



The Hague, 18 June 2012

File no. 2644-40

Edoc # 615182v4

Europol External Strategy

Business Case: Cooperation with the United Arab Emirates (UAE)

1. Introduction

The purpose of this Business Case is to provide information to the Management Board (MB) on priority third parties for the conclusion of new cooperation agreements. It specifically provides a rationale for Europol's operational interest in establishing a cooperation agreement with the United Arab Emirates (UAE).

2. Policy Framework

2.1. Europol External Strategy

At its meeting on 6-7 June, the MB agreed to ask the Council to include three countries (Brazil, Georgia and Mexico) to the Council list of third states and organisations with which Europol shall conclude agreements. The MB also considered the possibility of requesting the Council to add the United Arab Emirates to the list. The Director agreed to submit a business case on the UAE to the MB in a written procedure.

2.2. External Relations priorities

Europol's External Strategy is aligned with the overall objectives of the European Union in the external dimension of Freedom Security and Justice, as expressed in chapter 7 of the Stockholm Programme: "Priorities in external relations should inform and guide the prioritisation of the work of relevant EU agencies."

The EU established bilateral relations with the United Arab Emirates through a Cooperation Agreement signed in 1988 with countries of the Gulf Cooperation Council (GCC). The Agreement covers mainly economic and technical matters. Security issues and, in particular, the fight against organized crime are not generally part of the regular dialogue between the EU and the GCC. However, the 21st EU-GCC Joint Council and Ministerial Meeting on 20 April 2011 reiterated its concern about the threat of piracy and highlighted the importance of reinforcing coordination between the EU and the GCC in that area.

3. OPERATIONAL NEEDS

The United Arab Emirates are increasingly relevant in the fight against organized crime as that country is becoming a growing hub for economic and financial crime. Proceeds from criminal activities such as Value Added Tax (VAT) fraud, Missing Trader Intra Community (MTIC) fraud and Money Laundering have been reinvested in the UAE and key criminals involved in these frauds have sought refuge there.

VAT fraud is a highly lucrative crime with a substantial economic and social impact. According to the European Commission, the VAT ‘tax gap’ was estimated to be €106.7 billion in 2006, amounting to an EU average of 12% of the net theoretical liability, with many of the individual MS suffering losses in excess of 20%. In comparison, the EU Budget for 2011 was €141.9 billion.

Missing Trader Intra Community Fraud (Focal Point MTIC)

In February 2010, the United Kingdom’s revenue and customs administration (HMRC) requested Europol’s assistance in accepting, processing, analysing and disseminating sensitive intelligence on key MTIC organisers based in Dubai. As the focus of the crime groups’ attention was upon MS other than the UK, the HMRC felt that Europol was the appropriate platform to maintain an oversight of the pan-European nature of MTIC fraud migration.

In March 2010, Europol officials visited Dubai to meet HMRC Fiscal Crime Liaison Officers and key members of the Dubai competent authorities in the Organised Crime, Anti-Money Laundering and Banking Crime departments of the Police. This led to an exchange of information between Dubai authorities and the UK, which was then shared with Europol for the purpose of providing analytical support.

In May 2011, AWF MTIC and the UK hosted a meeting at Europol, which gave MS prosecutors and investigators active in major financial investigations into 'carbon credit' fraud a briefing on the case and established a Europol-facilitated network which led, at the end of July 2011, to the arrest of a French national involved in cocaine trafficking and VAT fraud in emissions trading.

The short 2008-2009 bubble of fraud in the emissions markets alone was estimated by Europol as costing EU MS €5 billion during a period of eighteen months. EU nationals located in Dubai were, to a large extent, responsible for this affair. The same individuals are today turning their attention to other commodities, such as wholesale gas and electricity or metals markets.

Money laundering (FP Sustrans)

The United Arab Emirates is considered a transit and destination country for the proceeds of crime deriving from a variety of offences including VAT fraud and drug trafficking. In one case known to AWF Sustrans, the criminal proceeds of an OCG involved in drugs trafficking operating in South America and Europe were transferred (often via front companies) to the UAE where they were invested in real estate and luxury goods. Assets valued at over €6m were frozen.

Data received by Europol relating to cash movements throughout 2011 indicate that after East and Western Europe, Western Asia is a significant cash couriering route, in particular the UAE, with some €16m moved (both inbound and outbound). Most monetary flows were outbound, with over €12m leaving the UAE for Europe, in particular to Cyprus and Germany. While it is not possible to confirm that all amounts have a criminal origin, the movement of large sums of cash across borders remains suspicious and is a common modus operandi for money laundering.

Cigarette smuggling and counterfeit cigarette production (FP Smoke)

There are about 30 Free Trade Zones (FTZs) in the UAE, many of them within or adjacent to sea ports, providing easy access to the world's shipping routes. OCGs often transfer their goods through FTZs to facilitate smuggling activities, exploiting simplified or non-existent customs or other security regulations. A significant number of illicit cigarettes seized in the EU are produced in factories in the Middle East, particularly in FTZs in the UAE. According to British American Tobacco, the UAE facilities have a manufacturing capacity of over 55 billion sticks per year and produce over 60 different brands. Four of the manufacturing facilities located within the UAE FTZs are problematic in terms of impacting external markets as illicit goods.

In order to conceal the source of smuggled cigarettes, containers are transhipped or 'flipped' before the goods enter the EU, often changing the actual containers, along with the associated documentation on the source, destination and companies involved. Intelligence suggests that this criminal activity is often done by transiting goods via FTZs, especially in Dubai.

Intellectual Property Crime (FP COPY)

Free Trade Zones in the United Arab Emirates are a common transit point for counterfeit goods coming from Asia en route to Europe. One particular case is the Jebel Ali Free Zone (JAFZA), in Dubai, where the real origin of goods is concealed to avoid EU Customs risk profiling. This concerns all types of goods, including those potentially dangerous for consumers' health, such as medicines.

Counter-terrorism (CT)

Currently, only 0.01% of the information stored in the CT AWF is related to the UAE and so far no spontaneous contribution has been made by the UAE, nor has any MS acted as a bridge for data exchange. However, the UAE are potentially a key partner in the Gulf region in the fight against terrorism and could be a valuable source of information for EU security bodies.

At strategic level, Europol's CT unit has participated in a number of events in the framework of EU-GCC cooperation since 2006. The focus of these meetings has been mainly terrorism financing and valuable strategic information was obtained.

4. Conclusions

Although some Member States have acted as a bridge for data exchange between Europol and the United Arab Emirates, especially in relation to MTIC fraud, there are many limitations when it comes to sharing intelligence on the UAE with other MS. An operational agreement between Europol and the UAE would enable a direct information flow. This would provide MS with an invaluable connection to an area which is becoming increasingly relevant as a hub and a sanctuary for organized crime. Furthermore the value of the illicit sums involved in the forms of criminal activity attributed to the UAE is very high and have a significant adverse impact on economic conditions in the EU.

An operational agreement would also allow the UAE to more efficiently communicate information with MS. At the meeting at Europol in May 2011, the Dubai delegation made a point about the piecemeal approach of MS in seeking and providing intelligence to their authorities and expressed a preference for dealing with one single counterpart to ensure consistency. This role could be filled by Europol in support of MS.

Altogether, an operational agreement would reinforce Europol as the major player in the fight against financial fraud throughout the EU, especially vis-à-vis a region with which MS have had difficulties in establishing operational cooperation in the past. It would therefore contribute to enhancing international co-operation in the field of financial investigation and could open the way for more operational cooperation in criminal matters between the EU and the GCC.

A cooperation agreement would also provide MS with an additional gateway to exchange operational intelligence with the UAE authorities. It would facilitate more focussed international financial investigations against frauds originating from or linked to that area. Finally, it would provide a more coherent and consistent EU law enforcement approach towards the UAE.

5. Recommendation

Given the increasing significance of the United Arab Emirates as a hub for economic and financial crime and its impact on the internal security of the EU, Europol recommends the MB to give high priority to concluding an operational agreement with the UAE.
