

Why the UAE is Becoming a Liability: The Case of Russian Sanctions Evasion



Dr Frank Millard, Dr Jonathan Swift and Dr Niall McCrae

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By: Dr. Niall McCrae, Dr. Frank Millard and Dr. JonathanSwift



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Synopsis

Russia is managing to bypass sanctions through clandestine routes in the United Arab Emirates.

Since sanctions were imposed following Vladimir Putin's territorial grab in Ukraine, the UAE has become a highly attractive investment opportunity for Russians. Dubai's financial centre has recruited Russian bankers for special units to manage money-rich Russians and their Rubles. Thousands of accounts have been opened for sanctions evaders since Russia invaded Ukraine. These actions are just a few grains in a much larger sand dune of financial miscreance that, as this report shows, enables Russia to not only hide its wealth but also gain access to the hard currency its war economy needs, and even obtain, via the UAE, equipment that is being used by Russia's military on the battlefields of Ukraine.

The world has fractured into rival camps, and in the emerging wrangling over which set of alliances has global preeminence, the BRICS states pose a very real challenge to the institutions which were established as a result of the Second World War. In this quasi-conflict the UAE, has positioned itself as the launderers and bankers for the BRICS in general and Russian finance in particular.

This is a serious challenge to the principles and practices of the rules-based international order. Sanctions, if they are to work, must come with consequences for states that keep a back door open for unethical and self-serving trade and investment that rewards aggressors.

About the Authors:

Dr Niall McCrae

Dr Niall McCrae RMN, MSc, PhD is a social commentator who has written six books, most recently *Green in Tooth and Claw: the Misanthropic Mission of Climate Alarm* (Bruges Group, 2024). An officer of the Workers of England trade union, he was previously a senior lecturer in mental health at King's College London. Niall writes regularly for *Conservative Woman*, *Country Squire* and *The Light*, and he appears regularly on TNT Radio and Unity News Network shows. He has written almost a hundred papers in academic journals, and his previous books include *The Moon and Madness* (2012), *Echoes from the Corridors* (with Peter Nolan, 2016) and *Moralitis: a Cultural Virus* (with Robert Oulds, 2020).

Dr. Frank Millard

Dr Frank Millard is a historian, print, online and TV journalist, researcher and geopolitical analyst. He attended art college studying fine art, history of art and fashion, after which he went up to university to read history, where he was awarded BA (Hons) in medical and modern history, MA in medieval studies (Clay scholar) and a history/English PhD from Royal Holloway, University of London. He also founded the Individualists' Society. He then joined a PR firm followed by a magazine publishers and events company as a copy editor, sub editor, production editor, house journalist and events PR copywriter. He then went on to become a magazine editor, TV journalist, reputation resilience researcher and political commentator. He has stood for local election, contributed to many journals including the *London Magazine*, organised an academic conference at Oxford, written extensively on history (especially 19th, 20th century and medieval), Art and British culture and politics in a global context as well as much else including transport, energy storage, medicine, nutrition and agriculture, and produced artwork and poetry in his spare time. He lives with his wife and son in the Surrey hills.

Dr Jonathan Swift

Dr Jonathan Swift is the author of the Bruges Group book titled, *Covid 19: The Birth of a Killer*. Before his recent retirement, he was a Senior Lecturer in International Business & Marketing at Salford Business School, the University of Salford, Manchester. Prior to his involvement at Salford, he taught at Staffordshire Business School, Stoke-on-Trent, and was a regular contributor to international MSc Management courses at Manchester University, and at the Manchester Business School, where he was involved in socio-linguistic pre-departure training for personnel from major companies who were to go to Latin America to take up positions there.

Jonathan comes from Bowness-on-Windermere, in the UK's Lake District, and was educated at Heversham Grammar School, near Kendal. After studying at Portsmouth, and spending a year in Mexico, he began an academic career as a teacher of Spanish and French, at Unsworth High School, Bury, Lancashire. He gained an MA at Liverpool University, and an MSc at Manchester University (UMIST), before completing his PhD at Liverpool.

His main research interests include foreign languages, military history, politics, cross-cultural interaction, and all things dealing with Latin America. He has lived and worked in a number of countries: Brazil, Colombia, Italy, and Mexico, and has travelled extensively throughout Europe and Latin America, and has been to China on a number of occasions. He is fluent in Spanish, can get by in French, and has an understanding of Portuguese and Italian.

Jonathan has written numerous academic articles, and is an honorary member of the Bruges Group, and a regular contributor to their blogs. His two most recent books are: *Brexit KBO* (2018) published by Cambridge Academic, Cambridge, and *Understanding Business in the Global Economy: A Multi-Level Relationship Approach* (2017) Macmillan Publishers, London.

He has just completed another book entitled: *The South American Pacific War: Nationalism, Nitrates, Gunboats and Guano*, which deals with the war between Chile and the Peruvian-Bolivian Alliance (1879-1884).

Jonathan is married, has three children, a border collie named "Buddy", and lives in Lancashire.

Why the UAE is Becoming a Liability: The Case of Russian Sanctions Evasion

Introduction: The Road to Sanctions

Dr Frank Millard

Sanctions against Russia were imposed following its annexation of Crimea in 2014 and then after its 2022 invasion of Ukraine, increasing in stages. First against Vladimir Putin and his immediate circle and then extended step-by-step, each time attempting to fill in the gaps in the wall to prevent a circumventing of sanctions. UK sanctions apply to 1,681 individuals and 269 entities. One hundred and twenty-nine Russian oligarchs worth a total of £145 billion have been specifically targeted. EU sanctions apply to 1,800 individuals and entities (Commons Library, UK Parliament).

However, in a game of manoeuvre and counter-manoeuve, there will always be routes to exploit and therefore firefighting and where possible anticipation of avoidance tactics such as through third countries such as the UAE.

The game of chess is not just deliberating where to move and reacting to the opponent's moves, it is even more than anticipation, but being three moves here in one's mind and understanding the consequences of any action and how to prevent those consequences. This, in the real world, would apply as much to the economic, military and geopolitical. The West has been playing draughts while their opponents play chess, or even worse, snap!

Sanctions avoidance has included the medium of several Middle Eastern countries, notably the United Arab Emirates.

A potential risk in the policing of sanctions in non-Western countries and especially in MENA countries and the Global South more generally is in looking dictatorial or economically colonialist in attitude over immersing nations. Thus, punishing transgressors could be regarded as reactive and negative, risking economic and political realignment with the West's rivals.

For Ukraine, there is no strategic objective in its resistance to Russian occupation of its territory except resistance - consequently,

survival and reconquest regardless of pre-existing context or the possibility of alternative pragmatic routes to a just and enduring conclusion to the war. While the Ukrainian army fights with blood, guts and NATO munitions, the West's weapons are more economic and diplomatic, which similarly have little strategic objective other than victory on a physical battlefield followed by some kind of political dialogue and a semblance of peace or absence of war at least. The economic cold war is also in need of a strategic objective beyond Russian withdrawal.

Following the war, the West will have to share a planet and a global economy with its present adversary, so a plan how that can be achieved in a way that leads to global stability and mutual prosperity is a prospect worth sharing with the wider world.

Meanwhile, attempts by third countries to get around sanctions continue. In February 2024 the Ukrainian defence ministry's Main Directorate of Intelligence (GUR) released an audio intercept alleged to be of two Russian soldiers discussing buying Starlink units from Arab providers for around 200,000 roubles (\$2,200) each. It said that Russia had been purchasing communications equipment in (unspecified) Arab countries, including Starlink satellite Internet terminals (*Reuters*).

Chapter 1

Trade, Investment and Relocation: Sanctions and Russian Involvement in the UAE

On 26th March 2022, soon after the sanctions on Russia were imposed, The *Guardian* reported an influx of Russian oligarchs into Dubai: “Perhaps more than anywhere else in the world, the oligarchs, and other cashed-up Russians are welcome in Dubai, along with their riches, which are flooding to the United Arab Emirates in unprecedented amounts – often via discreet means.” By then, at least 38 influential Russians linked to Vladimir Putin owned dozens of properties in Dubai collectively valued at more than \$314 million. (*New York Times* and *Center for Advanced Defense Studies*).

Not long after the invasion, Russian superyachts began to be moored up, and the private jets landed.

Early in September 2022 representatives of the USA, UK and the EU travelled to the United Arab Emirates (UAE) to urge a halt to shipments of goods to Russia, including computer chips, electronic components, and other dual-use products with both civilian and potentially military applications. “UAE banks, under the supervision of the Central Bank and other relevant authorities, monitor compliance with sanctions imposed on Russia to prevent violations of international law,” said a UAE official (*Al Jazeera*).

The IMF predicts strong growth for Russia's economy in 2024, despite sanctions and an apparent reduction in critical-list goods imports (https://finance.ec.europa.eu/document/download/ed41eea6-8d13-4963-ad80-38a8d4f94b78_en?filename=230623-list-economically-critical-goods_en.pdf), whereas European nations are set to trail well behind Russia.

Gold

Although by August 2022 the UK, European Union, Switzerland, the USA, Canada, and Japan had all banned imports of Russian bullion, markets were found elsewhere including the UAE. During 2022 it imported 96.4 tons of gold from Russia (*Bloomberg*), while between 24th Feb. 2022 and 3rd March 2023 the UAE, Turkey and China accounted for 99.8% of the Russian gold exports in the customs data (*Reuters*). There is little to

prevent gold from arriving in the UAE being melted down and recast to be sold on the open market as jewelry or bullion for European and US customers.

Russian customs records revealed that there had been almost a thousand gold shipments between 24th February 2022 and 3rd March 2023. The names of over 100 non-Russian companies are recorded that handled Russian gold since the introduction of sanctions (25th May 2023 *Reuters*). Reuters also reported that 75.7 tonnes of Russian gold (\$4.3 billion worth) were imported in the year following the Russian invasion of Ukraine, which was up from 1.3 tonnes in 2021.

At 324.7 metric tons in 2023, Russia has become the world's second-largest producer of gold and is expected to increase production by 4% a year until 2026 (*World Gold Council*). Dealing in gold has become Russia's not-so-secret weapon in sanctions evasion and its dealings with the UAE look important in that strategy.

Oil

On 6th March 2023 Reuters reported that ship tracking data and trading sources suggested that the UAE had been taking delivery of increasing amounts of Russian crude oil. The sources indicated that about 1.5 million barrels of Russian crude had arrived in the UAE since the previous November, volumes increasing since early 2022. In the first ten months of 2022, it bought 3.2 million barrels of oil for reexport and 1.5 million tons of oil products for domestic use (*Politika*).

The Financial Action Task Force (FATF) announced on Friday, the 23rd of February 2024 that the UAE was no longer on its 'grey list' and subject to additional scrutiny, "having demonstrated that its ability to police illicit money flows had significantly improved." This is in spite of continued concerns about Russian money laundering (*Financial Times*).

Sergey Evgenievich Naryshkin, Director of the Russian Federation Foreign Intelligence Service commented that the Arab world will remain a 'key arena of the struggle for a new world order' in 2024 (*Razvedchik*).

Enhanced relationships with Saudi Arabia and the UAE are in Moscow's geopolitical interest, which promotes a multipolar world eroding Washington's strategic influence in the Gulf. Allied to this is the Kremlin's project to establish Islamic banking and Islamic financial products in the country and, consequently, attract foreign investments in

its logistic and socioeconomic development projects.

Between 2017-2022, the trade turnover between the UAE and Russia has grown by almost six times. In 2022 the overall trade increased by almost 68% amounting to \$9 billion. Out of this, the number of exports from Russia to the UAE reached \$8.5 billion, an increase of 71%.

At the same time, exports from the UAE increased by 6% to \$0.5 billion. The UAE is Russia's 12th most important trade partner and ranks first among Middle Eastern countries. The UAE is also Russia's largest trading partner among the Gulf States.

The UAE is Russia's largest trading partner in the Gulf Region, accounting for 55% of Russia's total trade with the Persian Gulf. "Russia is one of the largest diamond producers in the world, and the UAE is one of the world's largest diamond processing centres. The share of precious stones and gold in Russia's total exports to the UAE reached almost 40% in 2022 [according to the Middle East Briefing]," (*Middle East Briefing*).

Between 2015 and 2021, bilateral trade quadrupled, reaching \$6.3 billion.

Possibilities being explored include a bilateral investment and trade agreement or free trade agreement between the UAE and the Eurasian Economic Union (EAEU). Middle East Briefing reported last year that officials claimed that negotiations were ongoing and that concrete results were expected to have been forthcoming by the end of 2023 (*Middle East Briefing*).

The UAE accounts for more than 42% of the accumulated foreign direct investment (FDI) from Russia into the region. In 2021, the UAE's investments in Russia amounted to \$1 billion. By early 2023, the UAE was the leading Arab country in terms of investment (44%) in the Russian economy.

On the 6th of December 2023, Vladimir Putin flew to Abu Dhabi and held talks with the President of the United Arab Emirates, Sheikh Mohammed bin Zayed Al Nahyan, (*Kremlin.ru, President of Russia*). Putin referred to the two leaders and their officials as having been in constant contact and affirmed that the UAE was Russia's main partner in the Arab world. He said that over 900,000 Russian tourists visited the UAE the previous year, a Russian school had opened, and an Orthodox church was planned. Speaking about the situation in Gaza and the Ukraine conflict was very much on the agenda.

"Putin's visit to the Middle East [which also included the

Kingdom of Saudi Arabia] highlighted Russia's foreign policy in the Gulf Arab region and Moscow's attempt to strengthen its role as an alternative actor to the United States and China," commented Giuliano Bifulchi (*Specialeurasia.com*).

In 2022, mutual trade turnover between the two countries reached a record-breaking \$9 billion. Between January and September 2023, trade increased by 63% compared with the previous year. (*Specialeurasia.com Geopolitical Report 37, 2*)

Whose New World Order?

Gallagher and Robinson, in their influential work, *The Empire of Free Trade*, suggested that there was a successful policy shift (begun in the 1850s) away from formal territorial to informal economic imperialism around the 1880s (see also *Africa & the Victorians*). This strategy can be said to typify the 20th century US global dominance as a superpower, economic as much as military. Whereas European colonialism was rejected and became extinct after WWII, its economic version was not challenged seriously until recently and only after the apparent fall of state communism in Eastern Europe.

Imposing and enforcing sanctions have their risks, not least on the dominance of the mighty dollar, still recovering from the pandemic and supply chain crisis. The USA has \$480.84 billion in gold reserves but owes \$34.41 trillion with external debt amounting to \$32.9 trillion. It is owed a lot, which is a powerful influence on and over much of the world but not as much as before.

The UAE and Saudi Arabia were invited to join BRICS, which has alternative currency ambitions made more viable by the addition of the two Gulf states. The prospect of joining the top table assuming moral and economic leadership of the global south and detaching it from reliance on the US-dominated Western alliance may be appealing especially if dressed to appeal to the UAE's stated preference for multilateral relationships.

Although BRICS is on the face of it an informal group, its composition and collective GDP have become a challenge to existing global economic structures. The UAE's membership of BRICS has freed it from unipolarity, but the dominance of the Chinese economy over the group and thus over the MENA economies could replace one hegemony for another.

Shreeya Gautam, business correspondent at *The Hilltop*, points out that sanctions can be counterproductive and have unforeseen negative consequences: “Sanctions placed in developing countries have had ongoing effects for decades with little to no progress toward a stable economy and standing in the international arena. Citizens and governments of countries like Cuba, Venezuela and Iran have been suffering for decades under these sanctions, coercing them further away from globalization.” (*Hilltop*)

The US dollar’s share in the foreign exchange market hit a record low of 58% in 2023 indicating a decline in the currency’s position as the world’s primary reserve currency. (*JPMorgan*).

In a 2023 working paper, Antoine Berthou writes that trade invoicing also indicates an undermining of the dollar. He writes that the dominant role of the US dollar in international transactions invoicing is increasingly debated, in the context of the emergence of large economic powers potentially offering alternatives in terms of invoicing and reserve currencies. “The increased use of international sanctions in the foreign policy toolbox of the United States and its Western allies has also reignited the debate on the dominant role of the US dollar in the international financial system. As direct and secondary sanctions implemented by the US administration increase the risks of holding assets or invoice transactions in US dollars, this generates an incentive by targeted countries and third parties to diversify away from the US dollar for international payments.” (*Banque de France* - https://www.banque-france.fr/system/files/2023-09/wp924_0.pdf)

The global reign of the dollar is not likely to end anytime soon and because of its unrivalled liquidity, there is no currency set to replace it (*East Asia Forum*). However, its assumed overuse as an extensive geopolitical tool restricting nation-states has stimulated opposition and a search for some kind of alternative. In a meeting of BRICS finance ministers in Sao Paulo, Brazil, on 27th February 2024, the question of the weaponization of the dollar was raised and a ‘multilateral digital settlement and payment platform’ was proposed.

Anton Siluanov, Finance Minister of the Russian Federation, which is currently the BRICS chair, said, “The first thing to do is to create a connection to the existing central bank digital currency systems that are already operating in a number of countries. In parallel with this, national financial messaging systems need to be connected.” (*LedgerInsights*).

In January 2024, the UAE central bank (CBUAE) made its first

cross- border transfer of Dhs50m (\$13.6m) to China bypassing the dollar withthe 'Digital Dirham.'

Using a central bank-guaranteed blockchain to ensure mutual trust andconduct financial transactions outside of the reach of the dollar makes the UAE less liable to restrictions on its cross-border transactions by Western sanctions.

Chapter 2

Sanctions Evasion and the United Arab Emirates

The UAE is no friend of the current Russian regime nor against sanctions being imposed on named Russian companies and oligarchs, but could be regarded as porous as a third country, an adherent of multipolarity and welcoming of foreign investment. So, how are sanctions being evaded?

Dow Jones reported that a common way that sanctions are evaded is by ownership obfuscation whereby ownership of assets is concealed by means of shell companies, family members and intermediaries (*Dow Jones*). Another is via neutral jurisdictions where Russian oligarchs shelter their assets. Sanctions targets and their enablers who are facilitating evasions (e.g., legal, financial and real-estate professionals) are looking to new venues to shield their assets to replace traditional locations like the UK and EU. The new country of choice is the United Arab Emirates (UAE) where at least 38 businessmen or officials linked to Russian President Vladimir Putin own dozens of properties in Dubai that are collectively valued at more than \$314 million. Six of those owners are sanctioned by the EU or USA.

Other evasion methods include is the use of convertible virtual currency (CVC) using cryptocurrencies as an alternative payment method and trade-based evasion techniques (*Dow Jones*).

A recent Treasury report mentions several ways in which Russians are playing the system such as by listing a freight forwarding business usually located in a third-party jurisdiction and the final destination when the goods are intended for shipping on to Russia.

Russia's bilateral trade with the UAE grew by 68% in 2022 to \$9 billion, of which Russian exports made up \$8.5 billion: a 71% increase (*Politika*).

On 18th March Jeremy Hunt was reported by the *Telegraph* as stating in answer to a direct question: "Dealing with people who are getting around the sanctions we have against Russia is on the agenda at every finance minister's meeting that I go to with my G7 colleagues." He singled out certain Russian use of countries such as the United Arab Emirates in relation to sanctions dodging. Meanwhile, the *Telegraph* itself became part of the news with the attempt at its purchase and that of the *Spectator* by Redbird IMI, a joint venture majority backed by Abu Dhabi's Sheikh Mansour.

In 2022 the UAE imported 96.4 tons of gold from Russia and became the Gulf state's largest source of the precious metal.

On 2nd November 2023, the US Department of the Treasury's Office of Foreign Assets Control (OFAC) announced steps to disrupt the Russian supply chain, focusing on individuals and entities abetting Russia's war in Ukraine by providing Russia with technology and equipment from third countries.

UAE-based companies sanctioned by the USA for dealing with Russia include: 365 Days, Alcotech, Alfa Logistics, Flavic, Golovtchenko, Globe Trekkers, Hyperel, Kobolt, SM Distribution, and TCH Consultancy, which were designated pursuant to E.O. 14024 for operating or having operated in the technology sector of the Russian Federation economy.

Mobitronix was designated for operating or having operated in the electronics sector of the Russian Federation economy.

Dubai Sea Breeze was designated for operating or having operated in the transportation sector of the Russian Federation economy.

Although art collector and financier, Nazem Ahmad, was put under American sanctions in 2019, he has since been accused of smuggling around half a billion for the Lebanese militant group, Hizbullah, according to the US Treasury.

He is believed to move art, cash and precious gems across borders via galleries in the Ivory Coast, family offices in the UAE and portfolio firms in Hong Kong. As reported by Michael Julien.

Besides targeting UAE-based firms supplying dual-use goods to Russia a UAE-based network involved in Russian illicit finance was also subject to scrutiny. For example, OFAC claimed that UAE-based financial engineering company, ARX Financial Engineering Limited, had offered investment services to Russian investors, including the ability to transfer Russian financial assets into and house brokerage and bank accounts in the UAE to promote their access to the global financial system. "ARX has been involved in identifying ways that Russian Rubles could be sent from the sanctioned Russian Bank Public Joint Stock Company (VTB) and converted to US dollars. ARX has also identified ways to reduce the risk of identification of a client's assets in the event of sanctions exposure," the announcement highlighted.

Russian/UAE trade turnover increased by 68% to \$9 billion in 2022, "The country has become an important link in the chains of parallel

imports of electronics —above all, crucial microchips— as well as one of the main destinations for Russian nationals emigrating or simply traveling abroad.” (Nikita Smagin, *Carnegie Politika*, 2023). Understandably, Russian officials studied Iran’s sanctions avoidance tactics throughout 2022. If the compass of the Middle East has shifted away from the West and towards Russia, it is true back the other way with more common ground being found (*Carnegie Endowment for International Peace*).

Dubai has been a preferred destination for wealthy Russians since the late Nineties, but this trend has increased since Moscow’s invasion of Ukraine, as demonstrated by the many private jets and yachts. The Emirati federation did not enforce sanctions against Moscow and offered Russians easy visa requirements. Western banks, such as JP Morgan and Bank of America, moved their staff from Russia to the UAE, especially to Dubai. In 2022, the Russian Business Council estimated that 3,000 Emirati-based companies were owned by Russians, and the arrival of Russians has contributed to a thriving real estate sector in the UAE. Besides, Fujairah, the most Eastern emirate of the UAE, located beyond the Hormuz Strait, has been rapidly rising as a transshipment pivot.

Dubai, the second emirate of the UAE in terms of territorial size and political weight, is the most trade-oriented one in the federation. This is also due to the noteworthy and long-established Iranian diaspora in Dubai (about 600,000 Iranians), still cultivating economic relations with Teheran. Alongside legal trade, informal trade and smuggling with the Iranian coast (mainly with Iran’s Bandar Abbas and Qeshm Island) are established practices.

Although evidence is still lacking, it is likely that the historical smuggling routes passing through the UAE play a role in helping Russian commodities and goods to circumvent Western sanctions, especially considering the strengthening of the Iran-Russia relationship, which are both sanctioned economies. However, what is clear is that since the invasion of Ukraine, a growing amount of Russian oil is bought by companies registered in the UAE and transits through the Fujairah oil terminal for re-export; moreover, while Western countries are trying to convince the Emirati government to stop the export of “dual-use” products to Moscow, Russia has become the largest source of gold import for the UAE. In January-April 2023, at least 39 million tonnes of Russian oil were bought by companies registered in the UAE, for an amount of 17 billion dollars. Most of the Russian oil bought by these companies

reportedly transits the UAE to be re-exported towards Asia, Africa and South America. Fujairah is the focal point, with a rise of Russian oil reaching the Fujairah Oil Industry Zone (FOIZ) and passing through its terminal. The import of oil from Russia to the most eastern emirate of the UAE skyrocketed in 2022, going from zero (April 2022) to 141,000 barrels a day (December 2022): numbers that made up about 40% of all fuel flowing into the Fujairah terminal that month. (Eleonora Ardemagni, *ISPI*).

Liam Peach, a senior emerging markets economist of Capital Economics, commented, in early March 2024, that although the USA tightened sanctions evasion on firms that help Russia import through third countries, “trade has a way of finding new routes and it’s hard to police.”

Peach further noted Russia’s adeptness at sidestepping sanctions: “The US has noted a large increase in banking flows between Russia and Turkey and the UAE. The West has reduced imports of Russian energy significantly but Russia has largely re-routed oil exports to Asia.” (*Business Insider* – YF).

The UAE was also implicated among other third countries by the US Department of the Treasury when it imposed sanctions on what it referred to as an “international fundraising and money-laundering network” for the al Shabab militant group in Somalia (*Reuters*).

The United Arab Emirates has become one of the most desirable investment opportunities in the world and a safe bet for continued growth backed up by policy and raw materials.

Between 2021 and 2022 foreign direct investment (FDI) in UAE increased from \$20.6 to \$22.7 billion, growing by 10%. It became the 16th most attractive investment in the West Asia region and first in the MENA group (UNCTAD *World Investment Report 2023*). Most of the FDI has been in real estate, finance and insurance, manufacturing, mining and construction. According to FDI Markets top investors are the UK, India, the United States, France and Saudi Arabia, whereas Dubai was the favourite destination with 6.8% of the global share of FDI projects (*Lloyds*).

Russia tends to feature more prominently and obviously in property. Real-estate investment in the Emirates will be led by India in 2023, followed by the UK, Italy, Russia and France (*Medium*).

The UAE Context

The ineffectiveness of sanctions against Russia is not just in their evasion, but in some ways more dangerous to the West has been a gradual disengagement from reliance on the dollar and Western markets by countries other than Russia, some of which had been regarded as natural allies of the USA and Europe.

Thus, the UAE should be seen in its wider geopolitical, economic and cultural context.

The massive blue whale in the room (never mind elephants) is energy security and more specifically natural gas. The UAE is a major player in hydrocarbons and can be played by both or several sides in a new cold war where the stakes are high denying assets to the opposition is as important as holding them.

Russia, Iran, and Qatar own and control 54.1% of natural gas reserves on the planet whereas other reserves remain unexploited such as the Levant Basin under the West Bank and Gazan coast, Southern Sudan (where a Russian naval base is planned), and the Donbas in Eastern Ukraine, they will be the subject of intense superpower interest, especially where their revenue potentially benefits an ally or otherwise. Denying ground to an enemy is a well-known military tactic and can include burnt earth, or in these cases, what might be the disruption of war.

If a major feature of the new Cold War is the acquisition of dominance of raw materials, whether that be oil, gas, gold, or rare earths, countries like the UAE are on the front line. Similarly, finance and technology are also crucial global resources.

Consequently, sanctions and their avoidance are just part of the new great game, but tightening their grip in a way that works without risking letting go elsewhere, such as alienating partners or risking the pre-eminence of the dollar, is essential.

Chapter 3:

How the UAE is Getting Around International Sanctions Against Russia

Dr Jonathan S. Swift

“We will fight until the end, at sea, in the air. We will continue fighting for our land, whatever the cost.

“We will fight in the forests, in the fields, on the shores, in the streets...we will fight on the banks of different rivers, and we’re looking for your help, for the help of the civilised countries.

“We’re thankful for this help, and I’m very grateful to you Boris, *please increase the pressure of sanctions against this country - Russia** - please recognise this country as a terrorist state and please make sure our Ukrainian skies are safe.

“Glory to Ukraine and glory to the United Kingdom.”

Ukrainian President Volodymyr Zelensky, in a video link speech on 8 March 2022, thanked Prime Minister Boris Johnson and the UK Parliament for their support in the initial stages of the Russian attack

* Author’s italics

Introduction

As is apparent from President Zelensky’s address to the UK Parliament on 8th March 2022, some two weeks after the re-commencement of Russian aggression against Ukraine, he did not expect that the West would come to Ukraine’s aid by supplying troops, or ‘boots on the ground.’ Zelensky, the ‘Winston Churchill’ of his country, is a realist and restricted his requests to help in making Ukraine’s skies ‘safe’ – he was undoubtedly referring to air-defence weapons such as the Phased Array Tracking Radar for Intercept on Target (Patriot) MIM-104 Ground to Air Missile system, and possibly the latest all-weather interceptor fighter jets – as such weapons are defensive, they would present far fewer moral difficulties for supplier nations such as the USA. In addition, Zelensky specifically requested that Russia be condemned as a terrorist state and that it become the target of sanctions. This is interesting, as when Russia first invaded Eastern Ukraine and the Crimea in 2014¹ sanctions were imposed amidst much fanfare, and yet more were added because of

¹ This began on 27 February 2014, when Russian Armed Forces unilaterally occupied Crimea, and parts of Eastern Ukraine

Russian involvement in the shooting down over Eastern Ukraine of Malaysia Airlines flight MH17. For example, on 29th July 2014, it was reported that:

“...EU governments have agreed to impose sweeping sanctions on Russia, targeting state-owned banks, imposing an arms embargo and restricting sales of sensitive technology and the export of equipment for the country's oil industry, in response to Moscow's continued backing for separatists in eastern Ukraine.”²

The Americans stopped three large Russian banks - VTB Bank OAO, Bank of Moscow, and the Russian Agricultural Bank – from operating in the USA; Borger *et. al.* quoted an unnamed EU official who said that “...the most important measure agreed was to deny Russian state-owned banks access to European capital markets. Under the agreed sanctions, Europeans will not be permitted to buy debt, equity, or other financial instruments with a maturity higher than 90 days in Russian state-owned banks or their subsidiaries. Brokering or other services linked to any such transactions will also be banned.”³ Unfortunately, rather than placing a straight ban on Russian financial activities, the EU hedged its bets by restricting the punishment with a ‘higher than 90 days’ qualifier, meaning that normal transactions would be allowed providing that they fell below this limit. All this did was to curtail some Russian financial activities, but leave many open. In effect, Putin may well have interpreted this for what it really was – a sop, designed to appear tough, but in reality of little consequence.

Other than this, the West did relatively little – the proverbial elephant in the room being the veiled threat that if sanctions were imposed then Moscow would counter by hitting the West's dependence on Russian oil and gas, in addition to prohibiting Western companies access to the vast consumer market that Russia represents. Weak Western leaders, such as US President Barack Obama should have stood up to President Putin in 2014 when he first began his landgrab in Ukraine – but as very little of importance was done, and as Putin tested the waters and found very little opposition, he was emboldened to go further.⁴

On 28th February 2014, Obama released a press statement in

² Julian Borger, Paul Lewis, and Rowena Mason (2014) “EU and US impose sweeping economic sanctions on Russia”. *The Guardian* (29 July); <https://www.theguardian.com/world/2014/jul/29/economic-sanctions-russia-eu-governments>

³ Julian Borger, Paul Lewis, and Rowena Mason (2014) “EU and US impose sweeping economic sanctions on Russia”.

⁴ As an aside, it is suggested (but not proven) by the current author that Putin would have renewed his attack on Ukraine before February 2022 had Covid 19 not intervened.

which he warned Putin not to intervene in Ukraine, saying that: “Any violation of Ukraine’s sovereignty and territorial integrity would be deeply destabilizing, which is not in the interests of Ukraine, Russia, or Europe...”⁵. Needless to say, Putin did not bother replying to this – what Obama forgot (or perhaps never really understood) was that destabilisation *was* in the interests of Russia, especially the destabilisation of Ukraine. Obama held a telephone conversation with Putin a few days later on 1st March 2014, in which he said that the Russian invasion of Ukraine was “...a violation of Ukrainian sovereignty and territorial integrity ...” Once again, Putin took no notice. There was the usual condemnation of Russian actions in the United Nations and some sanctions were imposed by the EU and USA, but in essence, Putin was allowed to get away with the outrage – Western oil and gas dependency on Russia being the key factor in the inability or unwillingness to move against the aggressor. Putin undoubtedly saw this as a sign that he would not be prevented from taking action of a similar nature in the future, and he did just that in February 2022. This time, the objective was far greater and included regime change within Ukraine, in which it was hoped to topple the existing President and replace him with someone who was acceptable to Moscow – a re-run of the Soviet ‘puppet’ regimes that Moscow installed throughout Eastern Europe from 1945-1991.

Containing Putin’s aggressive activities has become a major source of worry for most European nations: if he is allowed to get away with his illegal seizure of vast tracts of Ukrainian territory, where will he go next? The most likely targets are immediate neighbours which are not members of NATO – to attack NATO would be to invite Armageddon, and despite his track record to date, it is very unlikely that Putin would undertake such a move. Moreover, despite their public proclamations, it is equally likely that Putin’s key political allies (including Foreign Minister Lavrov), and the top Russian military figures, would prevent him from triggering a nuclear war. After all, if Putin attacked Ukraine to annex strategically important territory – including Crimea – why would he risk turning these same territories into a nuclear wasteland, and losing them forever? Put succinctly, the question is how to stop Putin’s rampage

⁵ Staff reporter (2011) “Stern words, economic sanctions and a diplomatic boycott: The action Obama took to deter Putin from invading Crimea” *MailOnline* (7th December); <https://www.dailymail.co.uk/news/ft-10285787/The-action-Obama-took-to-deter-Putin-invading-Crimea-in-2014>

without bringing the world to the brink of war.

In summary, the obvious implication of Zelensky's plea was that those sanctions already placed on Russia had proven ineffective. Whilst it is true that sanctions take time to 'bite', the seven years between the first and second Russian invasions of Ukraine should have been sufficient but appear not to have been. This is a key consideration of this chapter – why have sanctions against Russia not been effective? The brief answer lies in the fact that, to be effective, sanctions must be observed by *all* nations, otherwise their effectiveness is lessened, or possibly lost altogether. In other words, if one or more nations refuse to participate, then there is an increasing likelihood that sanctions will not work – at least for a very long time. Furthermore, the longer it takes for sanctions to work, the greater the danger that the target country will wean itself away from those goods/markets from which it has been excluded, possibly producing the required items domestically.⁶ Substitutions from other suppliers can always be found to replace consumer goods imports subject to import prohibitions; similarly, new export markets can be found for the purchase of those products that are also subject to embargos. Where neither of the above is possible, a third way has emerged – that of trading via a third party, and it is this aspect that will be examined in detail.

Punitive Measures

What are the measures - short of war - that can be taken against an aggressor nation? To begin with an explanation of the terminology employed is useful, especially as individuals commenting on such punitive measures are frequently imprecise in their employment of the terminology. There is a subtle difference between a 'sanction' and an 'embargo'. According to the Cambridge Dictionary, sanctions are "An official order such as the stopping of trade, that is taken against a country in order to make it obey international law". Whereas an 'embargo' is "An order to temporarily stop something, especially trading or giving information." More pedantically, sanctions usually involve the prohibition of the supply of certain materials/services *to* a given country, whilst an 'embargo' involves the prohibition of purchase *from* that country. Another distinction is that an embargo (as defined above) is generally of a temporary nature – which, in itself, is an opaque distinction,

⁶ Such as happened in Rhodesia in the mid-1960s, and in Cuba from 1961

as the definition of 'temporary' can be elastic in the extreme. However, as an 'embargo' is a form of sanction, no distinction between the two will be made for the purpose of this current analysis.

Sanctions

To begin, there is the question of who (or what) such sanctions are aimed at and with what desired outcome. To begin with, it is necessary to examine the various types of 'sanction' referred to, as generally when commentators refer to 'sanctions' what they really mean is *economic* sanctions, which is an imprecise use of the term as there are five main types of sanction, and choosing the most appropriate is a decision that should be based on specific circumstantial and environmental considerations.

1. Military Sanctions

These are agreements to cease the supply of military hardware to the targeted country. This includes 'finished' units, and ranges from warships, through missiles, submarines, and aircraft, to MBTs (Main Battle Tanks), radar units and light infantry weapons such as rifles, machine guns, mortars etc: these are generally referred to as 'lethal' products/technologies. There is a sub-category that relates to the supply of equipment designed to be used in conjunction with the 'finished unit' such as ammunition: after all, an MBT is of little use if its main gun has no shells. There are also products that have both civilian and military uses such as petrol and oil.

In practical terms, the problem with military sanctions lies in deciding the point at which such sanctions should take effect – for example, should they come into force immediately, or should defence contractors be allowed to supply weaponry that had previously been ordered and paid for? In addition to this, there is the question of the supply of spare parts, and the maintenance of vehicles already delivered – both of which might/might not be subject to sanctions, depending on the circumstances, and the specific terms of the sanctions imposed. As sanctions are supposed to be a moral response to an immoral act, there is an argument for suggesting that all military hardware ordered and paid for before the imposition of sanctions should be respected – otherwise the supplier nation could also be deemed immoral, as could be accused of theft by taking payment for goods that were never subsequently

delivered.⁷ Such considerations might mean that countries were allowed to continue supplying armaments years past the imposition of sanctions.

In addition to the supply of 'finished' weapons, there are any number of materials essential to the production of military hardware, generally explosives and other forms of ordnance - chemicals and primary materials that are employed in the manufacture of armaments and explosives, such as nitrocellulose, the main component of explosives and gunpowder. The theory is that once any such ban was in place, the long-term ability of the target nation to produce its own armaments should be degraded, and the military would be unable to replenish its stocks. Finally, there is a whole range of what are termed 'non-lethal' products which are consumed by both military and non-military purchasers: these range from commodities such as oil and petrol - both of which are essential to both civilian and military operations. As such commodities have civilian (in addition to military) uses, they are considered as part of economic sanctions.

2. Economic Sanctions

These are generally viewed in the long-term, rather than the short-term, and have the objective of degrading the target country of its means of industrial production for internal consumption, and in addition, depriving it of foreign exchange earnings through exports. As wars cost money, the theory is that their ability to generate income will eventually lead it to a collapse of the economy, the loss of military capability, and possible internal regime change because of civilian revolt triggered by inflation, unemployment, and a lack of consumer goods.

In the long term, there is also the question of the 'bounce-back' of economic sanctions. For example, to hit Russia economically, it is necessary to target those areas of the economy that provide the country with best levels of foreign exchange, and this is undoubtedly the oil, gas, minerals, and banking sectors. However, any economic sanctions levelled against any or all of these sectors might well prove counter-productive in the long run for two reasons: firstly, economic depredation will

⁷ Just such a scenario occurred when British Chieftain MBTs were ordered and paid for by the government of the Shah of Iran. However, following the overthrow of the Shah and the subsequent installation of a radical Muslim government that made no secret of its hostility to the West, delivery of the order was blocked, as it was feared that the tanks might be used against UK allies in the Middle East: "Iran paid £600m for the tanks in advance, but the UK...in February 1979 refused to deliver the remaining weaponry when the Shah was deposed and replaced by a new revolutionary and theocratic regime. Only 185 tanks had been delivered." [Patrick Wintour (2021) "Why an old £400 m debt to Iran stands in way of Nazanin Zaghari-Ratcliffe's release." *The Guardian* (11 November); <https://www.theguardian.com/news/2021/nov/11/nazanin-zaghari-ratcliffe-iran-uk-debt-arms-deal>]

eventually hit Russian citizens, handing Putin a propaganda advantage, as he can easily blame Western economic sanctions for any distress caused; as he controls the State media the ordinary citizens have no way of knowing the truth. Secondly, the supplier/buyer industries affected by such sanctions may suffer adverse economic consequences as a result; they may also lose Russia as a supplier/buyer on a permanent basis in the future, as their role will be assumed by competitors from other countries.

Whilst military and economic sanctions are the key areas of attack against a targeted nation, others include:

3. Personal Sanctions

This refers to sanctions against named individuals who represent and/or support the targeted regime. It is the cleverest of all sanctions, as it punishes key players, but at the same time, does not generally affect the wider population. Personal sanctions can be strengthened by the addition of legal actions, such as the issue of an International Arrest Warrant. In 2023, just such a warrant was issued for the arrest of Putin on the grounds that he had been responsible for war crimes committed in Ukraine – specifically:

“... for the war crime of unlawful deportation of population (children) and that of unlawful transfer of population (children) from occupied areas of Ukraine to the Russian Federation (under articles 8(2)(a)(vii) and 8(2)(b)(viii) of the Rome Statute). The crimes were allegedly committed in Ukrainian-occupied territory at least from 24 February 2022. There are reasonable grounds to believe that Mr Putin bears individual criminal responsibility for the aforementioned crimes, (i) for having committed the acts directly, jointly with others and/or through others (Article 25(3)(a) of the Rome Statute), and (ii) for his failure to exercise control properly over civilian and military subordinates who committed the acts, or allowed for their commission, and who were under his effective authority and control, pursuant to superior responsibility (article 28(b) of the Rome Statute).”⁸

The significance of the ICC Arrest Warrant is that if the people identified travel abroad, the governments of the countries through which they pass are legally required to detain them and ensure they are sent to

⁸ ICC Press Release (2023) “Situation in Ukraine: ICC judges issue arrest warrants against Vladimir Vladimirovich Putin and Maria Alekseyevna Lvova-Belova” (17 March); <https://www.icc-int/news/situation-ukraine-icc-judges-issue-arrest-warrant-against-vladimir-vladimirovich-putin>

The Netherlands to stand trial. This makes foreign travel all but impossible, other than to those countries that are not signatories to the ICC.⁹ As Klobucista and Ferragmo observe:

“...the indictment has already limited Putin’s ability to travel abroad and attend important diplomatic forums. Putin was forced to virtually attend the 2023 BRICS summit with the leaders of Brazil, India, China, and South Africa after the host government of South Africa pressured him not to travel there. As an ICC member, the South African government would be compelled to arrest Putin if he joined the talks in Johannesburg. Some observers say that, even without Putin’s arrest, the ICC’s warrant furthers Russia’s status as a global pariah.”¹⁰

4. Diplomatic Sanctions

The objective being to withdraw international recognition for the aggressor nation, and in so doing, help confer upon its ‘pariah nation’ status. Expelling junior-to-mid-level diplomats was a favourite tactic employed between nations during the ‘Cold War’ of the 1950s-1990s, and the expulsion of an ambassador is generally considered to signify a serious deterioration in relationships.

5. Socio-Cultural Sanctions

These are measures designed to isolate the aggressor nation by restricting its access to international education (in particular HE), and The Arts (concerts by international artists, the loan of artifacts between museums, ‘friendship’ groups etc.). The objective is to make the populace of the country feel so isolated and cut off from the rest of the world that they put pressure on the government. A good example of this is Russian participation in the “Eurovision Song Contest” – Putin had encouraged Russia to lobby for participation in this event ever since he first assumed the Presidency in 2000, as it is an effective ‘soft power’¹¹ weapon and it

⁹ There are only eight countries that are not signatories to the ICC convention: China, Israel, Libya, North Korea, Qatar, Russia, the USA, and Yemen. Even though the USA, and Israel are not signatories, Putin would undoubtedly be arrested should he set foot in them, and possibly he might also be arrested in China, should the Chinese authorities deem it prudent to do so. The only really safe countries for him to visit are Libya, North Korea, Qatar and Yemen – and this is hardly conducive to reinforcing his desired image of a world statesman.

¹⁰ Claire Klobucista and Mariel Ferragmo (2023) “The Role of the International Criminal Court.” *Council on Foreign Relations* (24 August); <https://www.cfr.org/background/role-international-criminal-court>

¹¹ A term coined by Joseph Nye, who used it to imply “... the ability to affect others to obtain the outcomes one wants through attraction rather than coercion or payment...” (p. 94). See: Joseph Nye, “Public Diplomacy and Soft Power.” *The Annals of the American Academy of Political and Social Science* Vol. 616(1), 2008, pp. 94–109.

was eventually allowed to compete in 1994; much to Putin's chagrin, Russia was banned from participation in May 2022 as a consequence of Putin's ae-invasion of Ukraine.¹²

6. Sporting Sanctions

As with 'socio-cultural' sanctions, the objective is to isolate the target country, reduce any 'soft power' emanating from sporting links, and prevent it from appearing as a member of the international community, hoping that this will fuel internal resentment by the people against their government. Good examples of this sanction include the IOC (International Olympic Committee) decision to exclude Apartheid South Africa from the Olympic Games of 1964, and to exclude Russia from participation in the 2020 (Tokyo) and 2022 (Beijing) Olympic Games as a consequence of their re-invasion of Ukraine. Incidentally, and in view of the terminological distinctions offered earlier, the Olympic Games held in Moscow in 1980 were *boycotted* by a number of nations - including the USA - in response to the then Soviet Union's invasion of Afghanistan.

Efficacy of Sanctions

1. Military Sanctions

There are three *caveats* to bear in mind when contemplating this option: the aggressor may have no need of additional weaponry purchased from abroad, having stockpiled all they need, or they have the industrial capacity to produce their own weapons and ammunition. Secondly, it is highly likely that, by the time military sanctions begin to take effect, any attack will have been completed - under such circumstances the value of military sanctions is questionable. Finally, as with all sanctions, there is the question of the extent to which sanctions damage those imposing the sanctions: as the USA, France, the UK, and Germany are the top Western arms manufacturers in the world (outside Russia), it is highly likely that military sanctions against Russia would hurt equally companies such as Boeing, Mistral, BAE Systems, and Krauss-Maffei, and the politicians in each of these nations would have to weigh up whether, on balance, military sanctions would be productive.

One might be forgiven for assuming that, in view of the long-

¹² Lea M. Welslau and Torsten J. Selck, "Geopolitics in the ESC: Comparing Russia's and Ukraine's Use of Cultural Diplomacy in The Eurovision Song Contest." *New Perspectives*, Vol 32 (1), 2024, pp. 5-29

standing covert and overt hostility of Russia (and previously the Soviet Union) towards the West, no Western arms manufacturer would have supplied Russia with arms in the first place. The reality, however, is disgracefully rather different, as highlighted by the French investigative journal *Disclose*. It found evidence that despite the supposed EU August 2014 arms embargo on deliveries of military equipment to Russia, France continued to supply a variety of military hardware: “Between 2015 and 2020, France delivered state-of-the-art military equipment to Russia. This equipment has enabled Vladimir Putin to modernise 1,000 tanks, fighter planes and combat helicopters...”¹³ *Disclose* journalists claimed that:

“...since 2015 France has issued 76 export licences to Russia for military equipment worth a total of 152 million euros. This figure appears in the latest French Parliamentary report on arms exports, although the types of weapon are not detailed there. According to our investigation the French aerospace and defence companies Thales and Safran, in which the French state has major stakes, were the main beneficiaries of these contracts. The deals mostly involve thermal image cameras for tanks, and navigation systems and infrared detectors for Russian fighters and attack helicopters.”¹⁴

The same half-hearted measures were announced by the EU, which, in trying to appear tough, decreed that: “Any trade in arms and ‘related material’ with Russia, both import and export, will be banned...” but tellingly, the communique added that “...the embargo will apply to future contracts only, and therefore will not affect the €1.2bn sale of two French Mistral helicopter carrier ships already agreed.”¹⁵ One is tempted to ask the extent to which the French government was pressured by the French Arms Industry into including this ridiculous caveat. Despite mounting objections, the loophole was not closed until 2022, meaning that between late 2014 and 2022, it had been acceptable for “...EU governments to export weapons worth tens of millions of euros to Russia...”¹⁶ According to the EU Commission, in 2021, 39 million worth of weapons and ammunition were sold to Russia – an increase of 50% over the previous year so much for President Macron’s pledge of ‘solidarity’

¹³ Ellie Guckert, Ariane Lavrilleux, Geoffrey Livolsi, and Mathias Destal (2022) “War in Ukraine: How France Delivered Weapons to Russia Until 2020.” (14 March); <https://disclose.ngo/en/article/war-in-ukraine-how-france-delivered-weapons-to-russia-until-2020>

¹⁴ Ellie Guckert *et al.* (2022) “War in Ukraine: How France Delivered Weapons to Russia Until 2020.” (14 March)

¹⁵ Ellie Guckert *et al.* (2022) “War in Ukraine: How France Delivered Weapons to Russia Until 2020.” (14 March)

¹⁶ Francesco Guarascio (2022) “EU closes loophole allowing multimillion-euro arms sales to Russia.” *Reuters* (14 April); <https://www.reuters.com/world/Europe/eu-closes-loophole-allowing-multimillion-euro-arms-sales-to-russia-2022-04-14>

with Ukraine. As Macron was first elected President on 14 May 2017 and re-elected on 7 May 2022, he must surely have known about French arms exports to Russia, yet in 2023 he had the hypocrisy to state publicly: “We stand by Ukraine, determined to help it to victory... Ukraine can count on France and its allies to win the war, Russia should not and will not win the war.”¹⁷

Furthermore, despite any expectations of sanctions relating to armsproduction materials, Russia has continued to break any supposedly restrictive ‘iron ring’ placed around it: in the long-term, Russia has actually managed to *increase* its imports of nitrocellulose from Turkey and China and receives an additional supply of cotton cellulose – which can be processed into nitrocellulose – from its CIS¹⁸ neighbouring states.

2. Economic Sanctions

To fight a war costs money, and that has to come from the government, which in turn gets it from taxation (domestic and corporate), and other sources. The key to calculating the level of military expenditure is to examine the GDP of a nation, and then to see what percentage of GDP is spent on the military. It is important to view military expenditure in terms of a nation’s wealth, as there are so many other calls on government expenditure: health care and education & training being two of the most important. The Stockholm International Peace Research Institute (SIRI) gave the GDP figure for Russia in 2020 as US \$ 61.700,000,000,¹⁹ some 2.5% higher than in 2019, and around 26% higher than that of 2011. The same SIRI report found that Russia’s “...actual military spending in 2020 was 6.6 percent lower than its initial military budget.”²⁰

It seems incomprehensible, but the West appears to have made the samemistakes over economic sanctions with today’s Russia as it did with the earlier Bolshevik regime; Western democracies excused their inaction against the atrocities and violence of communism with a variety of excuses and apologies - amongst which, commercial concerns was the most frequently cited. This is evident from as far back as a discussion in

¹⁷ Kathleen Magramo, Aditi Sangal, Adrienne Vogt, Leinz Valas, Mike Hayes, Tori B. Powell, and Maureen Chowdhury (2023) “February 8, 2023 – Russia-Ukraine News.” *CNN News* (9 February); <https://edition.cnn.com/europe/live-news/russia-ukraine-war-news-2-8-23/>

¹⁸ Commonwealth of Independent States – basically a Russian attempt to reconstruct the old USSR. Since the withdrawal of Ukraine, the bloc now consists of nine states: Armenia, Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, and Uzbekistan.

¹⁹ Diego Lopes de Silva, Nan Tian, and Alexandra Marksteiner, “Trends in World Military Expenditure, 2020.” (2021) *Sipri Fact Sheet* (April); (Stockholm: Stockholm International Peace Research Institute (SIPRI) Military Expenditure Database, 2021), p.2

²⁰ Diego Lopes de Silva, *et. al.* “Trends in World Military Expenditure, 2020.” (2021) *Sipri Fact Sheet*; p. 4

the UK Houses of Parliament in 1927, between MPs Sir Archibald Sinclair (Secretary of State for Scotland) and Sir Robert Horne (formerly leader of the UK-Russia Trade Delegation), and is worth quoting at length. Sinclair identified trade as an important issue for the UK, and felt that this justified dealing with the Bolsheviks when other nations were seeking to place sanctions on the regime:

“I want to pursue a little further this point of our trade with Russia which I consider a vital point...The reasons for entering into this arrangement with Russia were quite different. The reasons given were not hatred, or love of Russia, or, still less, of the Bolshevik Government. The reasons were to try and do something to restore our British trade and to help our unemployed people here. That was the first and big reason. We have got the trade.”²¹

This is the key argument against sanctions – that they are likely to hit those doing the sanctioning in addition to their intended target: a refusal to trade with the Bolshevik government of the newly-formed USSR would have meant that the UK lost export orders, with a knock-on effect on employment. The question of unemployment was of special concern in 1927, as many had begun to fear the onset of the very high rates of unemployment that characterise the height of the Great Depression – especially from 1929. In a later debate about the same topic, Mr Johnston MP claimed that there were “...over 1,000,000 unemployed and we have, in addition, 849,361 in receipt of Poor Law relief...”²² All of which had the potential to cause civil disruption, as had happened the year before in the General Strike of 1926; it should also be remembered that the recent Russian revolution was still firmly in people’s minds, and there was a genuine fear that that large increases in unemployment, coupled with poor socio-economic conditions, might result in a similar break-down of society and revolt against the system.

The problem for the West is that today Russia supplies – or *used* to supply the majority of Western energy (oil and gas) needs, and that prohibiting Russian imports to energy markets, has the effect of *increasing* the costs of energy within the sanctioning countries. Larry Elliott, writing in *The Guardian* in April 2022 echoed a World Bank warning that, as a consequence of sanctions and the disruption to everyday commercial

²¹ Sir Archibald Sinclair, ANGLO-RUSSIAN RELATIONS. House of Commons Debate (HC Deb), vol 203, cc599-675 (3 March 1927), c. 602-603

²² Mr Thomas Johnston, UNEMPLOYMENT. House of Commons Debate (HC Deb), vol 205, cc567-640 (14 April 1927), c. 577

activities:

“European gas prices are expected to be twice as high in 2022 as they were in 2021, while coal prices are expected to be 80% higher. The Bank expects wheat prices to increase more than 40% this year, putting pressure on developing economies that rely on wheat imports from Russia and Ukraine.” Indermit Gill, the World Bank’s Chief Economist, said: “Overall, this amounts to the largest commodity shock we’ve experienced since the 1970s. As was the case then, the shock is being aggravated by a surge in restrictions in trade of food, fuel and fertilisers.”²³

Obviously, such an increase in energy prices is not desirable and means that Western politicians who are accountable to their electorate feel that they have to tread very carefully when considering energy sanctions against Russia. This is the nub of the problem when assessing the effectiveness of economic sanctions: for too long, the actions of the Soviet Union and latterly Russia had been quietly ignored by the West – probably because too many people were making too much money out of dealing with the Russians, and latterly because Russian oil and gas are much-needed commodities. For example, in 2014, the US oil and gas giant ExxonMobil signed a US\$500 million deal for exploration in the Arctic, with Rosneft - Russia’s largest oil company. In deference to sanctions imposed following the 2014 Russian invasion, the deal was put on hold in 2015, but reactivated in 2017 – presumably because both parties felt that everyone would have forgotten about the invasion and the sanctions.²⁴ Other multinationals that continued to trade with Russia in 2022 included Airbus, BMW, British American Tobacco, Boeing, Diageo, General Electric, GlaxoSmithKline, and Siemens.²⁵ More recently, the news agency *Reuters* investigates those EU companies that have continued to trade with Russia, despite sanctions. The report found that:

“Much trade still flows between the bloc’s 27 countries and Russia - a result of successful lobbying, the EU’s unwillingness to take a harder economic hit, and concerns about ripple effects on global supply chains... In 2021, Russia was the EU’s fifth- largest trading partner

²³ Larry Elliott (2022) “Ukraine war ‘will mean high food and energy prices for three years’” *The Guardian* (26 April); <https://theguardian.com/business/2022/apr/26/ukraine-war-food-energy-prices-world-bank>

²⁴ Joseph (2022) “Which Companies are still trading with Russia?” *Naritatrading.com* (17th September, 2022); <https://naritatrading.com/which-companies-are-still-trading-with-russia/>

²⁵ Joseph (2022) “Which Companies are still trading with Russia?” *Naritatrading.com* (17th September, 2022); <https://naritatrading.com/which-companies-are-still-trading-with-russia/>

with goods exchange worth 258 billion euros, according to the EU executive European Commission. The main EU imports were fuel, wood, iron and steel and fertilizers....”²⁶

In November 2023, a *Financial Times* report claimed that 127 British companies admitted to having broken Russian sanctions²⁷ - it was, however, suggested that: “...Issues around a lack of transparency over the ultimate beneficial owners and controllers of companies, as well as Russian shareholders that may sit behind shell companies, can make it harder for UK companies to ensure they have not breached sanctions.” Companies continued to do business with Russia into 2024 - a BBC report in February 2024 found that there were still major US companies that were selling goods in Russia (PepsiCo), whilst others (Avon) continued to manufacturer in Russia at a factory near Moscow.²⁸

Putin’s allies, North Korea and China have no intention of obeying any sanctions – quite the reverse, as China and India are currently taking advantage of cheap Russian oil and gas that cannot be officially sold to the West as a consequence of economic sanctions.²⁹ Other countries such as Iran continue to trade with Russia, as they probably see this as a way to help destabilise the West. Even a number of important ‘Western’ companies are continuing to trade with Russia, as of 11 July 2023 these included: Auchan (France), Benetton (Italy), Guess (USA), Heineken (NL), Mitsui (Japan), Philip Morris (USA), and Unilever (UK).³⁰

Other sectors still importing from Russia are Liquid Natural Gas, diamonds, and chemicals, and perhaps most worrying, however, in view of Russia’s abysmal safety record, is the fact that “...EU imports of Russian nuclear industry products totalled nearly 750 million euros in 2022, according to Eurostat. EU nuclear agency Euratom said Russia provided a fifth of uranium used by EU utilities in 2021, the latest data available, as well as a fourth of conversion and a third of enrichment services.”³¹

²⁶ Gabriela Baczynska (2023) “Factbox: EU keeps on doing business with Russia despite sanctions” *Reuters*, (29 March); <https://www.reuters.com/world/europe/eu-keeps-doing-business-with-Russia-despite-sanctions-2023-03-29>

²⁷ Suzi Ring (2023) “Over 100 British companies admit breaching sanctions on Russia.” *Financial Times* (6 November); <https://ft.com/content/233891c0-2c8c-484a-88d3-866a252d5b31>

²⁸ BBC (2024) “What Are The Sanctions on Russia, and Have They Affected The Economy?” *BBC News* (23 February); <https://www.bbc.co.uk/news/world-europe-60125659>

²⁹ BBC (2023) “Ukraine Crisis: Who is Buying Russian Oil and Gas?” *BBC News* (23 May); <https://www.bbc.co.uk/news-world-asia-india-60783874>

³⁰ Jeffrey Sonnenfeld and Steven Tian (2023) “‘The Feckless 400’: These companies are still doing business in Russia – and funding Putin’s war.” *Fortune* (11 July); <https://fortune.com/2023/07/11/the-feckless-400-these-companies-are-still-doing-business-in-russia-and-funding-Putin-s-war>.

³¹ Gabriela Baczynska (2023) “Factbox: EU keeps on doing business with Russia despite sanctions” *Reuters*, (29 March);

The UAE: Avoiding Sanctions

As stated earlier, sanctions against Russia can be ineffective not only through the deliberate continuation of supply of materials directly from companies based in those countries imposing the sanctions, but also from what might best be termed ‘third party’ countries – those that knowingly provide a clandestine supply channel for imports to, or exports from, Russia. Of these, there is currently a growing interest in the role of the United Arab Emirates (UAE). Various reports have concluded that the UAE is acting on behalf of Russia in a number of key areas – in so doing, it provides the country with external revenue to supplement its ever-decreasing reliance on oil. The practice is generally carried out by what is termed ‘re-routing’ – goods are sent to the UAE – ostensibly the customer and from there they are then shipped to the real customer – Russia. The strategy works because the UAE is not subject to import restrictions, so any company selling to the UAE can do so with impunity. All that is then required is for the UAE ‘Middle Man’ to send the required goods on to Russia. The role of the UAE was highlighted last year (2023) when officials from the EU, the USA, and the UK visited the country in an effort to persuade the leaders to clamp down on the ability of certain EU companies to profit from this trade whilst at the same time, contributing to the ability of Russia to prolong the war.³² The role of the UAE is a pernicious one, and whilst those who contribute to their country’s economy in this way may feel they have done nothing wrong, they have, in fact, contributed to the prolongation of the war in Ukraine, and are complicit in the deaths of many thousands of people, and the widespread destruction of both infrastructure (railways, schools, hospitals, airports) and housing. What, therefore, are the ways in which these sanction-breakers operate?

Sanctions Busting

As the UAE is not itself an arms-manufacturing nation, it cannot supply any domestically-produced arms to Russia. Having said this, however, there is one UAE company – Edge – that has been set up specifically with the aim of growing the country’s arms-producing sector. The company was originally founded in 2014 as the Emirates Defence Industries

<https://www.reuters.com/world/europe/eu-keeps-doing-business-with-Russia-despite-sanctions-2023-03-29>

³² Sam Fleming, Henry Foy, Felicia Schwartz, and James Politi (2023) “West presses UAE to clamp down on suspected Russia sanctions busting.” *Financial Times* (1 March); <https://www.ft.com/content/fca1878e>

Company (EDIC); this proved unsuccessful, and in 2019 it was re-designated EDGE and sought to work with foreign producers in an effort to develop the country's military-industrial base. In an analysis from November 2023, the Institute for Strategic Studies claimed that EDGE set out to become a low-cost producer/manufacturer, by focusing on reducing fixed costs and streamlining – as Swift points out: “Entering into strategic alliances allows companies to share the costs of expensive research and development (R&D) of new weaponry—a key consideration as defense companies rely on a constant stream of new, increasingly sophisticated products in order to stay in business.”³³ This has meant that EDGE has concentrated its efforts:

“... on a few critical technologies to avoid spreading itself too thinly. EDGE said it is prioritising work in autonomous, smart weapons and electronic warfare. Among the 14 new products the company launched in February this year, 11 were based on uninhabited and autonomous technology. That is not to say EDGE does not have grander ambitions. Its maritime arm, Abu Dhabi Ship Building, has come up with a new corvette design, and this shows the desire to produce more complex naval platforms than the *Falaj 3* offshore patrol vessel it is working on with ST Engineering.”³⁴

With the support of the Emirate government, EDGE has developed a number of international partnerships – first with the Brazilians, where the company worked with the Brazilian Navy to develop long-range anti-ship missiles, with the Brazilian Marines on the development and production of autonomous vehicles, and with the Brazilian Air Force on a variety of ‘smart’ weapons. At the same time, the company also cooperated over ‘non-lethal’ products, probably to give a veneer of respectability to its operations. The new Brazilian government of President Luiz Inacio Lula da Silva is proud of the relationship between Brazil and the UAE – in an article published in April 2023, the Brazilian Minister for Foreign Affairs noted that:

“Over the past 20 years, the UAE has become one of the main partners of Brazil in the Middle East. Few countries have managed to achieve so much diplomatic density with Brazil in such a short

³³ Jonathan S. Swift, “The Long-Term Effects of UK defence Privatisation; Lessons for India?” *Journal of Defence Studies*, Vol. 13, No. 4, October-December 2019, pp. 5-27 (p. 10)

³⁴ Albert Vidual Ribe (2023) “UAE eyes regional edge on arms exports.” *International Institute of Strategic Studies* (Military Balance Blog), 14 November; <https://www.iiss.org/online-analysis/military-balance/2023/11/uae-eyes-regional-edge-on-arms-exports>

period. In addition to the impressive economic figures, our agenda has expanded to areas that range from culture to artificial intelligence, from space co-operation to modernisation of governmental practices, from sports to defence.”³⁵

EDGE is, for example, working in collaboration with the Brazilian SIATT company established in 2015 which develops high-tech systems for the defence and aerospace sectors. According to a report in DEFSEC, the company specialises in: “...intelligent weaponry, radar, sensors, and avionics systems technologies.”³⁶ EDGE has developed similar relationships with India, where it has cooperated with the Indian company Bharat Dynamics on the development of precision-guided munitions. Other partnerships include Turkey (Saha), and many others, including a 50% shareholding in the Swiss aerospace company ANAVIA. However, the issue is not really the extent to which the UAE appears to have inserted itself into the global military-industrial complex, but the extent to which it can act as a conduit for the supply of lethal (and to a lesser extent, non-lethal) equipment to Russia. With such an extensive network of international connections, there is growing concern that high-tech equipment may ultimately find its way into Russian hands, despite military sanctions.

By 2023, the problem of military (lethal and non-lethal) supplies reaching Russia from the UAE had become so acute that a group of EU, US, and UK officials arrived in Dubai to try and persuade the Emirate government to crack down on illegal supplies transshipping through the UAE to Russia. A report in the Financial Times from 2023 explained that: “The US government is worried the UAE is becoming a hub for the shipment of items such as electronics that can be repurposed to help Russia’s war effort. One particular concern, according to people familiar with the discussions, is so-called “re-exporting”, where goods are routed through the UAE to sidestep restrictions.” It was also noted that the export of “...electronic parts from the UAE to Russia jumped more than seven-fold last year to almost \$283mn, making the category the largest type of product shipped in that direction.”³⁷ The report also noted that: “The

³⁵ Mauro Viera (2023) “Brazil and the UAE: A Strategic partnership for the Future.” *The National UAE* (15 April); <https://www.thenationalnews.com/opinion/2023/04/15/brazil-and-the-uae-a-strategic-partnership-for-the-future>

³⁶ Dean Mikkelsen (2023) “Brazil’s coastal shield: EDGE-backed SIATT to revolutionise maritime surveillance.” *DEFSEC (Defence and Security Middle East)* (24 November); <https://www.defensecme.com/news/brazils-coastal-shield-edge-backed-siatt-to-revolutionize-maritime-surveillance>

³⁷ Sam Fleming, Henry Foy, Felicia Schwartz, and James Politi (2023) “West presses UAE to clamp down on suspected Russia

UAE exported 15 times more microchips to Russia in 2022 than a year previously, with trade in the products jumping to \$24.3mn last year from \$1.6mn in 2021. The Gulf country also exported 158 drones to Russia last year, worth almost \$600,000, according to the data.” In view of the battlefield success that Ukraine has had with drones against Russian armoured vehicles, it is understandable that drones – despite their industrial classification - are viewed as a predominately military commodity.

The second area of concern is that relating to economic sanctions, and in particular the provision of products that whilst not exclusively military in nature, have the capability to be used by the military. Such concerns were highlighted recently by Ukrainian counter-intelligence which intercepted battlefield conversations between Russian troops with regard to the purchase of communications equipment – specifically ‘Starlink.’ This is a portable, low-cost piece of high-tech equipment manufactured by Elon Musk’s ‘SpaceX’ company and is designed to provide an internet link for users when achieving good interconnectivity is difficult due to the geography of the terrain, and/or when the user is far from inhabited settlements, which are generally better connected with the internet. According to a report in UK PC Mag in February of this year, the Ukrainian Ministry of Defence, managed to intercept the following communication between two Russian military personnel currently forming part of the invasion force in Ukraine”

“It didn’t identify the military unit of the Russian occupiers, but in the recording, one of the speakers talks about the poor internet connection in their area. The other Russian then responds by saying: “Let me order you Starlink, it will be great for you. Bro, do you need Starlink?” The Russian then says a Starlink unit can be ordered through a local convoy [*sic -contact?*] for 200,000 rubles (\$2,184). “The Arabs bring everything to us: wires, Wi-Fi, router,” the Russian later adds...”³⁸

The Ukrainians also released another recording, of Russian forces using Starlink – this time the users were identified as being from the 83rd Air Assault Brigade. Interestingly, the source of such supplies has been independently confirmed as “...imports from Dubai...”

sanctions busting.” *Financial Times* (1 March); <https://www.ft.com/content/fca1878e>

³⁸ Michael Kan (2024) “Ukraine Finds Evidence That Russians Are Buying Starlink From 'Arab Countries'” (14 February); <https://ukpemag.com/networking/1508898/ukraine-finds-evidence-that-russians-are-buying-starlink-from-arab-countries>.

The list is growing by the day, and this chapter has not even touched on the sale of oil and gas – major elements of the Russian economy. One thing is for certain, however, that unless countries such as the UAE continue to clandestinely break military and economic sanctions to Russia, the war will drag on. The UAE is playing a dangerous game, as it does not apparently understand that to (even obliquely) ally itself with Russia will do it no good in the long run. The *Financial Times* report raised another issue related to the role of sanctions-breaking and the UAE – that of the “Tens of thousands of Russians...” who have relocated to the Gulf State, and who have bought property and set up businesses: the fear is that some of which “...could be masking the involvement of sanctioned oligarchs.”

The Emirates should be very wary of encouraging such Russian immigration, however attractive it might appear in the short term, their presence is unlikely to be welcomed for long. As the US Secretary of State Antony Blinken observed with regard to the apparent welcome afforded to Russian forces into the Central Asian Republic of Kazakhstan: “I think one lesson in recent history is that once Russians are in your house, it’s sometimes very difficult to get them to leave.”³⁹

³⁹ Ali Shoaib (2022) “Blinken issues warning to Kazakhstan. ‘Once Russians are in your house, it’s sometimes very difficult to get them to leave.’” *Business Insider* (8th January); <https://www.businessinsider.com/blinken-warns-kazakhstan-over-letting-russian-troops-in-your-house-2022>.

Conclusion

Dr Niall McCrae

The United Arab Emirates have come a long way in the modern world. Dubai, originally a fishing village, rose to become a regional hub in the early twentieth century and is now one of the wealthiest cities in the world.

The population of the UAE is 90% Sunni Muslim, with a Shiite minority, but there is also a constant presence of Russians, mostly on vacation or second-home owners. For many years the UAE has been a hive for Russian oligarchs, major property owners whose mega-yachts fill the harbours.

Since sanctions were imposed after Vladimir Putin's territorial grab in Ukraine, the UAE has become a highly attractive investment opportunity for Russians. Dubai's main government-owned bank, Emirates NBD, has recruited Russian bankers for a special unit to manage money-rich Russians, for whom thousands of accounts have been opened in the last two years.

The Persian Gulf state is a major buyer of Russian crude oil and gold, and despite its size, is now Russia's largest trading partner in the region. The Kremlin is pursuing stronger ties with Saudi Arabia and the UAE, and as Sergey Evgenievich Naryshkin, head of Russian foreign intelligence asserted, the Arab world is a 'key arena of the struggle for a new world order'. The informal BRICS grouping of major countries beyond US hegemony is courting the wealthy Arab states.

Meanwhile, the US dollar is in steady decline on the foreign exchange market. With its global liquidity, the dollar remains important as a primary reserve currency, but its status could be usurped by a digital currency initiated and controlled by one or more BRICS nations. This could help Russia to sidestep punitive actions by the West.

The UAE officially supports sanctions against Russia, but enforcement is dubious. As Jonathan Swift explains in this report, sanctions imposed on Russia after the annexation of Crimea were somewhat tentative, giving Putin the impression that the West's bark was worse than its bite.

Sweeping interventions, including the seizure of assets, since the tanks rolled into Ukraine in February 2022, have had remarkably limited impact on the Russian economy and military might. Indeed, the Russian

economy is growing fast, as new trading partners have been found to replace those lost in the NATO sphere.

In September 2022, the USA, UK and European Union made a concerted effort to dissuade the UAE from trading with Russia, particularly in the shipment of material for military use such as electronic components.

Although not a major manufacturing nation, the UAE has a company producing high-tech military equipment at low cost. Edge, founded in 2014, has established partnerships with countries such as Brazil, and through international trade, its products could find their way into Russian hands.

As Swift observes, ensuring compliance with military, economic, diplomatic, socio-cultural and sporting sanctions is easier said than done. Their complexity defies the simplistic pronouncements of political leaders. Their effectiveness is not straightforwardly measurable. And perhaps most importantly, as seen with UAE, the moral imperative of sanctions is confronted by financial reality.

The UAE is effectively a third party in the sanctioning regime imposed by the West on Russia. As the *Wall Street Journal* claimed in August 2023, the UAE appears to be profiting from the war in Ukraine. The UAE certainly do not want to put all of their eggs in a Russian basket, though. A spokesman responded to the *WSJ* thus: -

‘The ongoing global climate has led to financial and investment inflows to the UAE, given the country’s reputation as a stable global investment hub. We will continue to take these responsibilities extremely seriously, especially given the current geopolitical landscape.’

Yet as this report shows, Russia is managing to bypass sanctions through clandestine routes from or via the UAE. It could be argued that on current evidence the sanctions regime is doing more harm than good to parts of the Western alliance. This is a serious challenge to the principles and practices of the rules-based international order. Sanctions, if they are to work, must come with consequences for states that keep a back door open for trade, on self-serving motives.

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Russia is managing to bypass sanctions through clandestine routes in the United Arab Emirates.

Since sanctions were imposed following Vladimir Putin's territorial grab in Ukraine, the UAE has become a highly attractive investment opportunity for Russians. Dubai's financial centre has recruited Russian bankers for special units to manage money-rich Russians and their Rubles. Thousands of accounts have been opened for sanctions evaders since Russia invaded Ukraine. These actions are just a few grains in a much larger sand dune of financial miscreance that, as this report shows, enables Russia to not only hide its wealth but also gain access to the hard currency its war economy needs, and even obtain, via the UAE, equipment that is being used by Russia's military on the battlefields of Ukraine.

The world has fractured into rival camps, and in the emerging wrangling over which set of alliances has global preeminence, the BRICS states pose a very real challenge to the institutions which were established as a result of the Second World War. In this quasi-conflict the UAE, has positioned itself as the launderers and bankers for the BRICS in general and Russian finance in particular.

This is a serious challenge to the principles and practices of the rules-based international order. Sanctions, if they are to work, must come with consequences for states that keep a back door open for unethical and self-serving trade and investment that rewards aggressors.



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