

Cargo Crime in Gulf Countries and Regional Free Trade Zones

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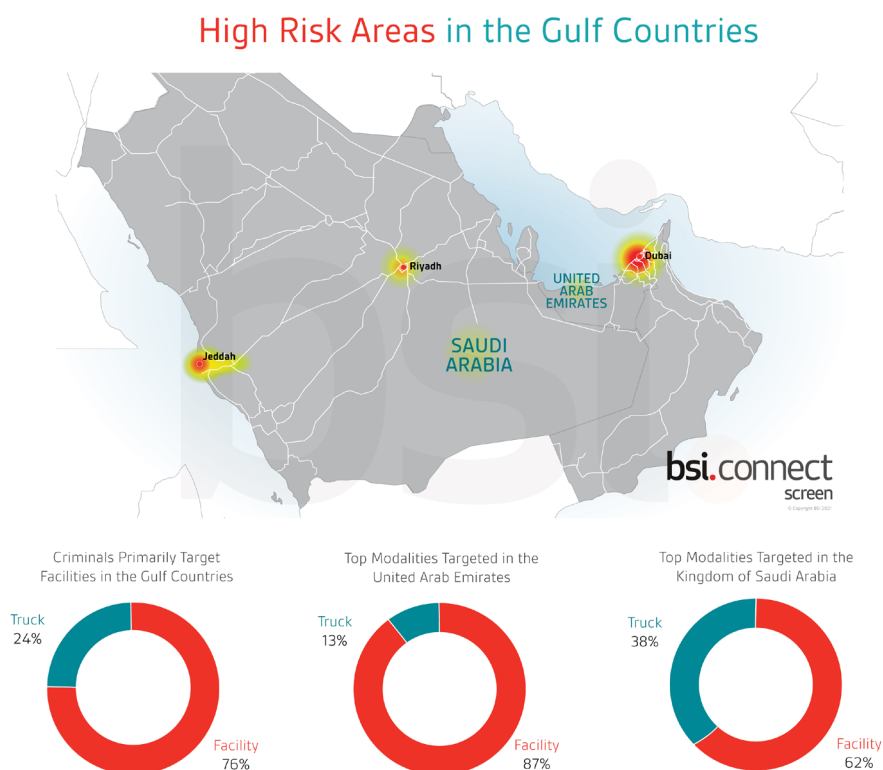
Prospect of Increased Trade and New Free Trade Zones Could Lead to Other Regional Cargo Crime Hotspots

INTRODUCTION

In examining cargo crime in the Gulf countries, warehouse thefts and supply chain corruption stand out as risks to supply chains, with noted concerns in specifically the United Arab Emirates (UAE) and the Kingdom of Saudi Arabia (KSA) despite efforts by government officials to combat the issue. To understand both cargo crime trends and the methodologies employed by criminals operating in this region, this report also examines the role special economic zones play in the Middle East. This role includes liberalizing trade and normalizing diplomatic relations, but also potentially facilitating crimes affecting the supply chain, such as contraband smuggling. Because Free Trade Zones (FTZ) are significant structural components of the political economy in the Middle East, particularly for Gulf countries, they also represent potential vulnerabilities for supply chains by virtue of facilitating high volumes of trade under simplified customs procedures that can provide opportunities for criminals to act. Furthermore, as Gulf Cooperation Council (GCC) economies return to pre-pandemic levels, with data provided by the International Road Transport Union (IRU) projecting growth in trade, it is possible that criminals will seek to exploit these higher volumes of trade to introduce illicit drugs and counterfeited products into cargo.

CARGO THEFT AND SMUGGLING RISKS IMPACTING SUPPLY CHAINS IN THE GULF COUNTRIES

Unlike other areas in Africa and the Middle East, such as Egypt, Kenya, South Africa, Syria, and Iraq, cargo crime in the Gulf region is generally characterized by warehouse thefts rather than hijackings of cargo trucks. In this region, thefts from warehouses account for 76 percent of all cargo theft incidents. The KSA and the UAE are among the most prominent locations for cargo theft crimes in the Gulf region. Criminals within these countries primarily target facilities, steal high-value products like electronics, and frequently leverage insider help to successfully carry out theft operations.



Smuggling Risks Impacting Supply Chains in the Gulf Countries

Smuggling risks are generally present in several countries in the Gulf region, and projections point to increased cargo throughput in these countries following a down year in 2020 that may provide an increase in opportunity for smugglers to target the increased number of shipments to traffic contraband. However, since the region already hosts some of the world's largest warehouse districts and busiest regional transshipment hubs, there is ample opportunity for criminals to introduce illicit drugs or other contraband into shipments transiting through these two countries. As such, this region often serves as transshipment sites for illegal contraband introductions into cargo, like counterfeits and illegal drug introductions. Countries in this region have also been noted as manufacturing hubs for counterfeit pharmaceutical products and electronic devices .

Reduced administrative oversight, especially in special economic zones or massive transshipment warehouse districts, and cases of supply chain corruption frequently play key roles in facilitating this criminal activity. These issues help to explain the prevalence of supply chain crime in Gulf countries.

Guidance on Mitigating the Risk of Drug Introduction

What is the risk?

The risk emanates from the fact that within free trade zones high volumes of cargo are unpacked, are handled, enhanced, stored, repacked and shipped under reduced Customs procedures. This provides potential opportunities for cargo to be manipulated and illicit materials such as drugs to be introduced into the supply chain. High profile incidents can serve to cause severe operational disruption and unquantifiable reputational damage to logistics operators who, as a consequence, should be motivated to identify, prevent and report such activity.

THE ROLE GULF COUNTRY FREE TRADE ZONES PLAY IN FACILITATING ILLICIT SMUGGLING ACTIVITY

Free Trade Zones (FTZs) in Gulf countries generally represent an area of higher vulnerability to illicit smuggling activity for supply chains because they are designed with more liberalized conditions to facilitate higher volumes of trade at a faster pace. To attract businesses, these conditions include simplified customs procedures and reduced administrative oversight, which may create opportunities that criminals could exploit to traffic contraband via the supply chain. These reduced customs inspection procedures and administrative oversight is what distinguishes FTZs from other logistics hubs, but it also lends itself to an environment conducive to smuggling. The economic role of FTZs as transshipment hubs, combined with gaps in regulations and enforcement, provides criminals with ample opportunities to repackage and relabel goods, also known as round-tripping, forge documents, such as certificates of origin or destination, and introduce illicit goods into legitimate cargo.

Special USTR Report, 2020. https://ustr.gov/sites/default/files/2020_Special_301_Report.pdf

CASE STUDY: HIGHLIGHTING CARGO CRIME TRENDS IN THE UNITED ARAB EMIRATES (UAE) AND SAUDI ARABIA

Cargo Crime Trends in the United Arab Emirates

The UAE's free trade zones serve as a commercial hub for re-exporting cargo, but also act as an environment conducive to cargo theft smuggling schemes. Cargo theft incidents involving thefts from facilities account for 87 percent of all cargo theft in the country. Most cargo theft and seizures in the United Arab Emirates (UAE) occur in the emirates of Dubai and Sharjah, both of which house large warehouse districts, with criminals also increasingly operating out of the Jebel Ali free trade zone.

Distribution of Cargo Theft in the United Arab Emirates

Based on historical data and qualitative analysis



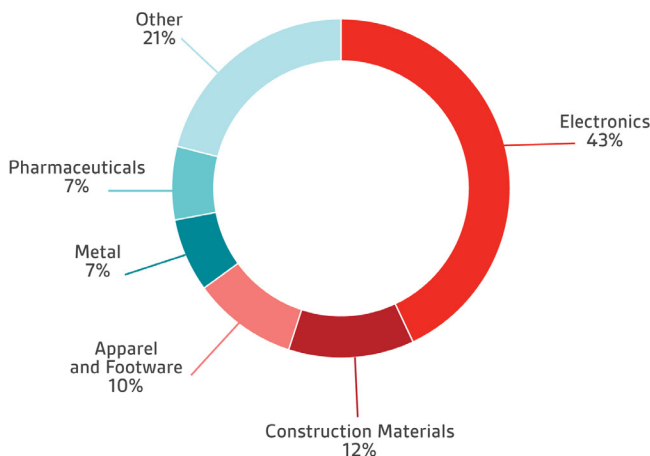
Guidance on Mitigating the Risk of Facility Thefts

What is the risk?

The risk emanates from the fact that within free trade zones high volumes of cargo are unpacked, are handled, enhanced, stored, repacked and shipped under reduced Customs procedures, often such facilities are used as transshipment and consolidation hubs. Generally when cargo is at rest it is at increased risk. Whether that be on a parked truck or stored within a warehouse or depot facility, there is an opportunity for thieves to strike. Cargo theft remains a persistent threat to the supply chain and in areas which accommodate large warehouse facilities within Free Trade Zones, data suggests that thieves will target such facilities over freight in transit carried by truck.

The emirates of Dubai and Sharjah have approximately thirty-six free trade zones, hosting distinct laws with separate court systems based on English common law rather than sharia-based law. Roughly 30 of the free trade zones are in Dubai, accounting for 41 percent of Dubai's total trade. The benefit these liberalized conditions provide in terms of duty-free warehousing and storage comes at a cost of reduced administrative oversight that can create vulnerabilities for criminal activity such as illicit goods smuggling. These gaps explain, in part, the higher than normal number of cargo theft incidents occurring in these warehouse districts.

Top Commodities Stolen in the United Arab Emirates



In the UAE, thieves most commonly steal high-value products like electronics, followed by construction materials, apparel and footwear, consumer products, and pharmaceuticals. Within the second half of 2020 and first half of 2021, criminals are increasingly targeting medical devices and supplies, such as personal protective equipment. In all the incidents involving these types of goods, criminals operated out of the warehouse districts in the emirates of Dubai and Sharjah.

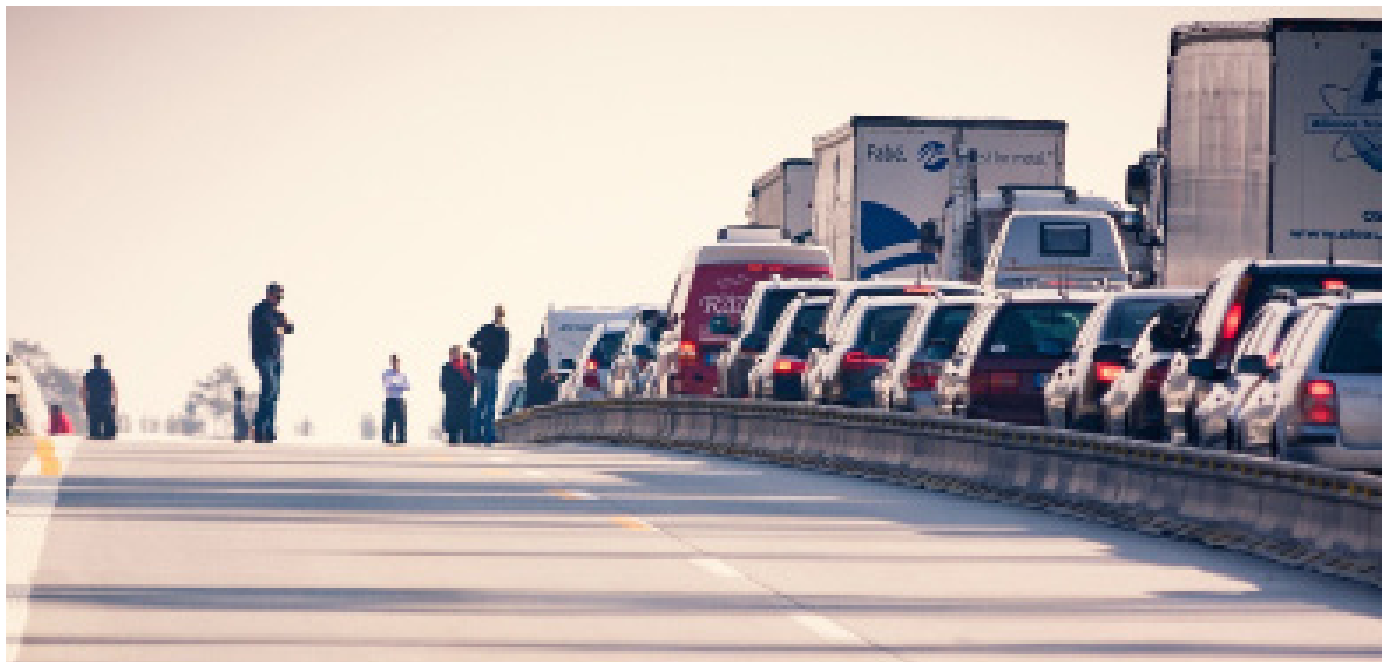
Criminals reportedly similarly exploit gaps in the protocols of free trade zones for the production and transshipment of counterfeit goods, especially tobacco products also known colloquially as "illicit whites." UAE authorities have also uncovered large-scale domestic counterfeiting operations centered in the emirates of Dubai, of Abu Dhabi, and Ajman.

The most common method for the smuggling of counterfeits through free trade zones in the country is the transfer of fake goods between shipping containers to disguise the counterfeit goods' country of origin. In other incidents, counterfeiters carefully packaged fakes, going so far as to include warranty labels of leading distributors in the region and altering the country of origin. Officials have reported other seizures of counterfeit pharmaceuticals and clothing transiting through FTZs in the UAE such as the Jebel Ali Free Trade Zone.

Criminals have also leveraged the UAE's free trade zones for the transshipment of illegal drugs, especially heroin and opium coming from Asia and stimulants coming from the Levant. Smugglers in the UAE have been known to introduce illegal drugs into all-cargo modalities departing and transiting the country. The most common modality for illegal drug introduction through the UAE is via sea shipments that come through the Gulf of Oman to be shipped to mainland Saudi Arabia. In recent years, smugglers have increasingly exploited the UAE as a transit point and destination for the amphetamine-type stimulant fenethylamine introduced into cargo consignments shipped from countries in the Levant and intended for consumer markets in the Arab Gulf. Drug traffickers primarily use the port at the Jebel Ali free trade zone.

Financial free zones, like DIFC and Abu Dhabi Global Market, and free trade zones, like Jebel Ali and Dubai, host their own separate legal system, including distinct commercial regulations, labor laws, and property laws, as well as supervision by an independent regulatory authority. By operating under a more liberalized regime, goods undergo transshipment, assembly, manufacturing, warehousing, and repackaging. This repackaging of goods is a common method that perpetrators look to exploit and by altering the country of origin or destination, as seen in incidents involving counterfeits.

In response to the relaxed regulatory environment in these warehouse districts, the country has implemented a comprehensive security program that includes physical security measures, training security personnel, and rigorous screening standards that are working to create a more secure facility.



Guidance on Mitigating the Risk of Counterfeits

What is the risk?

The risk emanates from the fact that within free trade zones high volumes of cargo are unpacked, are handled, enhanced, stored, repacked and shipped under reduced Customs procedures, often such facilities are used as transshipment and consolidation hubs. This provides potential opportunities for cargo to be manipulated and for counterfeit goods to be introduced into the supply chain. Counterfeiting is a lucrative business and those involved are innovative in disguising their activity. This might include re-routing consignments to disguise countries of origin and taking advantage of lightly governed Free Trade Zones and bonded warehouses, helping to cover their illicit cargoes by “layering” fakes alongside authentic articles.

Cargo Crime Trends in the Kingdom of Saudi Arabia

The complicated regulatory architecture and lack of customs enforcement within free trade zones is not unique to the UAE. Other countries in the region, such as the KSA, use economic zones to facilitate trade. The KSA currently has four economic cities: King Abdullah Economic City (KAEC), Prince Abdulaziz Bin Mouased Economic City (PABMEC), Jazan Economic City, and Knowledge Economic City. King Abdullah Economic City (KAEC) is the largest

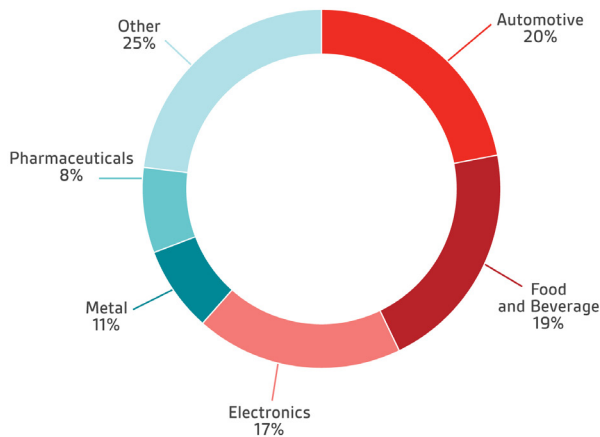
Saudi Arabian economic city, strategically located off the Red Sea, north of the port of Jeddah. Various cargo theft incidents and seizures of contraband goods have occurred within and around this location, pointing to a similar trend in criminals exploiting reduced customs procedures.

Distribution of Cargo Theft in the Kingdom of Saudi Arabia

Based on historical data and qualitative analysis



Top Commodities Stolen in Saudi Arabia



Like in other Gulf countries, cargo theft incidents involving facilities account for most incidents that occur in the Kingdom of Saudi Arabia. Most of these incidents occur in Jeddah, located in western Makkah province, and the capital Riyadh. Cargo thieves in Saudi Arabia steal a variety of products, including automotive parts, food and beverage, electronics, metals, and pharmaceutical products. Criminals operating in the country have increasingly targeted pharmaceuticals and medical devices and supplies in 2020 and carrying into 2021. This trend is likely representative of a greater black-market demand for such goods during the spread of COVID-19.

A significant proportion of these incidents involve pilferage and partial shipment thefts as well as inbound losses prior to goods arriving at final destinations and during customs clearance. Other methods include the slash-and-grab tactic, whereby thieves cut

through soft-sided cargo trailers parked in vulnerable locations to steal shipments. In various incidents, cargo thieves in Saudi Arabia scaled warehouse walls and broke through walls and fences with shovels, picks, and other simple implements. Like all regions of the world, the risk of corruption and its role in the theft of cargo is also a concern.

In addition to theft risks, the Jeddah Islamic Seaport, the largest and busiest port in Saudi Arabia, and King Abdulaziz Seaport, located in Dammam in Eastern Province, are hotspots for the smuggling of counterfeits and illegal drugs into Saudi Arabia. Interpol conducted a report noting the seaport as a transit location for counterfeit pharmaceutical products originating in India, China, and the UAE, and transiting via Saudi Arabia to African countries.

PROSPECT OF INCREASED TRADE AND NEW FREE TRADE ZONES COULD LEAD TO OTHER REGIONAL CARGO CRIME HOTSPOTS

Following the COVID-19 pandemic and a year of economic turmoil, Gulf countries, like the UAE, the KSA, Oman, Qatar, and Bahrain, are expected to return to an aggregate growth in GDP of 2.2 percent in 2021. According to trade data provided by the International Road Transport Union (IRU), exports are forecasted to grow by four percent in the UAE and one percent in the KSA, while imports are expected to grow by two percent in the UAE and six percent in the KSA. Other countries, such as Oman, Kuwait, and Bahrain are projected to see growth in imports of eight percent, four percent, and four percent, respectively. Oman is also forecasted to see a two percent increase in exports, while Bahrain will likely see a four percent increase.

Growth in Imports	2020	2021 (Forecast)
UAE	-2%	2%
KSA	-2%	6%
Oman	-12%	8%
Kuwait	-6%	4%
Bahrain	-7%	4%

Growth in Exports	2020	2021 (Forecast)
UAE	-6%	4%
KSA	-7%	1%
Oman	-4%	2%
Kuwait	-14%	-1%
Bahrain	-4%	4%

In addition, according to trade data for the Gulf Cooperation Council, a regional entity consisting of Bahrain, Kuwait, Oman, Qatar, the Kingdom of Saudi Arabia, and the United Arab Emirates, some of the most commonly stolen types of goods in cargo theft incidents fall within the top ten types of products imported by the region, highlighting the potential exposure to cargo theft that companies may face if adopting trade lanes passing through this region as new logistics routes. With this aggregate growth in trade comes the likely increased opportunity for criminals to exploit the higher volumes of trade transiting through these countries.

Interpol, 2019. <https://www.interpol.int/content/download/15458/file/2020%2006%2029%20FINAL%20PUBLIC%20AIR-PORTS-ports%20threat%20assessment.pdf>

Top Imports by Countries in the Gulf Cooperation Council (GCC)	Thousands USD			Targeted for Theft
	Imported value in 2018	Imported value in 2019	Imported value in 2020	
Machinery, mechanical appliances, nuclear reactors, boilers; parts thereof	59,892,493	60,151,061	48,078,557	
Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles	59,049,049	61,568,649	45,175,979	Yes
Vehicles other than railway or tramway rolling stock, and parts and accessories thereof	41,725,844	46,190,942	31,786,381	Yes
Natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad with precious metal, and articles thereof; imitation jewelry; coin	61,878,423	65,710,832	27,256,981	Yes
Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes	27,683,315	28,125,506	14,534,878	
Articles of iron or steel	14,689,239	13,609,594	10,528,434	Yes
Pharmaceutical products	12,364,639	12,174,165	10,410,621	Yes
Commodities not elsewhere specified	26,338,321	28,561,147	10,167,728	Yes
Plastics and articles thereof	10,791,773	10,875,120	9,333,540	
Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus; parts and accessories thereof	9,499,457	10,088,062	9,219,516	Yes

Additionally, across the Middle East, Free Trade Zones (FTZ), or special economic zones, are emerging as a form of strategic partnerships between countries. This was especially exemplified when Israel normalized diplomatic ties with the UAE and began importing goods from the UAE free trade zones. As the UAE and Israel establish FTZs and direct shipping routes between the port of Eilat in Israel and the port of Jebel Ali in the UAE, and other Gulf states potentially follow in the creation of their own FTZs, it is possible that regional supply chains that choose to utilize these areas could face a heightened risk of cargo crime as criminals take advantage of these new special economic zones.

Shifting to New Supply Lanes Require Additional Risk Assessments

Given the ongoing shipping capacity constraints and seaport congestion around the world, the issues covered above at locations in the Gulf region take on a new light as organizations potentially look for alternative means of transportation for shipments. Signs indicate that cargo throughput in this region is recovering, if not growing, and the increasing number of FTZs in the Gulf combined with robust, pre-existing freight transportation infrastructure could be an appealing alternative for companies that are unable to timely ship goods from origin to destinations. However, companies should not just switch shipping routes to new lanes without conducting proper diligence to assess the level of risk that consignments may face. If anything, the risks highlighted above underscore the importance of ensuring that organizations conduct, and continue to refresh, risk assessments for both new and current shipping lanes to determine the potential exposure to risks that shipments may encounter while being transported on these routes.

Risk mitigation

Effective management controls to mitigate cargo theft as well as illicit drugs and counterfeit goods being introduced into the legitimate supply chain must combine robust procedural and physical measures on the part of the logistics operator. The following infographic highlights the key issues to consider in mitigation of these areas of risk.

		 Procedural	 Physical
Receipt/unpack			
	• Due diligence in the selection of service providers	●	
	• Control bookings/arrivals	●	●
	• Control/restrict access (visitors/mobile personnel)	●	●
	• Documentary protocols	●	
	• Secure transfer of goods		●
	• Information security, secure and restrict communications	●	
Store/handle			
	• Due diligence in the selection of service providers	●	
	• Personnel/insider threat	●	
	• Facility security	●	●
	• Documentary protocols	●	
	• Information security, secure and restrict communications	●	
Pack/ship			
	• Due diligence in the selection of service providers	●	
	• Pre-load checks of the cargo and transport unit	●	●
	• Documentary protocols	●	
	• Information security, secure and restrict communications	●	
	• Vehicles with secure load compartments travelling under customs seals	●	●
	• End-to-end transit mechanisms covering goods delivery from origin or departure to destination	●	●
	• Digitalisation of procedures to minimise human factor	●	●
	• Maximum use of international instruments, supporting secure and transparent transit (e.g. TIR system)	●	●

Regular reviews and audits of both processes and physical measures will serve to ensure that they remain effective, functional and relevant.

As part of mitigation measures, IRU and the Transported Asset Protection Association (TAPA) have also developed a course¹ on transport security focusing on cargo theft but also covering related security risks such as illegal immigration and smuggling.

¹ <https://www.iru.org/iru-academy/programmes/protect-yourself-and-your-cargo-high-value-theft-targeted>

TT Club is the established market-leading independent provider of mutual insurance and related risk management services to the international transport and logistics industry. TT Club's primary objective is to help make the industry safer and more secure. TT Club's Risk Management team is committed to the ongoing development of advice and information underpinning this objective.



This includes:

- Providing support to reduce the risk of claims occurrence
- Promoting 'best practice' opportunities
- Helping to improve risk assessment, mitigation, and control

Theft remains a top five area of claims cost in TT Club's global claims analysis. Analysis of incidents, increased data sharing agreements, collaborations, and widespread dissemination of findings, all serve to improve understanding of the underlying risks. While focused on Gulf countries, this report demonstrates TT Club and BSI's shared goal of educating the transportation and manufacturing sectors about the dynamic cargo theft risks present globally.

With enhanced awareness of cargo crime trends, the industry will be able to engage in a proactive approach in preventing cargo crime, while minimising the resulting financial loss and brand reputation damage.

HIGHLIGHTING RISK, REDUCING EXPOSURE. ADVISING INSURED, SERVING THE INDUSTRY.



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Our Services: BSI Connect SCREEN

BSI Connect Screen is an integrated platform that employs a risk-based approach to supply chain risk management programs. It targets the biggest global supply chain threats to help organizations inspire trust and build resilience through data-driven insight. Our platform contains the largest proprietary global supply chain risk intelligence database that looks at more than 20 risk ratings in over 200 countries. BSI Connect Screen provides services and solutions to accelerate your understanding of supply chain risk and gain insight to empower decision making to build a more resilient supply chain.

Custom Intelligence Services

BSI's Intelligence Team offers custom intelligence services specific to your organization's supply chain. This innovative feature allows our team to dive deep into geographies, commodities, and subject areas most important to your organization. Our team can work to keep your organization ahead of risk by addressing your supply chain concerns through creating custom reports, developing specific threat ratings, and providing analyses. For more information on having our team craft custom intelligence solutions for your organization, please reach out to one of our supply chain analysts at supplychain@bsigroup.com.

Powerful, Interactive Risk Mapping

Each proprietary risk indicator is conveniently displayed for over 200 countries through SCREEN's global risk mapping views. For every indicator, a country is assigned a rating of Low, Guarded, Elevated, High, or Severe. This rating system allows users to quickly identify and categorize the threats to their supply chain and address them quickly. On our mapping, users can view these threats, along with the latest incidents, news, and analysis and can filter the map to show points of interest, allowing organizations to see the key components of their supply chain.

Daily Updates and Notifications

SCREEN provides users the ability to stay up to date with breaking news and changing conditions around the world that impact the integrity of their supply chain. SCREEN's homepage features a compilation of daily analysis, insights, and incidents. Additionally, users can subscribe to the notifications for specific locations and subject areas that concern them the most. SCREEN's daily updates provide data and analysis on the most pressing global incidents and crucial topics in supply chain.

Custom Report Builder

SCREEN's custom country report builder provides users with more control over the areas that are represented in the report. Users can easily pull and compare reports for multiple countries, threat assessments, and commodities tagged throughout the SCREEN system instantly. Our intelligence team reviews each country on a consistent basis and updates them based on threat rating changes, new discoveries, and other pertinent factors.

Supply Chain Incident Database

SCREEN provides users access to a massive repository of supply chain incidents, updated on a daily basis. The database covers a wide range of supply chain issues and user can filter incidents by date, incident type, product type, and country.

Additional Supply Chain Services and Solutions

Connect SCREEN Auditing System

BSI's automated self-assessment and audit analysis solution that quantifies and tracks supplier risk and compliance through various assessment methods to ensure your supply chain, brand, and reputation are protected. By infusing geographic risk data and analysis into the assessment process, organizations can track compliance and risk throughout the supply chain to maximize visibility and focus on the biggest issues confronting them.

Advisory Services

BSI's experienced risk management professionals leverage their knowledge and SCREEN intelligence to help organizations effectively identify, manage, and mitigate risk and develop robust management programs.

Training Services

Our customizable training helps organizations understand, quickly respond, and pro-actively manage supply chain security, corporate social responsibility, food fraud/safety, and business continuity risks.



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