the use of ship-to-ship transfers by foreign-flagged vessels in international waters.¹⁶⁹ According to UN investigators, the impact of the COVID-19 pandemic on global demand brought illicit exports of refined petroleum products by sea to a temporary halt.¹⁷⁰ However, the smuggling of fuel overland remained almost intact, and the infrastructure capability of the smuggling networks from Zuwarah and Abu Kammash coastal towns in western Libya remains strong.¹⁷¹

4.2. The Iranian route

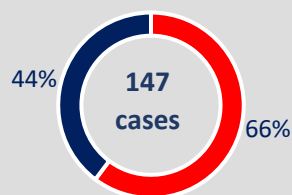
Over recent years, Dubai has been a major destination for capital flight from Iran, with a large proportion ending up in the city’s real estate market.¹⁷² This trend was particularly obvious after the 2006 adoption of the Iran Sanctions Act by the United States. In 2009, the total value of Iranian investments in Dubai was estimated at US\$300 billion (about a quarter of Iran’s total foreign investments).¹⁷³ While sanctions restricted Iran’s direct access to international markets, Dubai has become its major channel to the global economy. As the Iranian economist Saeed Laylaz noted, “Dubai is the most important city on earth to the Islamic Republic of Iran, with the exception of Tehran.”¹⁷⁴

“Dubai is the most important city on earth to the Islamic Republic of Iran, with the exception of Tehran.”

Calculations based on a database of major U.S. export enforcement and embargo criminal prosecutions between January 2007 and November 2019¹⁷⁵ provide evidence that most of Iran’s embargo violations were facilitated by individuals or front companies based in the UAE and Dubai, in particular (Figure 14a).

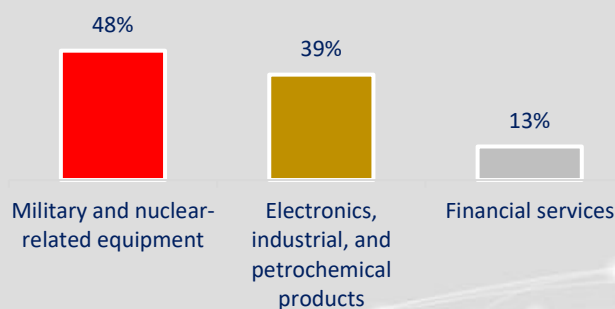
Figure 14: Major U.S. criminal cases related to Iran’s embargo violations, 2007-2019

a. Iran’s embargo violation cases through Dubai and the UAE (% of all major cases)



■ Cases involving Dubai, the UAE ■ Other countries

b. Types of products in Iran’s embargo violations via Dubai and the UAE (% of all major UAE cases)



Source: Author based on major U.S. export enforcement and embargo-related criminal prosecutions by the U.S. Department of Justice between 2007 and 2019.

Most embargo violations are transfers of military equipment to Iran (Figure 14b), including, for example, U.S. fighter jet engines and components, improvised explosive device (IED) components, Uzi submachine guns, military aircraft and helicopter components, missile components, Tube-Launched, Optically Tracked, Wireless-Guided (TOW) missiles, military-sensitive parts, and sensitive U.S. technology, among other items (Annex 1). Another category of commodities smuggled to Iran is nuclear-related equipment, such as vacuum pumps with nuclear potential and nonproliferation materials (ibid.). Among industrial commodities smuggled to Iran are lab equipment and computers, industrial supplies for petrochemical companies, aluminum tubes, oilfield service equipment, high-tech electronic components, petrochemical parts, and manufacturing equipment. One of the most prominent examples of the use of Dubai-based intermediaries for procuring technology and equipment for Iran is Royal Pearl General Trading (Box 7).

Box 7: Dubai-based intermediaries used for smuggling and sanctions evasion

In 2016, the U.S. Treasury designated Kambiz Mahmoud Rostamian, an Iranian citizen, for providing “financial, material, technological, or other support” to two Iranian conglomerates involved in the country’s ballistic missile program. As the CEO of MKS International, Rostamian was procuring technology and hardware for Iran. To disguise these activities, MKS International set up several front companies. Rostamian served as the CEO of at least one of these companies based in Dubai – Royal Pearl General Trading. In addition, he and his associate owned several properties in Dubai worth more than US\$2 million.

In 2018, the U.S. Treasury accused Royal Pearl General Trading of laundering US\$396,589 to a U.S. company, to procure specialized pieces of equipment used by large-scale petroleum operations. The investigation found multiple indications that in this and other cases, Royal Pearl General Trading was operating on behalf of MKS International. For example, the registration information on one of its websites indicated that its address was “4th Floor, N014 Tehran, Tehran, IR 19937, Dubai, AE 1116.” It is easily noticeable that the address was falsified. The pleadings also stated that an MKS International subsidiary in Iran was selling items similar to those that Royal Pearl General Trading attempted to illegally procure with the forfeited funds. In Iran, the Royal Pearl network was collaborating with the Aerospace Industries Organization and the Shahid Bakeri Industries Group, owned by the Iranian military designated by the U.S. Treasury.

Sources: OCCRP (n.d.); U.S. Department of Justice (2018).¹⁷⁶

Dubai-based companies were also involved in the sale of Iranian oil in violation of international sanctions. In 2020, for example, the U.S. Treasury designated Atlas Ship Management Company registered in the Burj Khalifa in Dubai for its role in the illicit trade in Iranian oil on behalf of the National Iranian Tanker Company (NITC).¹⁷⁷ Another example is Mobin International Limited, a UAE-based company designated by the U.S. Treasury for arranging a multimillion-dollar fuel shipment to Venezuela. Established in 2010, Mobin served as a front company for supporting oil deals on behalf of Iran’s Islamic Revolutionary Guard Corps-Qods Force, a designated terrorist organization.¹⁷⁸ Through Mobin, Iran’s oil trader Madanipour chartered multiple vessels to transport tens of thousands of tons of fuel to Venezuela.¹⁷⁹ Iran’s support for terrorist organizations and insurgent groups in the region threatens global and regional security (Box 8).

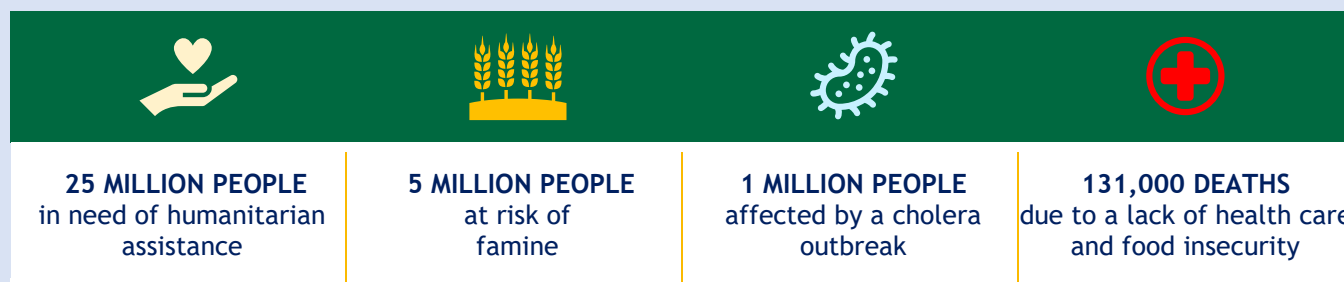
Box 8: Illicit arms transfers from Iran to Yemen to support Houthi insurgents

Since 2015, multiple shipments of weapons from Iran to Houthi rebels have been intercepted by a Saudi naval blockade. In 2021, the United States Navy seized 1,400 AK-47 assault rifles and 226,600 rounds of ammunition from an Iranian vessel sailing along the route historically used to traffic weapons to Yemen. Previously, the United States seized dozens of anti-tank guided missiles, thousands of assault rifles, and hundreds of machine guns and rocket-propelled grenade launchers from similar vessels. The arms supply from Iran is prolonging the war in Yemen, enabling Houthi offensives and increasing the suffering of civilians. The United Nations estimates that since 2015, food insecurity and lack of access to health services resulted in 131,000 deaths in Yemen. About 25 million Yemenis remain in need of humanitarian assistance, 5 million are at risk of famine, and 1 million people are affected by a cholera outbreak.

The Musandam peninsula, which is a part of the Sultanate of Oman, surrounded by the UAE, provides a short run to Iran across the Strait of Hormuz. It plays an important role in the smuggling of arms, cigarettes, and other goods from Iran to Houthi insurgents. Musandam's smugglers are also important actors in the supply chain of consumer goods, drugs, and counterfeit items from warehouses in the UAE to Iran. According to a subject matter expert:

The amount of products moved through Musandam is probably small compared to the amount coming through FTZs in the UAE. However, being closely connected to the UAE, Musandam represents a land trade route, which is a kind of extension of Dubai's Jebel Ali Port. The construction of Chabar (an India-funded port in Iran) and Gadar (a China-funded port in Pakistan) will present significant competition to Dubai...The financial threat of these new ports could force Dubai further down the path of ignoring their illicit goods and money laundering problems in favor of maintaining their revenue streams.

Musandam's smugglers have close connections with the Islamic Revolutionary Guard Corps. The influx of weapons and illicit goods going through Musandam indicates Oman's "blindspot" in the very northeastern part of the Arabian Peninsula.



Sources: Global Conflict Tracker (2022); U.S. Department of State (2021); interviews with subject matter experts.¹⁸⁰

4.3. The Syrian route

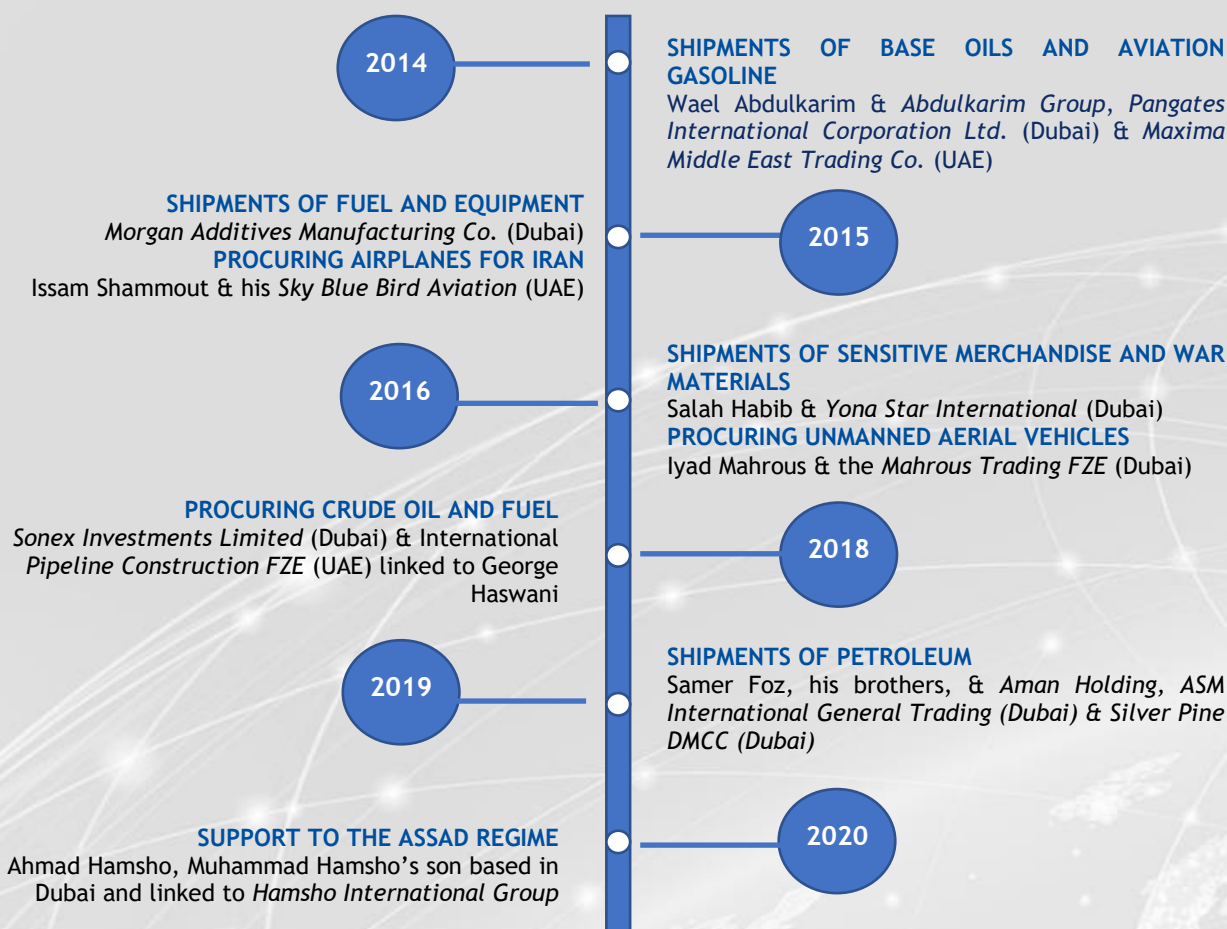
In 1979, the United States designated Syria as a state sponsor of terrorism. Since the start of the Syrian civil war in 2011, the European Union, the United States, Canada, Australia, Switzerland, and the Arab League imposed an extended list of economic sanctions on the Bashar al-Assad regime. However, the imposed sanctions failed to stop the atrocities and human rights violations in Syria.¹⁸¹ To a large extent, this failure can be attributed to widespread illicit practices of sanctions evasion through companies and businessmen affiliated with the Assad regime. For Syrian businessmen, the UAE serves as a key hub for sanctions evasion. Many Syrian oligarchs, including Samer Foz, Rami Makhoulf, Wael Abdulkarim, and Ahmad Barqawi, set up their front companies in Dubai. Their operations in Dubai and other secret jurisdictions facilitate illicit trade in arms, fuel, and ammunition and provide financial support to militias in Syria.¹⁸² Over recent years, the U.S. Treasury has designated many Syrian businessmen who used Dubai-based companies for sanctions evasion (Figure 15). The rest of this section documents these cases.

In December 2014, the U.S. Treasury revealed a network of companies, businessmen, vessels, and government institutions providing oil, gas shipments, and technological support for the Assad regime.¹⁸³ This network operated in Syria, the UAE, Türkiye, Switzerland, the Netherlands, and other countries. It centered around Abdulkarim Group, founded by Jamal Abdulkarim, a Palestinian-Syrian national with a U.S. and Saint Kitts passports.¹⁸⁴ In 2014, the U.S. Treasury designated his son Wael Abdulkarim for arranging shipments of base oil and aviation gasoline to Syria.¹⁸⁵ Wael Abdulkarim was identified as the owner of Pangates International Corporation Ltd., a Dubai-based company that supplied the Syrian government with 1,000 metric tons of "avgas" (fuel for military aircraft).¹⁸⁶ The Pangates general manager, Ahmad Barqawi, a Syrian businessman based in Dubai, was designated by the U.S. Treasury in 2014. The network included another Dubai-based company, Maxima Middle East Trading Co., designated for transferring base oil from a Russian company to government-controlled refineries in Syria.^{vii} Abdulkarim Group was also linked to another UAE-based company – Morgan Additives Manufacturing Co. registered in the Jebel Ali Free Zone in Dubai and the Seychelles.¹⁸⁷ To disguise the illicit trade in fuel and military

^{vii} The Seychelles links of Maxima Middle East Trading Co. were leaked in the Panama Papers.

equipment, the company used falsified contracts and fake shipping documents, changed final destination points, and made vessels disappear from the radar.¹⁸⁸

Figure 15: Major designations of Syrian businessmen and their Dubai- and UAE-based companies



Source: Author based on the U.S. Treasury designations between 2014 and 2020.

In May 2015, the U.S. Treasury revealed another procurement network for the Assad regime that included Syria's private airline company Cham Wings Airlines and Iran's private airline company Mahan Air linked to the Islamic Revolutionary Guard Corps-Qods Force and Lebanese Hizballah. The Cham Wings Chairman, Issam Shammout, and his UAE-based company Sky Blue Bird Aviation (registered in the Ras Al Khaimah Trade Zone) assisted Mahan Air in purchasing airplanes for Iran.¹⁸⁹ Cham Wings also assisted the Syrian Military Intelligence (SMI) in moving weapons and equipment.¹⁹⁰ Cham Wings' *Damascus-to-Dubai flight* was one of the key routes for SMI money laundering.¹⁹¹ This company was also involved in transporting militants from the UAE to Libya and drug smuggling in the opposite direction used to finance Libya's military operations with Emirati support.¹⁹² Cham Holding was linked to Mohammad Murtada al-Dandashi, a Dubai-based Syrian businessman who owned AWE Holding in the Dubai Global Financial Center, and to another Assad's "fixer" Sulaiman Maarouf, an investor in Dubai's property. The latter was designated by the European Union in 2012 for procuring sniper rifles from South Africa to Syria, yet, in 2014, his name was removed from the sanctions list due to lack of evidence.¹⁹³

In July 2016, the U.S. Treasury designated another Dubai-based company – Yona Star International that acted as a shipping agent for the Syrian Air Force.¹⁹⁴ Its owner and CEO Salah Habib played a key role in the network of Dubai-based intermediaries and logistics companies. In the United States, he was sanctioned for shipping sensitive merchandise and war materials to Syria.¹⁹⁵ In 2016, the U.S. Treasury designated yet another Dubai-based company – Mahrous Trading FZE affiliated with Mahrous Group. Their owner Iyad Mahrous served as a procurement agent for war materials and unmanned aerial vehicles to the Syrian Scientific Studies and Research Center (SSRC) responsible for developing non-conventional weapons and missiles. As indicated by the U.S. Treasury, Mahrous processed the necessary customs paperwork for shipments, while Mahrous Trading FZE made payments to the SSRC suppliers.¹⁹⁶

In December 2016, the U.S. Treasury sanctioned several individuals and companies linked to Rami Makhlouf, a Syrian businessman and President Assad's cousin.¹⁹⁷ Makhlouf himself was sanctioned by the U.S. Treasury back in

2008 for improperly benefiting from corruption in Syria.¹⁹⁸ He and his family owned the country's largest telecommunications company Syriatel and controlled multiple entities in Syria's oil and gas industries, banking, construction, and duty-free shops. In Syria, Makhoulf established the Al-Bustan Association, whose members were supplying the regime with money and weapons through offshore companies in Dubai, Panama, and other jurisdictions.¹⁹⁹ In 2020, Makhoulf fell out of Assad's favor, and his family fled to Dubai. In response to the embezzlement cases opened against him in Syria, Makhoulf admitted using shell companies in Dubai to dodge sanctions for the Assad regime.²⁰⁰

In September 2018, the U.S. Treasury revealed another large-scale fuel procurement network with entities operating in Syria, the UAE, and Lebanon to secure deliveries of crude oil, fuel, and liquefied natural gas for the Assad regime.²⁰¹ Among others, this network included two UAE-based companies – Sonex Investments Limited (located in Dubai) and International Pipeline Construction FZE (located in Fujairah). Between 2016 and 2017, Sonex Investments acted as a front company to pay for shipments of crude oil and petroleum products to Syria, representing a buyer, consignee, or charterer for these shipments. In May 2017, it consigned a shipment of over 90,000 metric tons of fuel oil, followed by another shipment of over 43,000 metric tons of crude oil in November 2017.²⁰² Similarly, International Pipeline Construction FZE served as a facilitator of payments originating in Syria. It was linked to Hesco Engineering owned by George Haswani, one of the middlemen for dealings between Syria's government and ISIL.²⁰³

In June 2019, the U.S. Treasury designated Samer Foz, a Syrian businessman close to the Assad regime, and his brothers Amer and Husen Foz.²⁰⁴ Samer Foz's Aman Holding served as an umbrella for over a dozen different ventures, including ASM International Trading based in Dubai. Although most of the company's overt trade was in foodstuff commodities, it also operated in the oil and natural gas industries. Several entities linked to the Foz family, including Dubai-based Silver Pine DMCC, were designated by the U.S. Treasury for facilitating shipments of Iranian petroleum to Syria.²⁰⁵ In the Panama Papers, all three brothers were linked to an offshore company registered in the British Islands – Alaman for Jets Limited.²⁰⁶ Researchers from the Center for Advanced Defense Studies found that this company owned a Dassault Falcon 2000 (M-SFOZ), whose transit activities in Lebanon, Italy, the United Kingdom, and Syria occurred even after its designation.²⁰⁷

In June 2020, the U.S. Treasury designated Amr Hamsho and his brother Ahmad Saber Hamsho, currently based in Dubai.²⁰⁸ Their father Muhammad Hamsho, Syria's steel and construction materials tycoon, was designated in 2011.²⁰⁹ He is one of the prominent businessmen providing logistical support to Assad through companies registered in Dubai and other offshore jurisdictions. Muhammad Hamsho also served as a key money launderer to Assad's brother Mahir al-Asad, a commander of the Fourth Armored Division, who reportedly oversaw the production and distribution of Captagon and other drugs, reinforcing Syria's status as a narco-state on the Mediterranean Sea.²¹⁰ Illicit trade fuels the Syrian civil war, which is one of the deadliest ongoing conflicts in the world (Box 9).

Box 9: Negative impacts of arms embargo violations on Syrians

The Syrian civil war is one of the deadliest ongoing conflicts, with more than half a million people reported being killed. A steady supply of weapons fuels this conflict and poses severe risks to both national and regional security. The war has a devastating impact on civilians, with 13.4 million people in need of humanitarian assistance. The war is also responsible for the refugee crisis, with an estimated 6.8 million refugees and asylum seekers and 6.7 million internally displaced Syrians (more than half of Syria's population). Illicit networks operating in the region are benefiting from the availability of weapons in Syria. The diversion of arms to illicit markets strengthens the arsenals of armed groups, criminal networks, and terrorist organizations. For example, ISIL fighters acquired advanced weaponry from Syria's opposition groups and the Iraqi Security Forces. The Syria case demonstrates that the supply of conventional weapons is difficult to control, and the continued availability of weapons delays and disrupts post-conflict reconstruction efforts in the long term. It is extremely difficult to trace weapons transfers, with the related risks growing exponentially in unstable environments with ongoing violence.



Sources: Dick (2019); UNHCR (n.d.).²¹¹

5. KEY ILLICIT TRADE ACTORS

Key beneficiaries of illicit trades in Dubai include political elites and affiliated businessmen from various countries, corrupt officials, customs officers, and diplomats, organized crime groups, and private security companies involved in arms trafficking, gold smuggling, and related operations. Members of terrorist organizations and armed groups also benefit from illicit trades. In terms of supportive networks, illicit actors rely on a wide range of legally registered entities, including free zone manufacturers, suppliers, distributors, transport, postal, logistics, financial, and accounting companies. This section provides examples demonstrating the role of these actors in making Dubai a vibrant illicit trade hub.

5.1. Political elites and affiliated businessmen

The Government of Dubai and the ruling family exercise considerable influence over the economy. FTZs are under the patronage of the Government and the ruler of Dubai Sheikh Mohammed bin Rashid Al Maktoum. Dubai's safeguards against official corruption are weak, and senior officials from the ruling families are protected against public scrutiny.²¹² The Pandora Papers database of secret records obtained by the International Consortium of Investigative Journalists (ICIJ) reveals that Sheikh Mohammed and other Emirati royals have significant offshore holdings.²¹³

Many prominent politically exposed persons have large real estate holdings in Dubai. For example, in 2018, Zimbabwe's police were investigating a case linked to the country's former first lady Grace Mugabe who was suspected of heading a syndicate smuggling huge amounts of ivory, gold, and diamonds to Malaysia and the UAE.²¹⁴ In Dubai, she was linked to a mansion worth US\$9 million.²¹⁵ Political elites and affiliated businessmen from many fragile and conflict-affected countries, including Libya, Iran, Syria, Venezuela, Russia, and Belarus, are also reported to have large real estate holdings in Dubai.

5.2. Terrorist organizations and armed groups

Illicit trade through Dubai benefits a wide range of terrorist organizations, armed groups, and militias. In 2021, for example, the U.S. Treasury designated the Islamic Revolutionary Guard Corps and Hizballah financial facilitators, Meghdad Amini and Ali Qasir, who headed a network of nearly 20 individuals and front companies located in Dubai and other jurisdictions used for "the movement and sale of tens of millions of dollars' worth of gold, electronics, and foreign currency."²¹⁶ Colombian militant groups (the National Liberation Army and the dissident groups of the former FARC) were also documented to be involved in gold smuggling from Venezuela to Dubai and elsewhere.²¹⁷ Similarly, ISIL reportedly profited from illicit trade involving Dubai-based intermediaries (Box 10).

Box 10: Illicit trade involving Dubai-based intermediaries and their links to ISIL

A 2020 UN Security Council report stated that an Iraqi national Haji Wahab Tabra and his Jordanian business partner Hameed Al-Najjar were conducting financial transactions on behalf of ISIL in Iraq and other countries. The UAE has long served as a base for Tabra's illicit tobacco trade. According to an OCCRP investigation, in 2001, Tabra set up a trading company in Dubai dealing with a large network of UAE and Iraqi suppliers, manufacturers, and traders. Nizar Hanna Nasri, an Iraqi-Assyrian trader (known as the "father" of Iraq's cigarette smugglers) became Tabra's business partner.

Tabra notoriously used illegal practices to manufacture counterfeit cigarettes known as "legal fakes." This scheme includes two steps: applying for a trademark registration in small offshore jurisdictions without notifying the actual trademark owners, and then using this registration (or even the application itself) in other jurisdictions to manufacture "legal fakes." Tabra allegedly set up a front company in the British Virgin Islands to apply for the Iraqi trademarks owned by the Iranian Tobacco Company. In 2008, the Iranian Tobacco Company tried to negotiate with European Tobacco (a Lebanon-based company used as a front for Tabra and Nasri's counterfeit operations), offering concessions for cigarette manufacturing in Iran in return for fighting "fake brands." Yet, Tabra and Nasri-related factories in northern Iraq continued to manufacture counterfeit cigarettes despite signing the agreement. Notwithstanding all controversies, as of 2019, two of Tabra's key Dubai-based companies, Margin General Trading and Fast Line Commercial Brokerage, were active, as well as at least two of the factories he leased from Nasri in Iraqi Kurdistan.

Nasri himself had close connections with Masoud Barzani, Iraqi Kurdistan's President and leader of the Kurdistan Democratic Party (KDP), and former Iraqi President Jalal Talabani, one of the founders of the Patriotic Union of Kurdistan (PUK). In the United States, both the KDP and PUK are granted exemptions from terrorism-related inadmissibility grounds. In Iraqi Kurdistan, these powerful rival parties compete for power and control of lucrative transnational smuggling routes. They also control the Peshmerga militias responsible for the security of the Kurdistan Region. In 2017, nine peshmerga soldiers from the divisions affiliated with both the KDP and PUK were arrested for their involvement in smuggling and trade with ISIL.

Sources: OCCRP (2022); "Islamic State 'Business Deals'" (2017, January 5).²¹⁸

Cigarette smuggling has a long and well-documented history of terrorist financing. For example, Mokhtar Belmokhtar, designated for his involvement in the Al-Qaida branch AQIM, was dubbed the “Marlboro Man” for his role in cigarette smuggling. Using familial and tribal connections for smuggling across the Sahel region, Belmokhtar provided millions of dollars to Al-Qaeda.²¹⁹

The UN Security Council highlights the terrorist financing risks associated with sustained migrant smuggling. While it remains unknown how much human trafficking and migrant smuggling contributes to terrorist financing in North Africa, the United Nations Office on Drugs and Crime (UNODC) estimates that migrant smuggling from West Africa to North Africa generates US\$760 million to US\$1.1 billion annually.²²⁰ UN Security Council reports also highlight that West Africa has seen a sharp rise in violence motivated by terrorist organizations, such as ISIL and Al-Qaida,²²¹ whose members use the same smuggling routes and benefit from lucrative illicit activities, including gold mining in the Sahel region, drug and arms trafficking, and migrant smuggling.

5.3. Corrupt officials, law enforcement, and customs

Like in the case of North Korean diplomats discussed previously, UAE diplomats in the southern Indian state of Kerala were involved in gold smuggling from Dubai. In 2020, the Indian customs discovered over 30 kilograms of gold worth more than US\$2.1 million in diplomatic baggage addressed to the UAE Consulate-General Office in Thiruvananthapuram, the capital of Kerala, reported as “bathroom fittings, noodles, biscuits, and dates.”²²² The investigation resulted in the arrests of several employees of the UAE Consulate and the principal secretary to the Kerala chief minister allegedly engaged in the trafficking of at least 167 kilograms of gold from Dubai between 2019 and 2020.²²³ The Indian Central Bureau of Investigation also arrested two customs officials in Thiruvananthapuram and Kochi Airports for their role in this smuggling network.

In another recent case, the President of Zimbabwe’s Miners Federation, Henrietta Rushwaya, was arrested at Robert Gabriel Mugabe International Airport on charges of attempting to smuggle six kilograms of gold to Dubai.²²⁴ As indicated by the Centre for Research and Development in Zimbabwe, this case is “a confirmation that Robert Mugabe Airport has a long history of systematic smuggling of precious minerals involving state security agents, security officers, and VVIPs.”²²⁵ Robert Mugabe Airport is no exception, other domestic and international airports in Zimbabwe are also characterized by a highly corrupt aviation security system facilitating illicit trade.²²⁶

A similar situation is observed in other countries and ports in Sub-Saharan Africa. For example, in 2019, in violation of the Inter-ministerial Decree of 2016 on cigarette transits,²²⁷ Benin’s authorities in Cotonou Port released multiple containers with UAE-manufactured illicit whites brands transiting Benin on their way to Mali without the mandatory country-specific labeling.²²⁸ Similarly, Niger’s customs did not turn these shipments back although they violated the country’s transit and re-export regulations.²²⁹ Despite the adoption of cigarette trade regulations, the volume of fraudulent operations in these countries remains high due to corrupt customs officers and weak enforcement.

5.4. Criminal organizations

Illicit trade in Dubai involves a wide range of criminal organizations, including transnational criminal networks, foreign groups, and state-embedded actors. Gold smuggling to India, for example, attracts mafia-style groups who work in cooperation with corrupt officials and customs officers, as happened in the above-mentioned Kerala gold smuggling case.²³⁰ Due to the global nature of Dubai’s hub, it has criminal organizations of diverse origin: Indian, Chinese, Pakistani, Malaysian, Indonesian, Libyan, Mexican, Russian, and Balkan, among many others. Such groups are often connected to local criminal networks and their operations are globalized in terms of multiple income streams and transnational business relationships with other criminal, militant, and terrorist organizations exploiting the global economy and the globalized financial system.²³¹

An illustrative example of the complexity of smuggling schemes used by transnational criminal organizations is a recent case where Austrian customs officials at Vienna International Airport seized 7.6 tons of counterfeit water pipe tobacco worth about US\$734,919 transported in two shipments from Dubai to Ukraine.²³² The scheme included a roundabout route consisting of several transnational components, starting with a German company sending 350 boxes of Al Fakher shisha tobacco by air from Dubai to Minsk in Belarus.²³³ From Minsk, the cargo was transported by trucks to Poland and then to Germany, where the original tobacco was swapped for counterfeit. The latter was then transported to Vienna International Airport in Austria, from where the smugglers intended to send the counterfeit tobacco to Ukraine for a Russian group to pick it up (Figure 16).

Figure 16: Smuggling tobacco from Dubai to Europe via a roundabout route



Source: Author.

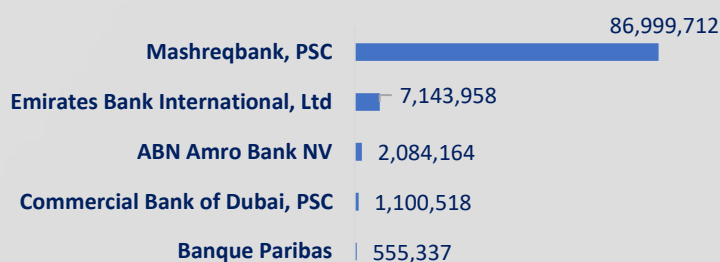
The disruption of transnational criminal networks requires cooperation and coordination of law enforcement in various countries. In such cases, data analytics can help identify patterns, while technical intelligence from various agencies and informants can provide inputs for law enforcement.

5.5. Free zone manufacturers and distributors

Many arms and cigarette manufacturers located in Dubai’s FTZs are involved in illegal trade outside the UAE. Interviews with subject matter experts point to a significant number of tobacco wholesalers and distributors facilitating large shipments of contraband products around the world. Dubai-based trading companies have also been known as facilitators of sanctions evasion. For example, Al Rashideen Trading, a Dubai-based company founded by an Israeli businessman, was allegedly involved in the importation of cigarettes into Libya in violation of sanctions long before the fall of the Gaddafi regime.²³⁴

Some FTZ cigarette manufacturers and trading companies use UAE-based banks that appeared in the FinCEN Files database, featuring more than 2,100 suspicious activity reports filed by financial institutions with the U.S. Treasury’s Financial Crimes Enforcement Network (FinCEN). Examples include National Trading and Developing Enterprises LLC and European Asian Tobacco, both registered in the Jebel Ali Free Zone. According to the public records available via the Sayari platform, the former company is linked to United Arab Bank PJSC, ABN Amro Bank N.V., and Mashreqbank PSC.²³⁵ It is also linked to BNP Paribas, a leading European bank with branches in Dubai and other international locations. The latter company is linked to Emirates Bank International and Commercial Bank International PSC.²³⁶

Figure 17: UAE-based banks linked to tobacco companies registered in Jafza: Transaction amount in the FinCEN Files, US\$



Source: Author based on ICIJ (2019).²³⁷

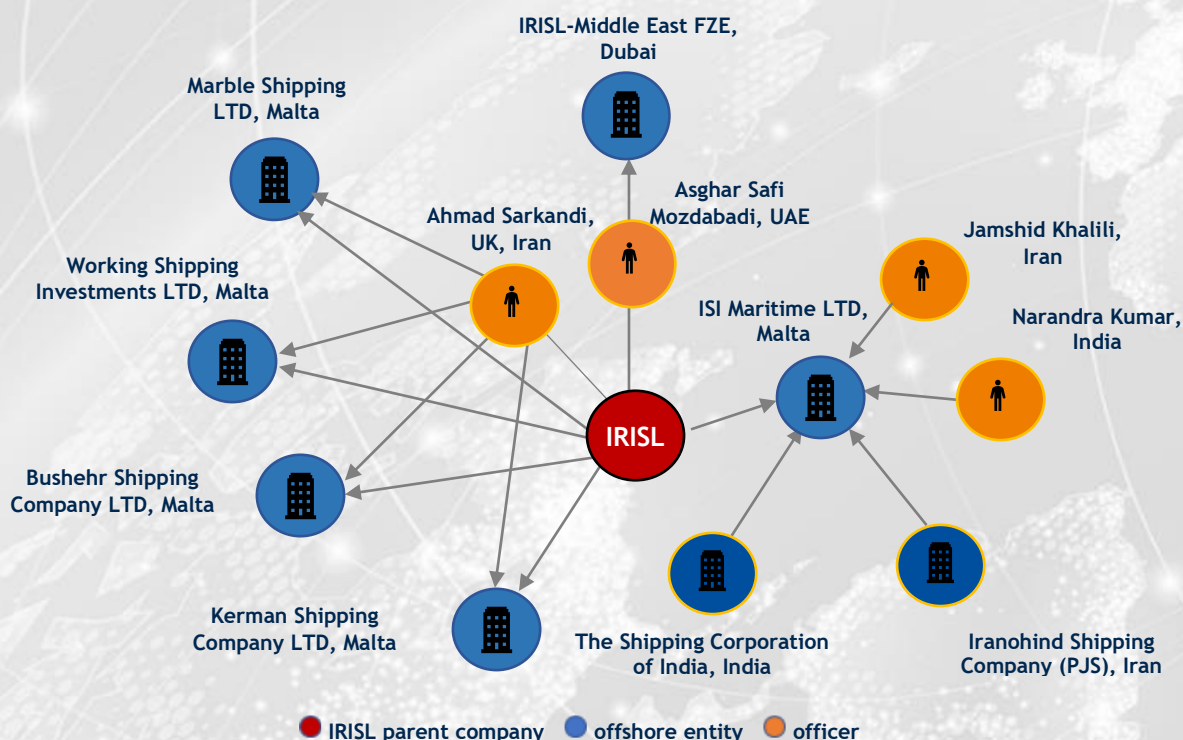
These banks appear in the FinCEN Files, with the total amount of suspicious transactions exceeding US\$97 million between 2007 and 2016 (Figure 17). Yet, this is only the tip of the iceberg since these estimates are based on a small sample of 1,941 suspicious reports. Some of the UAE-based banks were also involved in sanctions evasion. In 2021, for example, the U.S. Department of the Treasury’s Office of Foreign Assets Control issued a Finding of Violation to Mashreqbank PSC for its violations of the Sudanese Sanctions Regulations.²³⁸

5.6. Shipping, postal, and courier service companies

Shipping companies use an extensive arsenal of fraudulent strategies to disguise illicit shipments. Some of these strategies include: (i) falsifying cargo information; (ii) omitting or manipulating container prefixes, which are unique alpha-numeric combinations of four letters and seven numbers used for easy identification; (iii) reporting non-existent vessels in the documentation; and (iv) operating vessels despite their flags being revoked.²³⁹ An illustrative example is the Islamic Republic of Iran Shipping Lines (IRISL) which uses a large network of front companies in Dubai and other safe havens to evade sanctions. IRISL is the largest shipping company in the Middle East, with over 100 vessels in its fleet.²⁴⁰ In 2008, the U.S. Treasury designated IRISL and 18 affiliated entities involved in nuclear proliferation.²⁴¹ In 2018, the U.S. Treasury designated another 65 IRISL subsidiaries and associated individuals, together with 122 vessels.²⁴² Among them, at least 16 entities were registered in Dubai.²⁴³

Apart from Dubai, IRISL has subsidiaries in Barbados, Cyprus, the British Virgin Islands, Egypt, Germany, Hong Kong, the Isle of Man, Malta, Pakistan, Panama, South Korea, and the Marshall Islands.²⁴⁴ Front companies in these jurisdictions often use the same individuals as their directors, shareholders, or board members. The Paradise Papers, the 2017 leak of confidential beneficial ownership records from the Malta corporate registry, revealed the financial hideaways of IRISL through multiple shell companies (Figure 18). Malta’s central Mediterranean location makes it a key smuggling hub connecting the Middle East and Europe.²⁴⁵

Figure 18: The IRISL network of select subsidiaries and shell companies in Dubai and Malta



Source: Author based on the Offshore Leaks Database and the Sayari data platform.

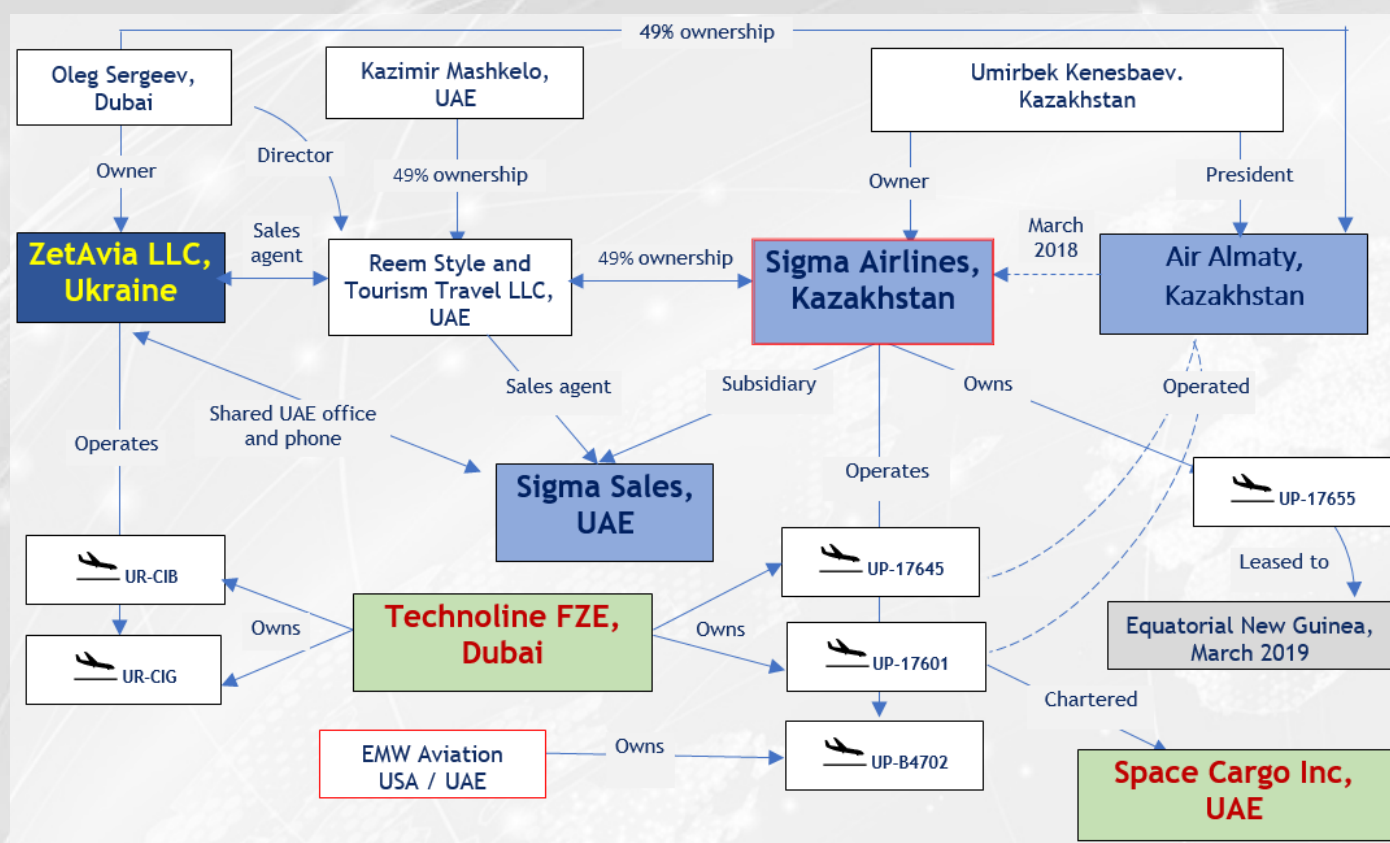
Shipping companies involved in illicit trade continuously change their names, operators, and vessel managers. For example, UN Security Council Resolution 1929 of 2010 called upon member-countries to report all activities of IRISL related to transferring, renaming, or re-registering of their vessels or ships.²⁴⁶ A recent Sayari investigation shows that IRISL continues to rely on constant changes in the ultimate beneficial ownership of its vessels via a network of shell companies in Dubai and other offshore jurisdictions.²⁴⁷

Postal and courier service companies also play an important role in illicit trade carried out in Dubai. Both e-commerce and the COVID-19 pandemic have contributed to growing parcel traffic. Together with Hong Kong and Singapore, the UAE is one of the global transit points specializing in repackaging fake goods from containers to small postal or courier shipments.²⁴⁸ These goods are commonly shipped to Africa, the United States, and the European Union, among other destinations.

5.7. Foreign commercial operators

Foreign commercial operators are often used for trafficking illicit commodities. In 2018, for example, the Haftar Affiliated Force commander in Libya reportedly used a private F900 jet (P4-RMA) for his flights.²⁴⁹ The Falcon jet plane registered in the Caribbean Netherlands was owned by Sonnig International Group Ltd, a UAE-based company, and operated by another UAE-based company – Golden Eagle Trading FZE located in Dubai.²⁵⁰ Another example of the foreign commercial operators involved in arms trafficking to Libya is ZetAvia, a Ukrainian aviation company owned by Dubai-based Oleg Sergeev.²⁵¹ ZetAvia was linked to two foreign operators from Kazakhstan, Sigma Airlines and Air Almaty, and to Technoline FZE, a Dubai-based company that owned aircraft (Figure 19).²⁵²

Figure 19: The Sigma Airlines business network



Source: Adapted from UN Security Council (2021).²⁵³

At least 37 flights made by Sigma Airlines were considered highly suspicious due to such indicators as the lack of names, signatures, and stamps on cargo manifests and the absence of specific details related to the cargo and consignees.²⁵⁴ After the 2019 ban by Ukraine’s Civil Aviation Authority prohibiting all aircraft from flights to Libya and the 2020 suspension of air operator certificates for Sigma Airlines by the Kazakhstan Civil Aviation Administration, the number of commercial cargo aircraft available for the Libyan airbridge significantly reduced.²⁵⁵

5.8. Private military and security companies

There are multiple private military and security companies involved in arms trafficking through Dubai-based intermediaries. In June 2019, a UN investigation identified a well-funded private military company operation, named “Project Opus,” designed to provide the Haftar Affiliated Force with armed assault rotary-wing aviation,

intelligence surveillance and reconnaissance aircraft, maritime interdiction, cyber, unmanned armed vehicles, and intelligence fusion and targeting capabilities.²⁵⁶ This operation also included the kidnapping or termination of high-value targets in Libya.²⁵⁷ Two Dubai-based companies, Lancaster 6 DMCC and Opus Capital Asset Limited FZE, were used for planning, managing, and financing this operation. The companies were controlled and managed by Christiaan Paul Durrant (Australia) and Amanda Kate Perry (the United Kingdom), with Stephen John Lodge (South Africa) serving as the Ground Team Leader.²⁵⁸

The obtained financial records for this operation demonstrate that it relied on the interchangeable use of shell companies and Dubai-based banks (Table 12). The Haftar Affiliated Force allegedly paid US\$80 million to Opus, yet only one-fourth of these funds were tracked by the investigators.²⁵⁹

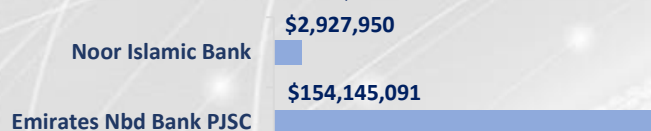
Table 12: Bank accounts related to OPUS procurement and payment activities

| COMPANY | BANK | ACCOUNT, TRANSFER | PAID/RECEIVED | CONTRACTED BY |
|--------------------------------|-----------------------------------|--------------------------|---|---|
| Lancaster 6 DMCC | Noor Islamic Bank, Dubai | AE14052000241096278XXXX | FSG Aviation (Bermuda); Sovereign Charters Limited (Malta) | L-6 FZE; Opus FZE |
| Lancaster 6 DMCC | Emirates Islamic Bank PJSC, Dubai | AE6034000370745605XXXX | Sovereign Charters Limited (Malta) | Opus FZE |
| L-6 FZE | Noor Islamic Bank, Dubai | AE17052000241096627XXXX | RECEIVED | Paid by Expedition Aviation FZE; L-6 FZE |
| Opus Capital Asset Limited FZE | Emirates NBD Bank PJSC, Dubai | AE30026000101546753XXXX | Starlite Aviation (South Africa) | |
| Opus Capital Asset Limited | | | Fulcrum Holdings Limited (UAE) | L-6 FZE |
| TBC | Noor Islamic Bank, Dubai | AE840520000110563690XXXX | Team members | Opus |

Source: Adapted from UN Security Council (2021).²⁶⁰

A significant challenge for the investigators was the lack of access to bank accounts of the Dubai-based companies.

Figure 20: Banks in Operation Opus: Transaction amounts in the FinCEN Files, US\$



Source: Author based on ICIJ (2019).²⁶¹

Some banks that served as facilitators in Operation Opus also appeared in the FinCEN Files with suspicious activity reports (Figure 19). Specifically, the total amount of transactions from 2007 to 2016 reported in suspicious activity reports involving Noor Islamic Bank and Emirates NBD Bank PJSC exceeded US\$157 million (Figure 20).

5.9. Financial and real estate enablers

The UAE financial sector is characterized by high money laundering and terrorist financing risks.²⁶² As discussed previously, UAE-based banks provide supportive activities for actors involved in illicit trade and other criminal activities. Apart from banks, UAE agents with high money laundering and terrorist financing risks include dealers in precious metals and stones engaged in cash transactions and money or value transfer services, including informal money services (Box 11).

Box 11: Financing the Taliban through Haji Khairullah Haji Sattar Money Exchange

Haji Khairullah Haji Sattar Money Exchange (HKHS), co-owned by Abdul Satar Abdul Manan and Khairullah Barakzai Khudai Nazar, provided informal money services for the Taliban. HKHS operated throughout Dubai, Afghanistan, and Pakistan. Khairullah was the chief of the HKHS branch in Kabul. Along with his business partner Satar, he collected and donated thousands of dollars to the Taliban. Taliban leaders used HKHS to receive hawala transfers and to disseminate money to their shadow governors and commanders. Using Kabul's HKHS branch, the Taliban made significant cash deposits every month. Their commanders could access them from any HKHS branch. For example, in mid-2011, Taliban leaders used an HKHS branch in the Afghanistan-Pakistan border region to fund their fighters and operations in Afghanistan.

Source: UN Security Council (2020).²⁶³

The UAE real estate sector is also considered vulnerable to money laundering because of its high exposure to cash transactions and the complexity of ownership structures (Table 13).

Table 13: Enablers, their role, and money-laundering risk category

| ENABLERS | ROLE | RISK CATEGORY |
|--|---|--|
| Banking sector | The UAE banking sector is at increased risks of trade-based money laundering. | HIGH (mainland) MEDIUM-HIGH (FTZs) |
| Money or value transfer services | There are over one hundred licensed/registered exchange houses and money or value transfer service providers, including seven registered hawaladars. Many hawaladars remain unregistered. They are characterized by a high volume of remittances and the ease of transacting in cash. | HIGH |
| Dealers in precious metals and stones | With over 7,000 dealers in precious metals and stones, this sector is particularly active in cash transactions. | HIGH (mainland) MEDIUM-HIGH (FTZs) |
| Real estate | Dubai’s high-end luxury real estate market is exposed to cash transactions and the use of third parties to conduct transactions, often lacking transparency. | MEDIUM-HIGH |
| Securities sector | UAE securities can be exchanged on the Abu Dhabi Securities Exchange and Dubai Financial Market, as well as through FTZs and the Dubai Gold and Commodities Exchange characterized by relatively weak due diligence procedures. | MEDIUM-HIGH |
| Lawyers | The exposure of lawyers to advising on the formation of legal persons and property transactions increases their inherent risks. | MEDIUM-HIGH |
| Trust and company service providers | The ease of incorporation of legal persons in several UAE corporate registries and the fragmented trust and company service providers regulation regime increase their inherent risks. | MEDIUM-HIGH |
| Finance companies | UAE finance companies provide various services, including extending advances, financing trade and business, opening credit, issuing guarantees, stocks, bonds, deposit certificates, etc. | MEDIUM-HIGH |
| Insurers | Many companies provide investments and Islamic Takaful insurance (life insurance). | MEDIUM (mainland) MEDIUM-LOW (FTZs) |
| Auditors & accountants | This large sector covers a wide set of activities and types of entities, ranging from large multinationals to small businesses. | MEDIUM |
| Notaries | Notaries in the UAE do not engage in any acts set out in the federal anti-money laundering law for the purchase and sale of real estate, bank account management, or the establishment of legal persons. | NA |

Source: FATF (2020).²⁶⁴

The securities sector, along with lawyers, trust, and company service providers, and finance companies, are associated with medium-high risks in terms of money laundering and terrorist financing (Table 13). In comparison with other groups, insurers, auditors, and accountants have medium to low money laundering risks in the UAE context.

6. THE ENABLING ENVIRONMENT FOR ILLICIT TRADE

Smuggling networks operating in Dubai exploit its transport, logistics, business, and financial infrastructure. They take advantage of lax FTZ regulations, weak law enforcement, and other vulnerabilities. Together, these features create an ideal criminal ecosystem providing smuggling networks with multiple business opportunities and low risks of detection. Dubai also hosts various ethnic diasporas who play an important role in all types of smuggling networks operating in their home countries. This section provides a summary of key enabling factors behind the expansion of Dubai’s illicit trade.

6.1. Dubai’s geostrategic position

Dubai’s vibrant economy and trade are facilitated by its strategic location at the nexus of trading routes connecting Asia, Africa, the Middle East, the Americas, and Europe. Over the last two decades, Dubai has become a key gateway for cross-border smuggling routes, with both licit and illicit commodities moved along these routes and with their flows converging at Dubai’s major ports and FTZs. The UAE faces severe challenges, given its location on several transnational smuggling routes in proximity to countries with prominent criminal markets, such as Iran, Libya, Syria, and other fragile and conflict-affected countries.

All roads and trade routes lead to Dubai...

From Dubai’s ports and free zones, counterfeit foodstuff, electronics, perfumery, cosmetics, clothing, and jewelry are transported in various directions and by various means of transportation: to African economies (e.g., Somalia, DRC, Djibouti, Mali, Guinea, and Gabon) by air and sea; to the European Union and the United States by air, sea, and mail; and to Middle Eastern countries (e.g., Bahrain, Jordan, Kuwait, Qatar, Saudi Arabia, and Yemen) primarily by road and air (Annex 2).²⁶⁵ In addition, Dubai serves as a critical transit point for counterfeit medicine transported primarily from China and India to different regions, including West Africa. There is evidence that traffickers prefer to use the Jebel Ali and other free zones in Dubai for transshipments of counterfeit pharmaceuticals,²⁶⁶ with some sources estimating that about half of the world’s counterfeit medicines pass through Dubai.²⁶⁷

6.2. Political factors and corruption

Dubai is a constitutional monarchy ruled by the Al Maktoum family since 1833. Its citizens have limited electoral rights to vote representatives to the UAE Federal National Council, an advisory quasi-parliamentary body. The current ruler, Sheikh Mohammed bin Rashid Al Maktoum, is the UAE vice-president, prime minister, and member of the Supreme Council of the Union, the country’s highest executive body which comprises the dynastic rulers of the seven emirates.

Dubai’s regime is characterized by an authoritarian system where political parties are banned, and all authority belongs to Sheikh Mohammed. The political rights and civil liberties of both citizens and noncitizens are significantly restricted in Dubai and other UAE emirates (Table 14). They generally lack an independent judiciary, with court rulings subject to review by political leaders. In 2021, Dubai ranked 24th of 180 countries on the Corruption Perception Index, with a score of 69 on a 100-point scale, with 0 meaning the worst results and 100 – the best.²⁶⁹ Although the UAE is considered one of the least corrupt countries

Table 14: Freedom indicators in the UAE, 2022

| FREEDOM STATUS | NOT FREE |
|--|-----------------|
| Political rights | 5 of 40 points |
| Civil liberties | 12 of 60 points |
| Electoral process | 0 of 4 points |
| Political pluralism | 0 of 4 points |
| Safeguards against official corruption | 2 of 4 points |
| Free media | 0 of 4 points |
| Independent judiciary | 0 of 4 points |

Source: Freedom House (2022).²⁶⁸

in the Middle East, it generally lacks independent anticorruption mechanisms. The Dubai Government system is not transparent, and it is relatively difficult to get access to public information. The political elites in Dubai and other emirates allegedly engage in surveillance and hacking activities. In 2019, for example, it was reported that the UAE government used a program called Project Raven for the surveillance of other governments, militants, and human rights activists.²⁷⁰ In 2021, the Pegasus spyware suite was also used against activists and some members of the ruling family.²⁷¹

6.3. Golden visas and passports

Residency and citizenship by investment are highly controversial. Recent reports have found that golden visa and passport schemes are associated with money laundering, tax evasion, corruption, and organized crime risks.²⁷² In the UAE, the golden visa system was launched in 2019. It offers long-term residency to specific groups, including investors and entrepreneurs. Under this system, they do not need a national sponsor and can have 100% ownership of their UAE-based businesses. The General Directorate of Residency and Foreigners Affairs in Dubai has an online platform to apply for golden visas and passports.²⁷³

Foreigners can apply for a 10-year golden visa if they invest at least AED 2 million (about US\$544,500) in the form of investment funds accredited in the UAE or if they own a company in the UAE and pay taxes of not less than AED 250,000 (US\$68,062) annually to the Federal Tax Authority.²⁷⁴ Besides, any foreigner who owns UAE properties worth AED 2 million or more without any loan can apply for a 5-year golden visa. In 2021, Dubai's ruler Sheikh Mohammed announced that some foreigners, namely investors and professionals in certain fields, can also seek naturalization under a citizenship-law amendment.²⁷⁵

6.4. Free trade zone infrastructure and regulations

FTZs serve as foreign direct investment hubs, enabling Dubai to diversify its economic activities. Dubai's extensive trading network makes it a magnet for trade actors. There are no trade quotas. FTZs have highly developed infrastructure and warehouse facilities located near major transportation hubs. They offer multiple benefits to companies, including 100% foreign ownership, 100% repatriation of capital and profits, no personal income taxes, no corporate taxes, and duty-free imports of machinery, equipment, and raw materials for production, among other benefits.

Most FTZs are separated by their industrial specialization and are run by independent authorities responsible for issuing licenses. Every FTZ has different types of licenses, restrictions on business activities, and regulations. For example, among over 30 FTZs in Dubai, the Jebel Ali Free Zone is the only one that allows foreigners to register offshore companies (Table 15). Also, unlike offshore companies in Ras Al Khaimah, the sixth-largest city in the UAE, offshore companies registered in the Jebel Ali Free Zone have the right to purchase real estate in Dubai.

Table 15: Examples of specific regimes in four FTZs in Dubai

| FREE ZONE | JEBEL ALI (JAFZA) | DUBAI MULTI COMMODITIES CENTRE (DMCC) | DUBAI INDUSTRIAL CITY (DIC) | DUBAI AIRPORT FREE ZONE (DAFZA) |
|----------------|--|--|---|--|
| YEAR | 1985 | 2002 | 2004 | 1996 |
| SPECIALIZATION | Logistics, petrochemicals, food, livestock, & agriculture, healthcare distribution, automotive & spare parts, retail & e-commerce, electronics, cigarettes & tobacco products. | Oil and petrochemicals, diamonds, pearls, precious metals (gold & silver), coffee, cotton, etc. | Production & logistics, social infrastructure, processing of minerals & metals, equipment & transport, service of professional equipment. | Logistics & aviation, freight & passenger transportation, pharmaceuticals & foodstuff, jewelry & household appliances, modern information technologies, etc. |
| LICENSES | <ul style="list-style-type: none"> > Business license for trade, > Industrial business license, > Business license for the provision of professional services, > Production license. | <ul style="list-style-type: none"> > Commodities license (exchange license), > Non-commodities license (non-exchange license). | <ul style="list-style-type: none"> > Industrial production, > Transportation & logistics, social services, > Professional & special equipment, work with chemicals. | <ul style="list-style-type: none"> > Trade license, > Service license, > Industrial license, > General trading license. |
| LEGAL FORMS | <ul style="list-style-type: none"> > Free Zone Company (FZE) with one founder, > Free Zone Corporation (FZCO) with up to five founders, > Offshore companies. | <ul style="list-style-type: none"> > Free Zone Company with Commodity Activity (FZC WCA), > Free Zone Company with Non-Commodity Activity (FZC WNCA), > Foreign Company Branch (FCB): representative offices of a foreign company. | <ul style="list-style-type: none"> > Industrial companies, > Non-industrial companies, > Representative offices, and branches of foreign & local companies. | <ul style="list-style-type: none"> > Free Zone Company (FZC) with the number of shareholders from two to five, > Free Zone Establishment (FZE), with at least one founder. |

Source: Author based on the FTZ official websites.²⁷⁶

FTZs in Dubai are characterized by a significant gap in regulatory oversight. For example, it is easy for gold smugglers to overcome the Dubai Multi Commodities Centre's due diligence system, with its weak procedures for tracing gold origin. The only document required to sell gold in Dubai's gold market is a UAE customs form obtained

on arrival at an Emirati airport. Because FTZs are independently regulated, the UAE federal authorities exercise limited oversight over their activities. FTZs benefit from special customs regimes. As the Financial Action Task Force (FATF) states, “the same characteristics that make FTZs attractive to legitimate business also attract abuse by illicit actors.”²⁷⁷ Smugglers often abuse new customs procedures that have moved from physical checks to documentary data collection and analysis to facilitate speedy and seamless flows of goods in FTZs. Systemic weaknesses that make FTZs particularly vulnerable to such abuse include: (i) inadequate anti-money laundering and combating terrorist financing safeguards; (ii) relaxed oversight by domestic authorities; (iii) weak procedures to inspect goods and register legal entities; and (iv) lack of

“The same characteristics that make FTZs attractive to legitimate business also attract abuse by illicit actors.”

adequate cooperation between zone and customs authorities.²⁷⁸

Criminal actors also exploit vulnerabilities of FTZ warehousing facilities used for product repackaging or relabeling. To disguise original manufacturers, they take advantage of re-documented containers that transit multiple ports. According to the World Customs Organization, transshipments via FTZs provide multiple opportunities for fraudulent manipulations and pose potential security risks.²⁷⁹ In many jurisdictions, they are subject to limited or no customs controls. In the absence of appropriate control mechanisms, Dubai’s customs authorities are not able to prevent illicit trade practices in FTZs.

6.5. Container freight and passenger traffic

Dubai is an important transportation hub for millions of passengers every year. Huge traffic volumes of people traveling to and from Dubai make it difficult for customs officers to identify gold, cigarettes, and other smuggled commodities.

Table 16: The top five busiest airports before the Covid-19 pandemic, 2019

| | AIRPORT | PASSENGERS |
|--|--|-------------|
| | Hartsfield-Jackson Atlanta International | 110,531,300 |
| | Beijing Capital International | 100,011,438 |
| | Los Angeles International | 88,068,013 |
| | Dubai International | 86,396,757 |
| | Tokyo Haneda | 85,505,054 |

Dubai International Airport is one of the busiest airports in the world. Before the Covid-19 pandemic, it ranked 4th on the number of passengers, after Hartsfield-Jackson Atlanta International, Beijing Capital International, and Los Angeles International Airports (Table 16). A smaller airport, Al Maktoum International Airport (also known as Dubai World Central) was opened in 2010 in Jebel Ali, 37 kilometers (23 miles) southwest of Dubai. Despite the COVID-19 impact on the number of

Source: Port Authority NY NJ (2020).²⁸⁰

passengers, both airports received over 29.1 million passengers in 2021 (Figure 21a).²⁸¹

Over recent years, the number of containers moved through Dubai remained relatively stable, ranging from 2.3 million in 2014 to 2.4 million in 2021 (Figure 21b). Huge traffic volumes of containers in Dubai’s seaports make it difficult to identify suspicious shipments. Jebel Ali Port is the world’s tenth busiest port and the largest port in the Middle East.²⁸² It plays a significant role in serving the Gulf, the Indian subcontinent, and African markets. In 2021, Jebel Ali Port handled 13.7 million TEUs.²⁸³

Figure 21: Air traffic and cargo movement through Dubai’s airports

a. Air traffic, 2021



**268,555
FLIGHTS**



**29.1 MILLION
TOTAL ANNUAL
PASSENGERS**

b. Cargo movements, 2014-2021



Source: Author based on data from Dubai Statistics Center (2022).²⁸⁴

Dubai’s shipping infrastructure is supported by the sea-air logistics corridor. With Jebel Ali under a single customs-bonded zone, it allows for the seamless movement of cargo between Jebel Ali Port, the Jebel Ali Free Zone, and Al

Maktoum International Airport. Another manmade port in the Emirate of Dubai, Mina Rashid Port, is used primarily for passenger operations, yet, it also handles a smaller share of cargo.

6.6. The role of ethnic diasporas in dodging sanctions and customs duties

Dubai’s ethnic diversity and close ties between expatriates and their origin countries form the basis for cross-border smuggling networks. The largest expatriate network residing in Dubai is the Indian diaspora. About 3.5 million Indians live in the UAE, which constitutes more than 38% of the UAE population.²⁸⁵ Indian expatriates come mainly from the four states of Kerala, Tamil Nadu, Karnataka, and Andhra Pradesh. The Kerala diaspora is considered the largest in the UAE. Due to large numbers of Keralites living abroad, in 1996, the Government of Kerala formed a special Department of Non-Resident Keralites Affairs (NORKA), which is the first agency of this type formed in any Indian state.²⁸⁶ The Kerala state is a popular destination among gold smugglers.

“Dubai is a very wide window that allows us to bypass the sanctions and our tough relations with the world.”

Dubai is also home to one of the largest Iranian diasporas in the world. Dubai’s government does not release the number of Iranians residing in the city, but according to a 2019 informal estimate, their number reached 600,000 people,²⁸⁷ which constituted around 18% of Dubai’s population in that year. Iranians in Dubai have a strong business community, with the potential to influence formal and informal practices related to economic sanctions against Iran. As Saeed Laylaz, an Iranian economist, noted, “Dubai is a very wide window that allows us to bypass the sanctions and our tough relations with the world.”²⁸⁸

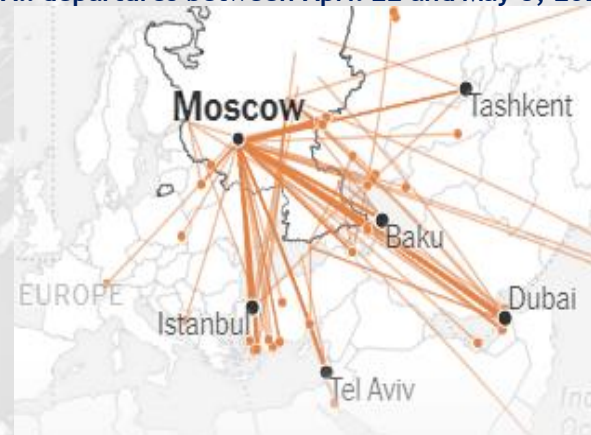
An informal market for residence permits and business licenses in Dubai allowed many Iranians to circumvent existing sanctions-related restrictions with the help of Emirati and Iranian intermediaries connected to the authorities, as well as via transfers to free zones to various Emirati sponsors.²⁸⁹ The Iranian business community in Dubai makes it easy to smuggle commodities to Iran, including from the United States (Annex 1). In the words of Jim Krane, the author of “The City of Gold”: “The blatant embargo-busting makes Dubai a more sensitive destination for all sorts of U.S. goods, on the premise that sending them to Dubai is as good as sending them to Iran.”²⁹⁰

“The blatant embargo-busting makes Dubai a more sensitive destination for all sorts of U.S. goods, on the premise that sending them to Dubai is as good as sending them to Iran.”

Although compared to Iranians, the Russian diaspora in Dubai is relatively small (around 40,000 people as of 2019),²⁹¹ it has been steadily growing after the introduction of extended sanctions related to Russia’s invasion of Ukraine. According to a New York Times investigation based on private flight data, Dubai has become a rising destination for Russian wealthy people (Figure 22). Specifically, before February 24, 2021, only 3% of private flights from Russia flew to the UAE, primarily to Dubai, while in May 2022, this figure rose to 14%.²⁹²

Figure 22: Private flights from Russia before and after the invasion of Ukraine

- a. All departures between February 1-24, 2022
- b. All departures between April 22 and May 8, 2022



Source: Robles, Troianovski, & Chang (2022, June 17).²⁹³

Like in the Iranian case, a growing diaspora and an increasing number of connections between Russia and Dubai represent enabling factors for sanctions evasion.

6.7. Money laundering infrastructure

The 2022 Financial Secrecy Index ranks the UAE 8th in the world on financial secrecy,²⁹⁴ which highlights its significant role in the global money laundering industry. In March 2022, the FATF placed the UAE on its “grey list” for increased monitoring due to deficiencies in its regime to counter money laundering, terrorist financing, and proliferation financing.²⁹⁵ The 2020 FATF Mutual Evaluation Report identified several factors that make the UAE particularly vulnerable to money-laundering risks:²⁹⁶

- its cash-intensive economy,
- the large size and openness of the UAE’s financial sector,
- a large volume of remittances due to a large number of non-Emirati residents,
- a large number of cash transactions, particularly in the highly active trade in gold, other precious metals, and stones,
- a large proportion of foreign residents in the UAE,
- the UAE’s geographic proximity to countries destabilized by conflicts and terrorism, as well as countries subject to international and national sanctions, and
- the expansion of FTZs.

Dubai, the City of Gold, is particularly attractive to money launderers because buying gold for cash allows criminal actors to place, layer, and integrate funds into the formal financial sector. Key factors include weak customs control and ineffective due diligence procedures in Dubai’s gold market. The UAE banking sector is also characterized by high money-laundering risks. As indicated by the FATF, “The sector size and its openness make it attractive to criminals seeking to hide the proceeds of crime abuse through legal persons/arrangements and thus concealing beneficial ownership and politically exposed persons.”²⁹⁷

The FinCEN Files with suspicious activity reports include several dozens of UAE banks. Based on a sample of 1,941 suspicious transactions, the amount of their transfers exceeded US\$931 million between 2007 and 2016 (Table 17). The UAE banking sector is at increased risks of trade-based money laundering. Weak oversight in FTZs makes repacking and relabeling smuggled commodities relatively easy, while regulatory and legal loopholes, such as a lack of standardization among FTZs, further facilitate trade-based money laundering. The UAE banking sector also plays an important role in sanctions evasion (Box 12).

Table 17: UAE suspicious transfers in the FinCEN Files ^{viii}

| TRANSACTIONS | AMOUNT/NUMBER |
|-----------------------------------|----------------|
| Received suspicious transfers | US\$19,697,049 |
| Sent suspicious transfers | US\$23,104,326 |
| Number of suspicious transactions | 123 |

Source: ICIJ (2019).²⁹⁸

Box 12: The UAE Central Bank’s failure to prevent Iran’s sanctions evasion

According to the FinCEN Files, Dubai-based Gunes General Trading processed US\$142 million in suspicious transactions through UAE banks in 2011 and 2012. Even though this activity was flagged by a British bank, Standard Chartered, the UAE Central Bank failed to prevent Gunes General Trading from using accounts with two UAE state-owned banks: Rakbank, the national bank of the northern emirate Ras al-Khaimah, and the National Bank of Dubai. Gunes General Trading was part of a network controlled by Reza Zarrab, a Turkish-Iranian gold trader who is considered one of the 21st century’s most prolific money launderers. Before his arrest in 2016 in the United States, he conducted hundreds of millions of dollars’ worth of transactions on behalf of the Iranian government and other Iranian entities in violation of U.S. sanctions. Facing 130 years in prison, he took a plea deal in 2017, agreeing to testify in court.

Sources: Elshamy & Pinnell (2020, September 20); U.S. Department of Justice (2016).²⁹⁹

With several crypto exchanges (Binance, Kraken, Crypto.com, and Bybit) setting up their presence in Dubai and Abu Dhabi, the UAE is becoming a global crypto hub.³⁰⁰ Between July 2020 and June 2021, the UAE’s share in the global crypto market increased by 500%, reaching US\$25 billion in total value.³⁰¹ The acceptance of payments in cryptocurrency by airlines and real estate companies facilitates their increasing use in the UAE. Another enabling factor behind this trend is the use of cryptocurrency for remittances, given that the UAE has been the second-largest source of remittances over recent years.³⁰²

^{viii} These data represent only a fraction of the total transaction amount in the FinCEN Files corresponding to a sample of 1,941 transactions.

Without strict regulations and know-your-customer policies, crypto exchanges comprise very high money-laundering risks. For example, designated actors, including from Russia, Iran, and other countries, allegedly used Coinsfera, a cryptocurrency cashpoint, to make multiple crypto trades to transfer large sums of money to Dubai.³⁰³ Coinsfera has offices in Dubai, Istanbul, Kosovo, and London. Compared to centralized exchanges, its users can execute trades by swapping offline crypto storage solutions, buying crypto assets locally, and then selling them for instant cash in Dubai.³⁰⁴ Binance, Coinbase, and Kraken also provide such services, but they reportedly have stricter compliance screening policies to exclude designated individuals.³⁰⁵ Despite new regulations related to virtual assets adopted by Dubai and the UAE in 2022, multiple loopholes can be used by criminals and designated individuals to launder their illicit funds.

6.8. Dubai’s real estate market

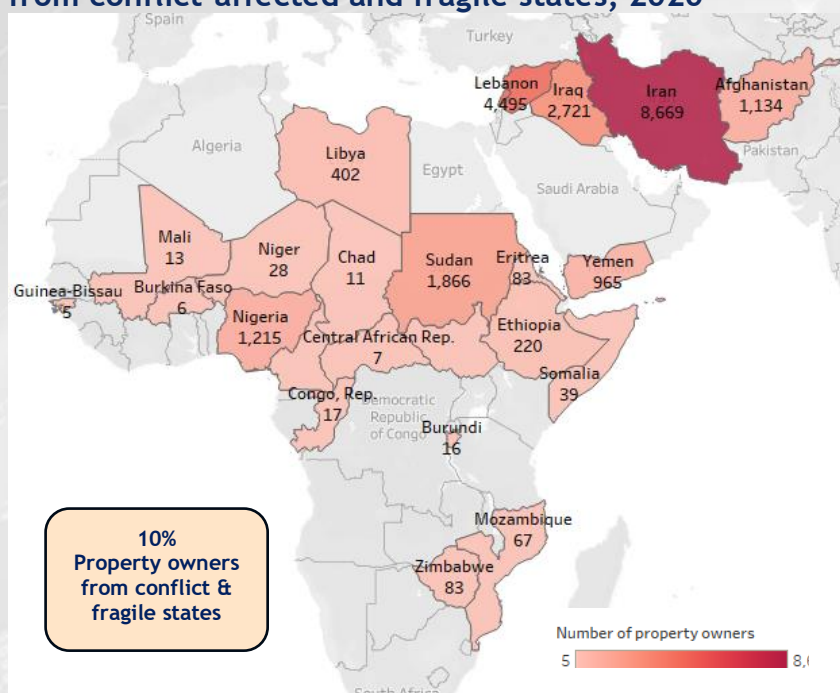
Dubai’s real estate market is associated with high money laundering and tax evasion risks. As the FATF indicates,

“Dubai’s high-end luxury real estate market has been exposed to transactions in cash, has a highly internationalized client base, and is therefore attractive to money laundering.”

“Dubai’s high-end luxury real estate market has been exposed to transactions in cash, has a highly internationalized client base, and is therefore attractive to money laundering.”³⁰⁶ The 2020 Dubai Property Leaks database demonstrates that its real estate market is actively used by criminal actors for laundering proceeds of illicit trade. The database includes 800,000 Dubai properties owned by 274,000 private individuals and companies from 198 countries, including numerous criminal actors and designated persons. The data was originally obtained by the Center for Advanced Defense Studies and shared through the Organized Crime and Corruption Reporting Project.

In 2020, Dubai’s offshore real estate was estimated at US\$146 billion in foreign wealth.³⁰⁸ Importantly, at least 10% of foreign property owners were from conflict-ridden and fragile countries located primarily in Sub-Saharan Africa and the Middle East and North Africa (Figure 23). Among illicit trade actors mentioned earlier, Kambiz Mahmoud Rostamian, designated for procuring controlled materials to Iran, was linked with two properties in Dubai worth US\$971,900.³⁰⁹ His associate, Sasan Bagher Sharifi, was affiliated with three additional properties in Dubai, worth US\$1,734,977.³¹⁰ Many Syrian oligarchs who were designated for circumventing sanctions also have real estate holdings in Dubai. For example, Rami Makhlouf, President Assad’s cousin, bought two towers in Dubai near the Burj al-Arab Hotel.³¹¹ In the Dubai Property Leaks database, the Abdulkarim family, involved in procuring base oil and aviation gasoline to Syria through Dubai-based companies, was linked to two properties worth US\$315,834.³¹²

Figure 23: The number of Dubai’s property owners from conflict-affected and fragile states, 2020

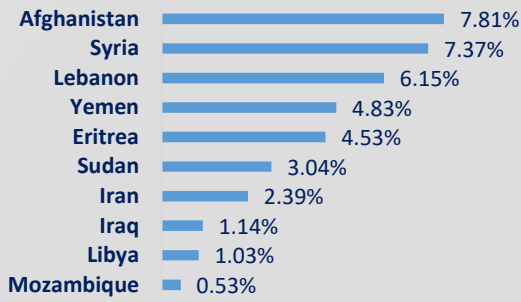


Source: Author based on data from Alstadsæter et al. (2022).³⁰⁷

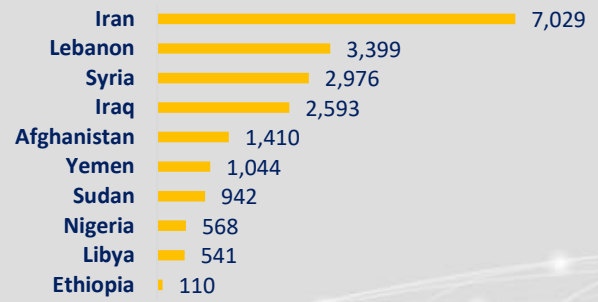
Some real estate investors from conflict-ridden and fragile countries own relatively large holdings in Dubai measured as a percentage of GDP in their home countries. For example, the total value of Dubai’s property owned by investors from Afghanistan and Syria is estimated at 7.8% and 7.4% of their national GDP, respectively (Figure 24a).

Figure 24: The top conflict-ridden and fragile countries with the largest property values in Dubai

a. Total property value, % of GDP



b. Total value, US\$ millions



Source: Author based on data from Alstadsæter et al. (2022).³¹³

This database also includes real estate owners from Russia and Belarus. It is estimated that at least 38 officials and businessmen affiliated with the Putin regime own multiple properties in Dubai worth more than US\$314 million.³¹⁴ Aliaksei Aleksin, a Belarusian tobacco tycoon, reportedly owns Dubai’s real estate through his affiliated companies.³¹⁵ Under international sanctions imposed after the invasion of Ukraine, Russia’s political elite and affiliated businessmen have increasingly turned to Dubai’s real estate market to invest their corrupt proceeds.

7. NATIONAL ANTI-ILLCIT TRADE EFFORTS

To date, the UAE has made certain progress in advancing its anti-illicit trade legislation. Specifically, the country has signed and ratified most international conventions regulating specific types of illicit trade (Table 18), except for the Protocol to Eliminate Illicit Trade in Tobacco Products (ITP). In 2007, it also ratified the United Nations Convention against Transnational Organized Crime. Yet, it still has not joined the two protocols supplementing this Convention, namely, the Protocol against the Smuggling of Migrants by Land, Sea and Air and the Protocol against the Illicit Manufacturing of and Trafficking in Firearms.³¹⁶

Table 18: The UAE ratification of international treaties regulating specific types of illicit trade

| CONVENTION/TREATY | YEAR (CAME INTO FORCE) | IMPORT & EXPORT | TRANSIT & TRANSSHIPMENTS | FREE ZONE ACTIVITIES | YEAR (UAE RATIFIED) |
|---|------------------------|-----------------|--------------------------|----------------------|---------------------|
| UN Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances of 1988 | 1990 | ✓ | ✓ | ✓ | 1990 |
| Arms Trade Treaty | 2014 | ✓ | ✓ | ✗ | 2013 |
| Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITIES) | 1973 | ✓ | ✓ | ✗ | 1990 |
| Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and Their Disposal | 1992 | ✓ | ✓ | ✗ | 1992 |
| UNESCO 1970 Convention on the Means of Prohibiting and Preventing the Illicit Import, Export and Transfer of Ownership of Cultural Property | 1972 | ✓ | ✗ | ✗ | 2017 |
| Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) | 1995 | ✓ | ✗ | ✗ | 1996 |
| Protocol to Eliminate Illicit Trade in Tobacco Products (ITP) | 2018 | ✓ | ✓ | ✓ | — |

Sources: United Nations (n.d.); WTO (n.d.).³¹⁷

The UAE cooperates with Interpol in the fight against transnational organized crime. As of 2022, the UAE signed 37 mutual legal assistance and extradition accords, including pacts with the United Kingdom, France, Italy, India, and China.³¹⁸ At the same time, the UAE does not have extradition treaties with the United States, Germany, and many other countries. Even though the UAE's national legislation against organized crime is relatively advanced, its role as an illicit trade hub appears to be growing due to weak enforcement.

The UAE is known as one of the largest gold black markets, with a significant share of conflict gold coming from Sub-Saharan Africa. To address the role of hawala in the illicit gold trade, in 2020, the Central Bank of the UAE introduced a mandatory registration framework for hawala providers and informal money transfer service providers operating in the country. Within this system, all activities of the hawaladars are subject to registration, monitoring, and scrutiny according to the Anti-Money Laundering and Countering Financing of Terrorism (AML/CFT) regulations.³¹⁹ In response to the London Bullion Market Association's threat to blacklist the UAE for not meeting its standards of gold sourcing and anti-money laundering measures, in 2021, the UAE launched its own Good Delivery Standard for gold. Based on this standard, gold refineries located in the country are required to carry out audits to prove bullion deliveries are responsibly sourced. However, the standard has serious loopholes, for example, the category of recycled gold can still be used to conceal the actual origin of gold.³²⁰

Under international pressure, the UAE has launched other initiatives to counter money laundering. In 2018, a new set of anti-money laundering laws introduced obligations of financial actors to report suspicious transactions and conduct due diligence. Yet, despite these new regulations, the country remains a hotbed of money laundering, including through gold trade and real estate. During the COVID-19 pandemic, formal restrictions on moving commodities forced traders to increasingly turn to illicit networks to transport their goods, which also resulted in an upsurge in money-laundering activities in the UAE.³²¹ In 2021, the UAE established the Executive Office of the Anti-Money Laundering and Countering the Financing of Terrorism. Among its key functions, it oversees the introduction of a unified electronic customs platform and regulations related to the movement of gold and cash in the country and the setting up of Special Courts for money laundering and financial crime trials. In February 2022,

the UAE also made a high-level political commitment to work with the FATF and the Middle East and North Africa Financial Action Task Force (MENAFATF) to strengthen the effectiveness of its AML/CFT regime.³²²

The establishment of the financial intelligence unit and the implementation of anti-money laundering requirements resulted in the UAE's removal from the European Union's blacklist of non-cooperative jurisdictions for tax purposes. At the same time, the UAE has not fully been capable of addressing multiple money laundering and terrorist financing vulnerabilities. As a result, in March 2022, the FATF placed the country on its "grey list" for increased monitoring. Similarly, volumes of illicit goods traded in Dubai remain relatively high due to lax FTZ regulations and weak enforcement, despite the fact that law enforcement agencies are sufficiently resourced and UAE airports and seaports have relatively high levels of technology.

Recently, there has been limited progress in enforcing anti-money laundering regulations, with 254 cases prosecuted between 2019 and 2021.³²³ This number, however, constitutes only a small fraction of all money-laundering activities in the country. In 2022, the UAE committed to implementing the FATF action plan.³²⁴ Yet, multiple factors decrease its ability to stop illicit trade and finance, including: (i) limited technological innovations to monitor increasing trade volumes, (ii) weak coordination between FTZs, port authorities, and customs administration, (iii) insufficient collaboration with international organizations, such as the World Customs Organizations, (iv) low penalties for smuggling, and (v) lack of commitment by the ruling family and high-level officials to counteracting illicit trade. In addition, the UAE's judiciary lacks independence from executive influence, as a result, due process is not respected in many cases.³²⁵

The U.S. State Department places the UAE among Tier 2 countries, meaning that it does not fully comply with all minimum standards related to combating trafficking in persons.³²⁶ Despite Dubai's widespread labor trafficking, as of 2022, there was no conviction for forced labor crimes.³²⁷ The government provides oversight and funding for shelters in Dubai, Abu Dhabi, Ras Al Khaimah, and Sharjah, however, in 2022, it was reported that in some cases, only those who had been officially recognized as trafficking victims were referred to shelters by the police, instead of all potential victims.³²⁸ Also, government agencies do not routinely investigate violations of Emirati labor laws that exhibit trafficking indicators, such as passport confiscation, delayed or nonpayment of wages, fraud, and contract switching.³²⁹ In addition, foreign investors continuously raise concerns the difficulty of resolution of business disputes in the UAE.³³⁰ Finally, there are insufficient initiatives to engage civil society and private entities in counteracting illicit activities. Civil society freedom remains limited. Similarly, media outlets are limited and their opportunities to counteract the political and criminal nexus are restricted.

Concerning its support for victims of human trafficking, the UAE has relatively robust support services, including the provision of victim shelters, training courses, and rehabilitation services.³³¹ At the same time, government agencies focus primarily on sex trafficking prosecutions and do not routinely investigate violations of Emirati labor laws that exhibit trafficking indicators, such as passport confiscation, delayed or nonpayment of wages, fraud, and contract switching.³³² Instead of specific human trafficking laws, forced labor cases are addressed by the Ministry of Human Resources and Emiratization and labor courts. Finally, there are insufficient initiatives to engage civil society and private entities in counteracting illicit activities. Both freedoms of civil society and the media are limited and their opportunities to counteract the political and criminal nexus are restricted.

8. CONCLUDING REMARKS AND RECOMMENDATIONS

To address the problem of illicit trade, the UAE needs to further strengthen its national anti-illicit trade legislation, strategies, and mechanisms. One important step in this direction is becoming a party to the Protocol to Eliminate Illicit Trade in Tobacco Products. Similarly, joining the protocols supplementing the United Nations Convention against Transnational Organized Crime in the areas of migrant smuggling and firearms trafficking is another critical step toward strengthening the UAE national anti-illicit trade legislation. The ratification of the above-mentioned protocols regulating specific types of illicit trades is necessary for enhancing UAE's bilateral, regional, and international cooperation with other countries.

A critical role that FTZs play in illicit trade carried out in Dubai requires particular attention. In this regard, the Practical Guidance developed by the World Customs Organization offers the following recommendations:

- providing customs with access to a FTZ's digital records system containing information on inbound/outbound consignments, as well as inventory data for warehouses within FTZs;
- authorizing customs to conduct audits within FTZs, to search and seize consignments, and to conduct on-site checks and inspections of FTZ occupants at any time;
- facilitating coordination among public agencies and customs administrations, including through regular outreach meetings with FTZ occupants and operators;
- enhancing cooperation between customs authorities at the regional level to ensure the exchange of relevant information, such as notifications of seizures and high-risk shipments.³³³

Another important issue for illicit goods is their traceability. The existence of a large number of informal artisan mines and the proliferation of semi-legal and illegal facilities manufacturing illicit goods, particularly in conflict zones and fragile states, make it extremely difficult to counteract illicit trade. To disguise their actual origin, smuggled goods often go through multiple buyers before they can reach the end user. This is why it is critical to identify all actors in the supply chain and put pressure on FTZ authorities and companies in the public and private sectors to adopt stricter due diligence policies. UAE government agencies need to be more transparent and proactive in implementing anti-illicit trade measures. Dubai's port authorities also need to strengthen control over commodities arriving from conflict-affected and fragile states, with stricter regulations regarding the required documentation and certificates authenticating the country of origin. Awareness-raising campaigns, education programs, and training of trade professionals and customs officers are critical for combatting illicit trades. Another important issue is harmonizing tax incentives at the regional level because different duty rates at the country level create strong financial incentives for smugglers of various commodities.

Industry-specific strategies to combat illicit trade include the development of comprehensive mitigation plans based on analyses of the entire supply chains and enabling actors, such as suppliers of raw materials, operators, and related logistics. In terms of illicit cigarette production, for example, in 2020, the UAE received most acetate tow used for manufacturing filters from suppliers located in the United States (58%) and the European Union (24%).³³⁴ The amount of imported acetate tow points to a large oversupply of cigarettes that eventually enter illicit circulation. In this regard, it is important to raise awareness of the importance of due diligence and other preventative measures and engage all companies along the supply chain in policy discussions and specific anti-illicit trade programs. Furthermore, binding obligations, such as approvals and control, tracking, and record-keeping, should cover actors operating both within and outside the UAE. In addition, public-private partnerships with supply chain actors can be beneficial in terms of illicit trade investigations.

As a key offshore financial safe haven, the UAE needs to strengthen its policies and measures aimed at addressing money laundering and terrorist financing risks. In this area, the 2020 FATF Mutual Evaluation Report and the 2022 MENAFATF report on the UAE suggest the following steps:³³⁵

- demonstrating through case studies and statistics an increase in outbound mutual legal assistance requests to help facilitate investigations into money laundering and terrorist financing and high-risk predicates;
- maintaining a shared understanding of money laundering and terrorist financing risks between different designated non-financial businesses and institutions;
- increasing the number and quality of suspicious transaction reports filed by financial institutions;
- achieving a more granular understanding of the risk of abuse of legal persons and legal arrangements;

- providing additional resources to the Financial Intelligence Unit to strengthen its analysis function and enhance the use of financial intelligence to pursue high-risk money laundering threats, such as proceeds of foreign predicate offenses, trade-based money laundering, and third-party laundering;
- demonstrating a sustained increase in effective investigations and prosecutions of different types of money-laundering cases; and
- proactively identifying and combating sanctions evasion, including sustained awareness-raising within the private sector.

Furthermore, beneficial ownership transparency is essential for addressing the problem of illicit trade. In this regard, the adoption of Cabinet Resolution No. 58 of 2020 regulating Beneficial Owner Procedures represents a step toward transparent beneficial ownership of entities registered in the UAE. According to the Ministry of Economy, in 2020, about 513,000 targeted entities licensed by 38 local authorities and non-financial free zones were required to provide data on ultimate beneficial owners.³³⁶ Dubai’s financial free zones have their own set of legal frameworks on ultimate beneficial owners (UBOs). Under international cooperation agreements, the UBO information could be shared by the UAE Ministry of Economy with foreign governments at their request.

According to Cabinet Resolution No. 58 of 2020, UBOs are defined as either “a natural person who controls/owns the establishment definitively, through direct/indirect ownership of 25% or more shares, or someone who holds the right to vote by 25% or more or the right to appoint/dismiss the majority of the establishment’s managers or any other means by which he exercises ultimate control over the establishment.”³³⁷ In those cases where UBOs cannot be identified based on the above-mentioned criteria, a natural person holding the position of a senior management official may be considered the UBO.³³⁸ The 25% threshold makes it possible for some actual owners to avoid their identification as UBOs, for example, in those cases where a company is owned by several persons whose shareholdings are less than 25%. Also, in the case of trusts, the FATF recommends identifying all parties (e.g., the settlor, protector, trustee(s), beneficiaries, and all natural persons exercising ultimate effective control over the trust) as UBOs, regardless of their share.³³⁹ In addition, as Transparency International indicates, the UAE has 39 different registries, while the only effective way to address illicit activities is to operate a single centralized register.³⁴⁰

Another important issue relates to the use of virtual asset activities that create illicit finance vulnerabilities due to their limited transparency and undisclosed UBOs. In February 2022, Sheikh Mohammed approved Law No. 4 on the Regulation of Virtual Assets in the Emirate of Dubai (the “Virtual Assets Law”).³⁴¹ This law covers virtual asset services provided throughout the Emirate of Dubai and Dubai’s FTZs (except for the Dubai International Finance Centre). This law established the Dubai Virtual Assets Regulatory Authority (“VARA”), a new regulatory entity affiliated with the Dubai World Trade Centre Authority. One of its responsibilities is to provide rules and standards necessary to regulate and control the Dubai virtual assets market. In August 2022, the UAE Ministry of Economy and the Ministry of Justice also issued new requirements for brokers, agents, and law firms to report to the Financial Intelligence Unit payments with virtual funds derived from virtual assets, as well as cash transactions in the amount of AED 55,000 (equivalent to US\$15,000).³⁴²

Although these legislative initiatives are important steps toward reducing potential illicit finance risks, further steps might include (i) the development of a comprehensive legislative framework covering all AML/CFT aspects with adequate law enforcement support and sector-specific policies regulating enabling actors in luxury real estate and the art market; (ii) encouraging the development of self-regulating approaches and standards by industry experts, fintech companies, crypto firms, and consumer protection entities; and (iii) enhancing international coordination and harmonization in this area.³⁴³ These steps are critical for removing the UAE from the FATF “grey” list and demonstrating the county’s commitment to transparent and accountable practices in trade and financial operations.

Annex 1. Iran's embargo violations involving Dubai and the UAE

| CASE | YEAR | CASE | YEAR |
|--|------|--|------|
| Tractor parts to Iran | 2007 | 100,000 Uzi submachine guns to Iran | 2008 |
| Lab equipment & computers to Iran | 2008 | Fighter jet and military helicopter components to Iran | 2009 |
| Controlled computers to Iran | 2008 | Military aircraft components to Iran | 2009 |
| Test tube and microplate coating systems to Iran | 2008 | Missile components to Iran | 2009 |
| Specialty alloy pipes to Iran | 2008 | Sensitive aircraft components to Iran | 2009 |
| Aircraft engines and components for the Iranian military | 2009 | U.S. fighter jet engines and parts to Iran | 2010 |
| Prohibited exports to Iran | 2012 | TOW missile components to Iran | 2011 |
| Computer-related technology to Iran | 2012 | Military aircraft components to Iran | 2011 |
| Industrial parts to Iran | 2013 | TOW missile components to Iran | 2012 |
| Computer components to Iran | 2013 | Military-sensitive parts to Iran | 2012 |
| Industrial supplies for Iranian petrochemical companies | 2013 | Military aircraft parts to Iran | 2013 |
| Computers to Iran | 2013 | Acoustic transducer and other technology to Iran | 2013 |
| Aluminum tubes to Iran | 2015 | Gyroscope to Iran | 2015 |
| Oilfield service equipment to Iran | 2015 | Sensitive U.S. technology to Iran | 2015 |
| Industrial products to Iran | 2015 | Military aircraft parts to Iran | 2016 |
| Computers to Iran | 2015 | Controlled technology to Iran | 2018 |
| High-tech electronic components to Iran | 2016 | Vacuum pumps with potential nuclear applications in Iran | 2010 |
| Industrial goods to Iran | 2017 | Nuclear-related equipment to Iran | 2010 |
| Aircraft components to Iran | 2018 | Bank transactions for Iran | 2010 |
| Petrochemical parts for Iran | 2018 | Vacuum pumps with potential sensitive applications to Iran | 2011 |
| Industrial equipment to Iran | 2019 | Centrifuge and dual-use scientific technology to Iran | 2011 |
| Manufacturing equipment to Iran | 2019 | Iran embargo violations | 2011 |
| Turbine parts to Iran | 2019 | Prohibited investments in Iran | 2014 |
| Forklift parts to Iran | 2008 | Prohibited financial transactions in Iran | 2016 |
| F-14 fighter jet components and other military items to Iran | 2007 | Nuclear nonproliferation materials to Iran | 2018 |
| F-14 fighter jet components to Iran | 2007 | Bank transactions for Iran | 2018 |
| Electronics & IED components to Iran | 2008 | Iranian sanctions evasion scheme | 2019 |
| Fighter jet components to Iran | 2008 | Bank transactions for Iran | 2019 |

Source: U.S. export enforcement and embargo-related criminal prosecutions by the U.S. Department of Justice between 2007-2019.³⁴⁴

Annex 2. Counterfeit goods smuggled from the UAE based on customs seizures

According to the data gathered in the OECD-EUIPO database on global customs seizures, the UAE plays a significant role as a transit point for the global trade in such commodities as fake foodstuff, counterfeit pharmaceutical products, fake perfumery, and cosmetics, fake clothing and fabrics, fake electronics and jewelry, counterfeit toys, and games (see the Table below).

| COMMODITY | ROLE AS A TRANSIT POINT | PROVENANCE ECONOMY (% OF GLOBAL SEIZE VALUE) |
|---|---|--|
| Fake foodstuff | Undetermined. The UAE exports counterfeit foodstuff to Saudi Arabia, Morocco, and South Sudan | < 1% |
| Counterfeit pharmaceutical products | African economies (air-sea), Europe, and the United States (mail) | 4% |
| Fake perfumery and cosmetics | African economies and Europe (air-sea) | 8% |
| Counterfeit leather articles and handbags | Europe either directly or through third countries, such as Kuwait, Albania, Bosnia and Herzegovina (mail-road) | 3% |
| Fake clothing and fabrics | Europe and the United States (mail-air-sea), Northeast Africa (sea), Kuwait (sea), Qatar (sea-road) | |
| Fake footwear | Europe (mail-air), Northeast Africa (sea), Kuwait (sea-road), Qatar (sea-road) | < 1% |
| Fake jewelry | Europe (mail-air), Saudi Arabia [transit point] (air-sea), Kuwait (air-sea), Qatar (air-sea) | 3% |
| Fake electronics | Europe (mail-air), Africa (Somalia, Dem. Rep. of Congo, Djibouti, Mali, Guinea, Gabon) (sea), the Middle East (Bahrain, Jordan, Kuwait, Qatar, Saudi Arabia, Yemen) (road-air). | < 1% |
| Fake optical and medical equipment | N/A | 6% |
| Counterfeit toys and games | Europe (sea), North and Central Africa (sea), Kuwait (sea-road), Saudi Arabia [transit point] (road) | 2% |

Source: Compiled based on OECD & European Union Intellectual Property Office (2017).³⁴⁵

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Terrorism, Transnational Crime and
Corruption Center (TraCCC)
Schar School of Policy and Government
George Mason University
3351 Fairfax Drive MS 3B1,
Arlington,
VA 22201
tracc@gmu.edu
+1 (703) 993-9757
