TEME, Vol. L, Nº 2, April – June 2026, pp. 293–312

Review article
Received: January 19, 2026
Revised: January 22, 2026
Accepted: February 2, 2026

https://doi.org/10.22190/TEME260119020B
UDC 343.9.024:7.06:[343.9.024:336.7
343.7:7.06:[336.228.34:339.543.6
347.78:339.194

THE USE OF ARTWORKS IN MONEY LAUNDERING SCHEMES AND THE ROLE OF FREEPORTS

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Abstract

The art market has increasingly been recognised as a sector vulnerable to money laundering and tax fraud due to its structural opacity, subjective valuation mechanisms, and historically limited regulatory oversight. In recent decades, these risks have been further intensified by the growing role of freeports, which have evolved from trade-facilitating customs zones into long-term storage facilities for high-value assets, particularly artworks. This paper examines the use of artworks as instruments of money laundering and analyses the role of freeports in enabling the concealment, transfer, and integration of illicit financial flows. Drawing on academic literature, legal scholarship, and institutional policy documents, the paper situates the analysis within broader theoretical frameworks of organised and financial crime. It identifies key mechanisms through which artworks are used in money laundering schemes, including valuation manipulation, private transactions, offshore ownership structures, and the use of artworks as financial assets. The paper further explores the historical development and legal nature of freeports, highlighting their transformation into spaces of regulatory opacity that may facilitate tax avoidance and money laundering. The analysis demonstrates that the misuse of artworks and freeports is not an isolated phenomenon but a systemic consequence of financialisation, regulatory fragmentation, and transnational capital mobility. While recent regulatory initiatives, particularly at the European level, have sought to address these risks, significant gaps remain with regard to transparency, beneficial ownership, and effective oversight. The paper concludes that combating money laundering and tax fraud in the art market and freeport environment requires a comprehensive and coordinated approach that extends beyond traditional financial regulation and integrates tax authorities, customs administrations, and law enforcement bodies.

Key words: art market, money laundering, freeports, financial crime, tax fraud.

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ЗЛОУПОТРЕБА УМЕТНИЧКИХ ДЕЛА У ШЕМАМА ПРАЊА НОВЦА И УЛОГА СЛОБОДНИХ ЦАРИНСКИХ ЗОНА (FREEPORTS)

Апстракт

Тржиште уметнина се све чешће препознаје као сектор подложан прању новца и пореским преварама, услед своје структурне нетранспарентности, субјективних механизама вредновања и историјски ограниченог регулаторног надзора. Ови ризици су додатно појачани растућом улогом слободних зона (*freeports*), које су се од инструмената за олакшавање трговине развиле у дугорочна складишта високовредне имовине, нарочито уметничких дела. У раду се анализира употреба уметнина као средстава за прање новца и разматра улога freeportова у прикривању, преносу и интеграцији незаконитих финансијских токова. Рад се заснива на анализи академске литературе, правних студија и институционалних докумената, а теоријски је утемељен у ширим оквирима организованог и финансијског криминала. Идентификовани су кључни механизми путем којих се уметничка дела користе у шемама прања новца, укључујући манипулацију вредношћу, приватне трансакције, offshore власничке структуре и финансијализацију уметности. Посебна пажња посвећена је развоју и правној природи *freeport*-ова, који се анализирају као простори регулаторне изузетности погодни за пореску евазију и прање новца. Закључује се да злоупотреба уметнина и freeportова представља системски проблем повезан са финансијализацијом, регулаторном фрагментацијом и транснационалном мобилношћу капитала. Иако су савремени регулаторни напори, нарочито на нивоу Европске уније, значајан корак напред, и даље постоје озбиљни недостаци у погледу транспарентности, идентификације стварног власништва и ефикасног надзора. Ефикасна превенција захтева координисан и свеобухватан приступ који превазилази традиционалне оквире финансијске регулације.

Кључне речи: тржиште уметнина, прање новца, *freeport*-ови, финансијски криминал, пореска превара.

INTRODUCTION

The global art market has been repeatedly identified as one of the sectors most vulnerable to financial crime, particularly money laundering and tax evasion, due to its structural opacity, weak regulatory oversight, and reliance on private transactions (Dagirmanjian, 2019; Baranello, 2021). Unlike the financial sector, which has been subjected to increasingly stringent anti-money laundering (AML) obligations, the art market has historically remained on the periphery of regulatory attention, allowing illicit financial flows to be concealed through legitimate-appearing transactions (Mosna, 2022).

Scholarly literature emphasises that contemporary money laundering rarely occurs exclusively within traditional banking systems. Instead, organised criminal actors increasingly exploit non-financial markets characterised by high discretion, limited transparency, and subjective valuation mechanisms (Schneider, 2013). In this context, artworks represent particularly attractive assets. Their high value, portability, and speculative pricing enable them to function as stores of value and instruments for the integration of illicit proceeds into the legal economy (Dagirmanjian, 2019; Helgadóttir, 2020). Transactions involving artworks frequently take place through intermediaries, private sales, or offshore entities, further complicating efforts to trace ownership and financial flows (Baranello, 2021).

The vulnerability of the art market is further intensified by the growing role of freeports. Originally conceived as special customs zones designed to facilitate international trade by allowing goods to be stored without immediate payment of customs duties or taxes, freeports have undergone a significant functional transformation (Schwarzkopf & Backsell, 2020). Contemporary freeports—often referred to as 'luxury freeports'—are no longer primarily oriented toward the circulation of goods but toward the long-term storage of high-value assets, particularly artworks (Helgadóttir, 2020). These facilities provide secure environments in which artworks may be held indefinitely, transferred between owners, or used as collateral, frequently without triggering customs declarations or public disclosure (Saleeby, 2023).

Although the manuscript initially refers to fiscal decentralisation in the context of money laundering risks, a more precise analytical framing requires a clear distinction between classical models of fiscal decentralisation and the dynamics of regulatory fragmentation and fiscal competition. In public finance theory, fiscal decentralisation denotes the vertical distribution of taxing and spending powers among different levels of government, primarily aimed at enhancing democratic accountability, institutional responsiveness, and efficiency in public service provision. Within the European Union, this model is embedded in the broader principle of subsidiarity, which seeks to balance centralised coordination with national autonomy in economic governance. However, in the context of financial crime, the relevant phenomenon is not decentralisation itself, but rather the structural asymmetries and regulatory gaps that emerge within multi-level governance systems.

Regulatory fragmentation refers to the coexistence of divergent fiscal, legal, and supervisory regimes across jurisdictions, which enables strategic exploitation by actors seeking to minimise regulatory exposure and fiscal obligations. Despite substantial progress in regulatory harmonisation, significant differences persist across EU member states in terms of enforcement capacity, institutional coordination, and transparency standards. These asymmetries facilitate regulatory arbitrage, allowing assets, transactions, and ownership structures to be relocated across jurisdictions in ways that obscure beneficial ownership and enable economic actors to remain effectively 'under the fiscal radar.' In highly globalised financial environments, such fragmentation significantly weakens the effectiveness of anti-money laundering frameworks and tax oversight mechanisms.

These vulnerabilities are further amplified by the decentralisation of governance functions and accountability mechanisms, particularly at the subnational level. While decentralisation is widely associated with improved democratic participation and policy responsiveness, empirical research demonstrates that it may simultaneously weaken oversight capacity and produce fragmented accountability structures. Uneven institutional development, limited administrative resources, and weak inter-agency coordination contribute to persistent regulatory blind spots. In such contexts, deficiencies in data sharing and interoperability between fiscal authorities, customs administrations, and financial intelligence units further constrain effective detection and monitoring of complex financial flows.

The interaction between regulatory fragmentation and the specialised legal regimes governing freeports intensifies these systemic risks. Freeports operate as spaces of regulatory exception, combining customs exemptions, fiscal privileges, and restricted transparency obligations. Embedded within fragmented regulatory environments, these zones enable ownership transfers, asset valuation practices, and long-term storage arrangements to occur largely beyond effective supervisory scrutiny. Consequently, the vulnerabilities associated with freeports and the art market are more accurately attributed to regulatory fragmentation and fiscal competition rather than to fiscal decentralisation itself. Conceptual clarity in this regard is essential for developing targeted regulatory responses focused on enhanced cross-border cooperation, institutional interoperability, and harmonisation of supervisory standards.

From the perspective of organised crime, the convergence of artworks and freeports offers a particularly efficient mechanism for laundering illicit proceeds. Organised criminal groups increasingly rely on legal markets and professional intermediaries to obscure the origins of criminal assets, blurring the distinction between lawful and unlawful economic activity (Shelley, 2000; Schneider, 2013). The art market, supported by freeport infrastructure, exemplifies this dynamic by providing legally sanctioned spaces in which illicit wealth can be stored, transferred, and gradually legitimised (Dagirmanjian, 2019; Mosna, 2022).

Recent regulatory initiatives at the European and international levels have begun to address these risks by extending AML obligations to certain art market participants. However, existing literature suggests that significant regulatory gaps remain, particularly with regard to beneficial ownership transparency, due diligence obligations, and the effective supervision of freeport activities (Mosna, 2022; Baranello, 2021). As a result, artworks and freeports continue to occupy a critical position within contemporary money laundering schemes.

Against this background, this paper examines the role of artworks and freeports in facilitating money laundering and tax evasion, situating the analysis within broader theoretical frameworks of organised and financial crime. By drawing on existing academic and policy literature, the paper seeks to contribute to a clearer understanding of the mechanisms enabling abuse and to inform ongoing debates on regulatory reform in non-financial markets.

AIM AND METHODOLOGY

Aim of the Paper

The primary aim of this paper is to analyse the use of artworks as instruments of money laundering and to examine the role of freeports in facilitating such practices within the contemporary art market. Existing scholarship has emphasised that the art market represents a particularly vulnerable sector due to its opacity, discretionary valuation practices, and limited application of anti-money laundering safeguards (Dagirmanjian, 2019; Baranello, 2021). Building on this literature, the paper seeks to demonstrate how artworks and freeports operate as mutually reinforcing mechanisms within broader systems of organised and financial crime.

In addition to this general objective, the paper pursues several specific aims. First, it aims to identify and explain the principal mechanisms through which artworks are used for money laundering, including valuation manipulation, private sales, and the involvement of intermediaries and corporate vehicles (Dagirmanjian, 2019; Mosna, 2022). Second, it aims to analyse the historical development and functional transformation of freeports, emphasising their shift from trade-facilitating customs zones to long-term storage facilities for high-value assets (Schwarzkopf & Backsell, 2020; Helgadóttir, 2020). Third, the paper aims to assess how freeports have become sites for tax avoidance, the storage of smuggled artworks, and the circumvention of existing AML controls (Saleeby, 2023; Baranello, 2021). Finally, the paper aims to explore the possibilities for detecting and preventing money laundering and tax fraud within the art market, with particular attention to recent regulatory initiatives at the European level (Mosna, 2022).

Methodology

This paper adopts a qualitative research methodology based on the analysis of secondary sources. The research draws on academic literature, legal scholarship, policy reports, and regulatory documents addressing money laundering, organised crime, and the governance of the art market. Such an approach is consistent with prior criminological and legal analyses that emphasise the importance of doctrinal and conceptual examination in understanding complex financial crime phenomena (Shelley, 2000; Schneider, 2013).

The methodological framework combines doctrinal analysis of anti-money laundering regulations with a comparative examination of regulatory responses to the art market and freeports, particularly within the European Union. By integrating perspectives from criminology, legal studies, and financial crime research, the paper seeks to identify structural vulnerabilities that enable the misuse of artworks and freeports for illicit purposes (Baranello, 2021; Mosna, 2022). Given the theoretical and analytical focus of the study, no empirical methods are employed; instead, the analysis concentrates on conceptual clarification and critical assessment of existing regulatory and enforcement challenges.

THEORETICAL FRAMEWORK: ORGANISED CRIME AND MONEY LAUNDERING

Organised Crime and Financial Crime

Contemporary scholarship conceptualises organised crime as a structured, continuous form of criminal activity aimed primarily at profit generation through the exploitation of both illegal and legal economic structures (Shelley, 2000). Rather than operating outside the formal economy, organised criminal groups increasingly embed themselves within lawful markets, institutions, and professions, using legal instruments to conceal illicit activities and legitimise criminal proceeds (Shelley, 2000; Schneider, 2013). This embeddedness represents a defining characteristic of modern organised crime and significantly complicates detection and enforcement efforts. Globalisation, as a process that has contributed to the expansion of markets and the creation of broad international business, cultural, and other forms of cooperation, the exchange of information, and human migration, has also enabled organised crime to transcend national borders and, through its organisational structures and modes of operation, assume a global dimension (Bošković, 2021:30).

Financial crime constitutes a central pillar of organised criminal activity. Schneider (2013) demonstrates that illicit financial flows associated with tax fraud, corruption, and organised crime account for a substantial share of transnational criminal profits, often exceeding revenues derived from conventional criminal activities. These flows are facilitated by globalisation, regulatory fragmentation, and disparities between national legal systems, which enable criminal actors to move assets across borders and jurisdictions with relative ease (Schneider, 2013). As a result, organised crime increasingly prioritises strategies aimed at the concealment and integration of financial proceeds rather than direct engagement in high-risk criminal acts.

A recurring theme in the literature is the reliance of organised crime on professional intermediaries and legitimate service providers. Lawyers, accountants, financial advisors, and market intermediaries may—whether knowingly or inadvertently—contribute to the facilitation of criminal schemes by providing expertise that allows illicit activities to appear lawful (Shelley, 2000). This reliance on legality as a cover for criminal conduct blurs the distinction between lawful and unlawful economic activity, creating regulatory and ethical challenges for states and institutions tasked with combating financial crime.

Money Laundering Beyond the Financial Sector

Money laundering is commonly described as a process through which proceeds derived from criminal activities are transformed into assets that appear legitimate. Classical models identify three stages of laundering: placement, layering, and integration. While this framework remains analytically useful, recent research emphasises that contemporary laundering practices increasingly extend beyond the traditional financial sector (Schneider, 2013; Baranello, 2021). Heightened regulatory scrutiny of banks and financial institutions has incentivised criminal actors to seek alternative channels that offer lower levels of oversight and reporting obligations.

Non-financial markets dealing in high-value goods have emerged as particularly attractive environments for laundering activities. These markets often combine significant economic value with weak transparency requirements and discretionary pricing mechanisms, creating opportunities for the concealment of illicit proceeds (Dagirmanjian, 2019). Among these sectors, the art market occupies a distinctive position. Artworks function simultaneously as cultural objects and financial assets, enabling them to serve as stores of value, speculative investments, and instruments for wealth transfer (Helgadóttir, 2020).

The literature identifies several characteristics of artworks that make them especially suitable for money laundering. These include high monetary value combined with physical portability, subjective valuation processes, limited price transparency, and the prevalence of private transactions conducted through intermediaries (Dagirmanjian, 2019; Baranello, 2021). Moreover, ownership of artworks may be obscured through the use of shell companies, trusts, or offshore entities, further complicating efforts to trace financial flows and beneficial ownership (Mosna, 2022).

Recent criminological research has also highlighted the phenomenon of 'art laundering,' referring to practices through which illegally sourced or illicitly acquired artworks are gradually introduced into the legal market, thereby cleansing both the object and the associated financial proceeds (Mosna, 2022). This process illustrates how money laundering and art crime may intersect, reinforcing the need to analyse the art market within broader frameworks of organised and financial crime rather than as an isolated or marginal phenomenon.

Taken together, these theoretical perspectives underscore the importance of expanding analytical and regulatory approaches to money laundering beyond the confines of the financial sector. Understanding how organised crime exploits non-financial markets, such as the art market, provides the conceptual foundation for examining the specific mechanisms through which artworks and related infrastructures—including freeports—are incorporated into contemporary laundering schemes.

ARTWORKS AS A TOOL FOR MONEY LAUNDERING

Structural Characteristics of Artworks Relevant for Money Laundering

A wide range of academic and policy-oriented literature identifies the art market as particularly vulnerable to money laundering due to a specific constellation of structural characteristics that distinguish artworks from other high-value commodities (Dagirmanjian, 2019; Baranello, 2021;). Illicit trafficking in cultural property may take various forms, including the theft of valuable objects from museums, libraries, and other cultural institutions or private collections, the looting and desecration of archaeological sites, as well as widespread plundering during armed conflicts (Krstić, 2023:100). Unlike standardised financial assets, artworks lack objective valuation benchmarks. Prices are shaped by speculative mechanisms, reputational dynamics, provenance narratives, and market perception, all of which allow for significant manipulation (Dagirmanjian, 2019; Mosna, 2022).

The high value-to-size ratio of artworks further enhances their attractiveness for illicit purposes. Artworks may embody substantial monetary value while remaining physically compact, easily transportable, and storable over long periods, enabling cross-border value transfers without reliance on regulated financial channels (Helgadóttir, 2020.). These characteristics align with broader trends identified in financial crime research, which emphasise the shift of laundering activities toward non-financial assets capable of storing and transferring value discreetly (Schneider, 2013).

Opacity is repeatedly highlighted as a defining feature of the art market. Transactions are frequently conducted through private sales, intermediaries, or confidential agreements, with limited disclosure of transaction values or ownership information (Baranello, 2021; Dagirmanjian, 2019). Institutional analyses confirm that this lack of transparency creates systemic vulnerabilities, particularly in contexts where customer due diligence obligations have historically been weak or absent (Mosna, 2022).

Artworks as Financial Assets and Alternative Investment Vehicles

Recent scholarship increasingly frames artworks as financial assets integrated into broader investment and wealth management strategies (Helgadóttir, 2020). This financialisation of art has expanded opportunities for its use in laundering schemes by blurring the boundary between cultural value and economic function. Artworks may operate as stores of value, speculative investments, and collateral, thereby facilitating the integration of illicit funds into the formal economy (Dagirmanjian, 2019; Baranello, 2021).

The treatment of artworks as alternative investment vehicles is particularly relevant from a money laundering perspective. Criminal actors may acquire artworks using illicit proceeds, retain them over extended periods, and subsequently resell them at inflated prices, presenting illicit gains as legitimate returns on investment (Baranello, 2021). Such practices are often embedded within private transactions, limiting the availability of data for regulatory scrutiny (Mosna, 2022).

Scholarly analyses further note that art investment advisory services, funds, and wealth management structures contribute to the normalisation of artworks within financial portfolios (Helgadóttir, 2020). While these mechanisms are not inherently illicit, they may be exploited by criminal actors seeking to legitimise illicit wealth through complex and legally sophisticated arrangements (Schneider, 2013).

Common Money Laundering Schemes Involving Artworks

The literature identifies several recurring schemes through which artworks are incorporated into money laundering operations. One of the most frequently discussed mechanisms involves deliberate overvaluation or undervaluation of artworks. Overvaluation enables the injection of illicit funds into the market, while undervaluation may be used to minimise tax liabilities or disguise transfers of value (Dagirmanjian, 2019; Baranello, 2021).

Private sales constitute another major risk factor. Unlike public auctions, private transactions are often characterised by confidentiality, limited documentation, and reduced scrutiny, making them particularly attractive for laundering purposes (Mosna, 2022). The involvement of intermediaries—such as dealers, consultants, or agents—further obscures the identities of buyers and sellers, complicating efforts to establish beneficial ownership (Baranello, 2021).

Corporate vehicles and offshore entities play a central role in many laundering schemes involving art. Artworks may be acquired, held, and transferred through shell companies or trusts, creating complex ownership structures that hinder traceability (Helgadóttir, 2020; Schneider, 2013).

Another mechanism discussed in the literature involves the use of artworks as collateral for loans. By securing financing against high-value art objects, criminal actors may obtain liquidity without selling the artwork, thereby integrating illicit funds into the financial system while preserving the asset itself (Helgadóttir, 2020). This practice further illustrates the convergence between art markets and financial systems, reinforcing vulnerabilities associated with financial crime (Baranello, 2021).

Art Laundering, Illicit Provenance, and Cultural Property Crime

Beyond the laundering of money through legally acquired artworks, recent research highlights the phenomenon of 'art laundering,' referring to processes through which illicitly sourced artworks are introduced into the legal market (Mosna, 2022). In such cases, the artwork itself constitutes the product of criminal activity, often involving theft, illegal excavation, or smuggling. Through successive transactions, falsified provenance, or the passage of time, these objects may gradually acquire an appearance of legitimacy (Dagirmanjian, 2019).

Institutional assessments of crime against cultural property confirm that illicit trafficking in artworks and antiquities remains closely linked to broader systems of organised crime and financial crime (INTERPOL, 2021). Illegally sourced artworks may serve both as commodities generating profit and as instruments for laundering proceeds derived from other criminal activities, reinforcing the intersection between cultural property crime and money laundering (*Assessment of Crime against Cultural Property*, 2021).

Scholarly and policy-oriented analyses emphasise that weaknesses in provenance research, documentation, and due diligence practices contribute significantly to the persistence of art laundering (Baranello, 2021). Where documentation is incomplete or unverifiable, illicitly sourced artworks may circulate within the market with limited risk of detection, particularly when combined with private sales and offshore ownership structures (Helgadóttir, 2020).

Regulatory Responses and Persistent Vulnerabilities in the Art Market

Despite growing recognition of the risks associated with the art market, regulatory responses remain fragmented. While recent initiatives have extended anti-money laundering obligations to certain art market participants, scholars note that these measures have not fundamentally altered the structural vulnerabilities of the sector (Mosna, 2022). Threshold-based reporting requirements and exemptions for smaller transactions continue to allow significant volumes of illicit activity to remain outside effective regulatory oversight (Dagirmanjian, 2019).

Institutional reports further highlight that the transnational nature of the art market complicates enforcement efforts. Differences in national regulatory frameworks create opportunities for regulatory arbitrage, enabling criminal actors to exploit jurisdictions with weaker oversight (Schneider, 2013). These vulnerabilities are amplified when artworks are stored or traded within infrastructures designed to minimise regulatory interference, such as freeports—a dynamic examined in the following section.

FREEPORTS: ORIGIN, DEVELOPMENT AND ABUSE

The Historical Emergence and Legal Foundations of Freeports

Freeports emerged as legal and economic instruments intended to facilitate international trade by allowing goods to be stored, processed, or re-exported without the immediate payment of customs duties or taxes. Historically, such zones were associated with major trading hubs and ports, where they functioned as mechanisms for accelerating commercial circulation and reducing transaction costs (Schwarzkopf & Backsell, 2020). Their original rationale was therefore rooted in trade facilitation rather than wealth storage or financial secrecy.

While some early freeports developed within contexts shaped by colonial trade routes, contemporary legal scholarship cautions against reducing freeports to colonial remnants (Schwarzkopf & Backsell, 2020). Instead, their persistence and expansion reflect broader structural features of modern economic systems, including the differentiation of customs territories and the use of special legal regimes to promote competitiveness. Freeports have consequently developed across a wide range of jurisdictions, demonstrating that they constitute a global phenomenon rather than a geographically or historically limited one (Helgadóttir, 2020).

From a legal perspective, freeports occupy an ambiguous position. Although they are physically located within the territory of a state, they operate under special customs regimes that partially suspend the application of ordinary tax and customs rules (Schwarzkopf & Backsell, 2020). This legal exceptionalism has been identified as a core feature shaping both their economic appeal and their vulnerability to misuse.

From trade Facilitation to Luxury Storage

In recent decades, freeports have undergone a profound functional transformation. Rather than serving primarily as temporary transit points for goods in circulation, many freeports have evolved into long-term storage facilities for high-value assets, particularly artworks and other luxury goods (Helgadóttir, 2020).

Scholars describe contemporary freeports as ‘luxury freeports,’ emphasising their integration into offshore wealth management strategies (Helgadóttir, 2020). These facilities offer high levels of physical security, climate-controlled storage, and confidentiality, while simultaneously providing legal and fiscal advantages. Artworks stored in freeports may remain outside the customs territory for extended periods, allowing owners to defer or avoid the payment of import duties and value-added tax (Baranello, 2021).

Policy-oriented analyses further note that the transformation of freeports has been driven by increased regulatory pressure on traditional financial institutions. As banking and financial sectors have become subject to stricter anti-money laundering obligations, alternative infrastructures for storing and transferring value have gained prominence (Schneider, 2013; Helgadóttir, 2020).

Regulatory Opacity and Governance Gaps

A recurring theme in both academic and institutional literature is the characterisation of freeports as spaces of regulatory opacity. Although freeports operate lawfully under national customs frameworks, their special status often limits the scope and intensity of oversight exercised by tax authorities, customs administrations, and financial regulators (Saleeby, 2023).

The lack of transparency regarding ownership constitutes a particularly significant concern. Artworks stored in freeports are frequently owned through corporate vehicles, trusts, or offshore entities, obscuring beneficial ownership and complicating efforts to trace financial flows (Helgadóttir, 2020; Mosna, 2022). Analyses emphasise that freeport operators are often not subject to comprehensive due diligence obligations comparable to those imposed on financial institutions, creating regulatory blind spots that may be exploited for illicit purposes (Saleeby, 2023).

Institutional reports at the European level have repeatedly warned that freeports may function as safe havens for illicit assets, including smuggled artworks and the proceeds of financial crime (EPRS, 2017).

Freeports do not merely function as storage facilities but operate as legally structured environments in which ownership rights over stored assets can be transformed into transferable financial claims. A central legal mechanism enabling this transformation is the warehouse receipt, which, under uniform commercial law traditions, constitutes a negotiable instrument representing title to the stored goods. Historically, warehouse receipts emerged as instruments facilitating commercial credit, allowing stored commodities to serve as collateral and to circulate as substitutes for physical goods within financial transactions (Llewellyn, 1944; Harvard Law Review, 1916). As negotiable documents of title, these receipts enable the transfer of ownership rights independently of the physical movement of the underlying asset, thereby allowing goods to circulate within financial systems without leaving storage facilities. This legal abstraction effectively converts material objects into mobile financial instruments, reinforcing their role as vehicles for credit creation, collateralisation, and asset securitisation (Burman, 1948).

This functional decoupling of physical custody and legal ownership is legally enabled through specific commercial law instruments, most notably warehouse receipts, which play a central role in the financialisation of stored artworks. In the context of freeports and the global art market, warehouse receipts perform a particularly significant function in the financialisation of artworks. By enabling ownership transfers, collateralisation, and secondary market transactions without physical relocation, these instruments facilitate the transformation of artworks into quasi-financial assets, embedded within complex structures of secured lending, receivables financing, and asset-backed transactions (Burman, 1948). This process significantly enhances liquidity while simultaneously reducing transparency, as changes in beneficial ownership can occur entirely within documentary and contractual frameworks. The negotiable character of warehouse receipts thus allows artworks to circulate within financial networks in ways analogous to securities, intensifying the disjunction between physical possession, legal ownership, and economic control (Llewellyn, 1944). Within regulatory environments characterised by fragmented oversight and limited cross-border data interoperability, this structural separation creates significant vulnerabilities to money laundering, asset concealment, and regulatory arbitrage (Harvard Law Review, 1916). As a result, warehouse receipts become not merely technical instruments of commercial law, but central mechanisms through which freeports contribute to the broader financialisation of art and the concealment of illicit financial flows.

Freeports, Money Laundering, and Tax Evasion

From the perspective of money laundering, freeports offer a unique combination of advantages. They enable the storage of high-value artworks outside the formal customs territory, allow ownership to change without physical transfer, and minimise reporting and disclosure requirements (Helgadóttir, 2020; Saleeby, 2023). These features make freeports particularly attractive for the layering and integration stages of money laundering, during which illicit assets are distanced from their criminal origins (Schneider, 2013).

Tax evasion and aggressive tax avoidance constitute an additional dimension of freeport misuse frequently highlighted in the literature. By storing artworks in freeports, owners may defer or avoid taxes that would otherwise be payable upon import or sale, effectively transforming immediate tax liabilities into indefinite obligations (Baranello, 2021). While such practices may fall within the boundaries of formal legality, scholars emphasise that they often operate at the margins of regulatory intent and may intersect with money laundering schemes when combined with opaque ownership structures and illicit funds (Helgadóttir, 2020).

Importantly, freeports do not operate in isolation. They form part of broader ecosystems of financial secrecy and regulatory arbitrage that enable criminal actors to exploit differences between national legal systems (Schneider, 2013; Schwarzkopf & Backsell, 2020). Addressing the risks associated with freeports therefore requires not only targeted reforms of freeport regimes but also enhanced coordination between customs authorities, tax agencies, and anti-money laundering bodies at both national and international levels (Mosna, 2022; Saleeby, 2023).

Taken together, the literature demonstrates that freeports have evolved from trade-facilitating instruments into infrastructures that may enable money laundering and tax evasion when combined with the characteristics of the art market. This evolution underscores the importance of examining detection and prevention mechanisms capable of addressing the complex and transnational nature of these practices.

Case Study: the Bouvier Affair Rybolovlev Case

The so-called *Bouvier Affair* represents one of the most illustrative contemporary cases demonstrating how regulatory gaps, market opacity, and freeport infrastructures can be exploited in high-value art transactions. The case revolves around Swiss art dealer and freeport operator Yves Bouvier and Russian billionaire collector Dmitry Rybolovlev, who between 2002 and 2014 acquired a collection of masterpieces valued at approximately USD 2 billion. Subsequent investigations revealed that Bouvier systematically misrepresented acquisition prices, purchasing artworks through intermediaries and reselling them to Rybolovlev at substantially inflated values, often exceeding the original price by tens of millions of dollars per transaction (Furman, 2023; Rapoza, 2019; Dos Santos, 2021). Judicial proceedings conducted in multiple jurisdictions, including Switzerland, Monaco, France, Singapore, and the United States, documented a complex scheme involving offshore entities, contractual secrecy, and multi-layered ownership structures, which collectively enabled valuation manipulation and concealment of beneficial ownership (Furman, 2023; Kinsella, 2021).

A central operational component of this scheme was the strategic use of freeports as logistical and legal hubs that enabled the decoupling of physical custody from legal and economic ownership. By storing artworks in highly securitised freeport facilities, Bouvier was able to orchestrate ownership transfers, collateral arrangements, and valuation adjustments without requiring the physical relocation of the objects, thereby significantly enhancing transactional secrecy (Berniker, 2020; Helgadóttir, 2019). This structural separation allowed artworks to circulate within contractual and financial frameworks in a manner analogous to financial securities, reinforcing their transformation into instruments of speculative investment and value transfer (Helgadóttir, 2019; Tiefenbrun, 2013). The opacity inherent in freeport regimes—characterised by restricted disclosure obligations, limited customs oversight, and fragmented regulatory supervision—thus played a decisive role in enabling regulatory arbitrage and shielding complex transactional chains from effective fiscal scrutiny (Tiefenbrun, 2015; Vanderbilt Journal of Entertainment & Technology Law, 2023).

From a regulatory and criminological perspective, the Bouvier Affair highlights how high-value art transactions, when embedded within freeport infrastructures and offshore financial architectures, generate particularly favourable conditions for money laundering, tax evasion, and large-scale financial fraud. The case demonstrates how price manipulation, jurisdictional fragmentation, and documentary-based ownership transfers jointly undermine transparency, complicating the reconstruction of transactional histories and beneficial ownership chains (Furman, 2023; Helgadóttir, 2019). More broadly, this affair illustrates the structural convergence of regulatory blind spots, commercial secrecy, and asset financialisation within the global art market, confirming that the risks associated with freeports are not merely theoretical but empirically substantiated within contemporary transnational financial practices (Vanderbilt Journal of Entertainment & Technology Law, 2023; Tiefenbrun, 2013).

DETECTION AND PREVENTION OF TAX FRAUD AND MONEY LAUNDERING

The detection and prevention of money laundering and tax fraud in the art market and freeport environment pose significant challenges due to the structural opacity of these sectors and the limited applicability of traditional anti-money laundering frameworks. A consistent finding across academic and institutional analyses is that existing AML regimes were designed primarily for financial institutions and remain insufficiently adapted to non-financial markets characterised by discretion, subjective valuation, and private transactions (Baranello, 2021; Mosna, 2022; FATF, 2021).

One of the most persistent obstacles to effective detection is the lack of transparency regarding beneficial ownership. Institutional assessments emphasise that the widespread use of intermediaries, shell companies, and offshore entities in art transactions obscures the identity of ultimate owners and complicates the tracing of financial flows (FATF, 2021; Helgadóttir, 2020). Freeports intensify this problem by enabling ownership transfers without physical movement of artworks, thereby reducing opportunities for customs inspection and regulatory scrutiny (Saleeby, 2023; EPRS, 2017).

International policy documents repeatedly highlight that the art market and freeports present elevated risks precisely because they fall within the category of designated non-financial businesses and professions, where customer due diligence and reporting obligations have historically been weak or inconsistently applied (FATF, 2021). While recent regulatory initiatives, particularly within the European Union, have extended AML obligations to certain art market participants, scholars argue that threshold-based approaches and limited enforcement capacities continue to undermine their effectiveness (Mosna, 2022).

The prevention of tax fraud linked to artworks and freeports raises additional concerns. Analyses indicate that long-term storage of artworks in freeports enables the deferral or avoidance of import duties and value-added tax, creating opportunities for aggressive tax avoidance strategies that may intersect with money laundering schemes (Helgadóttir, 2020; Baranello, 2021). European policy reports have warned that such practices erode tax bases and undermine fiscal transparency, particularly when combined with opaque ownership structures and cross-border transactions (EPRS, 2017).

Institutional assessments of crime against cultural property further demonstrate that money laundering through art cannot be separated from broader patterns of illicit trafficking and organised crime. INTERPOL reports emphasise that illegally sourced artworks and antiquities are frequently integrated into legal markets through laundering processes that exploit weak provenance controls and inadequate oversight (*Assessment of Crime against Cultural Property*, 2021). These findings underscore the need to address art-related money laundering not only as a financial crime but also as a component of transnational organised crime affecting cultural heritage (INTERPOL, 2021). International treaties and national regulatory frameworks have significantly reshaped the architecture of the financial system, resulting, inter alia, in the institutionalisation of Financial Intelligence Units (FIUs) as central mechanisms for combating money laundering and terrorist financing (Novaković, 2025:183).

From a preventive perspective, the literature consistently emphasises the importance of strengthened due diligence obligations. Effective provenance research, record-keeping, and risk-based customer due diligence are identified as essential tools for detecting suspicious transactions in the art market (Baranello, 2021; Mosna, 2022). However, policy analyses note that compliance remains uneven, particularly among smaller market participants and freeport operators who may fall outside the scope of existing regulatory regimes (FATF, 2021; Saleeby, 2023).

Enhanced international cooperation is repeatedly identified as a prerequisite for effective prevention. Given the transnational nature of the art market and freeport infrastructure, unilateral regulatory measures are insufficient to address the risks posed by regulatory arbitrage and jurisdictional fragmentation (Schneider, 2013; EPRS, 2017). Scholars and institutions alike emphasise the need for systematic information sharing between customs authorities, tax administrations, financial intelligence units, and law enforcement bodies (Mosna, 2022; FATF, 2021).

Technological and data-driven approaches are increasingly discussed as complementary tools for improving detection and prevention. The development of centralised databases on stolen art, improved provenance documentation, and beneficial ownership registers may enhance the capacity of authorities to identify suspicious patterns and transactions (IN-

TERPOL, 2021). Nevertheless, the effectiveness of such measures depends on the availability, accuracy, and interoperability of data across jurisdictions, which remain uneven (EPRS, 2017; Saleeby, 2023).

Overall, existing academic and policy literature suggests that while recent regulatory developments represent meaningful progress, they remain insufficient to fully address the risks associated with money laundering and tax fraud in the art market and freeport environment. Effective detection and prevention require a comprehensive approach that combines enhanced transparency, robust due diligence obligations, strengthened oversight of freeports, and sustained international cooperation. Without such measures, artworks and freeports are likely to remain attractive instruments for the concealment and integration of illicit financial flows.

CONCLUSION

This paper has examined the use of artworks and freeports as mechanisms within contemporary money laundering and tax fraud schemes, emphasising their structural and regulatory characteristics rather than isolated cases of abuse. The analysis has demonstrated that the vulnerability of the art market is not accidental but derives from its inherent opacity, subjective valuation practices, and historically limited regulatory oversight. When combined with the special legal and fiscal regimes governing freeports, these characteristics create an environment in which illicit financial flows may be concealed, transferred, and gradually integrated into the legal economy.

The findings indicate that artworks function effectively as instruments for money laundering precisely because they occupy an ambiguous position between cultural goods and financial assets. This dual nature enables artworks to serve simultaneously as stores of value, investment vehicles, and tools for wealth transfer. Freeports reinforce these dynamics by providing secure and discreet infrastructures that allow artworks to be stored and transferred without triggering conventional mechanisms of financial and customs scrutiny. In this sense, freeports operate as spaces of regulatory exception that amplify the risks already present within the art market.

Importantly, the misuse of freeports cannot be attributed solely to their historical origins or to marginal legal loopholes. Rather, their contemporary role reflects broader transformations in global finance, including the financialisation of assets, increased capital mobility, and regulatory pressures on traditional financial institutions. Within this context, freeports have become integral components of transnational systems of wealth management that may be exploited for both lawful and unlawful purposes. Their involvement in money laundering and tax evasion therefore represents a systemic challenge rather than an anomaly.

The paper has also highlighted the limitations of existing regulatory frameworks in addressing these risks. While recent extensions of anti-money laundering obligations to parts of the art market represent an important step forward, they have not fundamentally altered the structural conditions that enable abuse. Fragmented regulatory approaches, uneven enforcement, and persistent gaps in transparency continue to create opportunities for regulatory arbitrage and exploitation by criminal actors.

From a preventive perspective, the analysis suggests that effective responses must extend beyond isolated legislative measures. Enhancing transparency, strengthening due diligence obligations, and improving oversight of freeports are necessary but insufficient on their own. Addressing the risks associated with artworks and freeports requires a coordinated approach that integrates tax authorities, customs administrations, financial intelligence units, and law enforcement bodies at both national and international levels. Without such coordination, efforts to combat money laundering and tax fraud are likely to remain reactive and fragmented.

In conclusion, artworks and freeports occupy a critical position within contemporary money laundering schemes due to their structural characteristics and regulatory treatment. Recognising and addressing these dynamics is essential for protecting the integrity of financial systems and safeguarding both economic and cultural values. By situating the art market and freeports within broader discussions of organised and financial crime, this paper contributes to a more nuanced understanding of the challenges involved and underscores the need for sustained regulatory and institutional reform.

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ЗЛОУПОТРЕБА УМЕТНИЧКИХ ДЕЛА У ШЕМАМА ПРАЊА НОВЦА И УЛОГА СЛОБОДНИХ ЦАРИНСКИХ ЗОНА (FREE PORTS)

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Резиме

Рад анализира злоупотребу уметничких дела као инструмената за прање новца и пореске преваре, са посебним освртом на улогу слободних царинских зона (енг. freeports) у савременом глобалном тржишту уметнина. Полазећи од чињенице да тржиште уметности карактеришу структурна нетранспарентност, субјективни механизми вредновања и историјски ограничен регулаторни надзор, аутор указује да ове особине стварају повољно окружење за прикривање и легализацију незаконитих финансијских токова. Додатну рањивост система условљава развој freeport-ова, који су од инструмената за олакшавање међународне трговине еволуирали у дугорочна складишта високовредне имовине, нарочито уметничких дела.

Теоријски оквир рада заснива се на концептима организованог и финансијског криминала, при чему се прање новца посматра као процес који све чешће излази изван традиционалног финансијског сектора и ослања се на нефинансијска тржишта високе вредности. У том контексту, уметничка дела се анализирају као посебно погодна средства за прање новца због своје високе вредности, физичке преносивости, нестандардизованих цена и учесталих приватних трансакција. Посебна пажња посвећена је механизмима злоупотребе, као што су манипулација проценом вредности, коришћење посредника, офшор власничких структура и третирање уметнина као финансијске активе или колатерала.

У раду се даље разматра правна природа и функционална трансформација freeport-ова, који се идентификују као простори регулаторне изузетности, са ограниченим надзором и слабом транспарентношћу власништва. Овакво окружење омогућава дугорочно складиштење уметничких дела, промену власништва без физичког премештања предмета и одлагање или избегавање пореских обавеза, што freeport-ове чини погодним за фазе слојевања и интеграције у процесу прања новца.

Методолошки, рад се заснива на квалитативној анализи академске литературе, правних студија и институционалних докумената, без примене емпиријских метода. Закључује се да злоупотреба уметничких дела и freeport-ова не представља изоловану појаву, већ системски проблем повезан са финансијализацијом, регулаторном фрагментацијом и транснационалном мобилношћу капитала. Иако су савремени регулаторни напори, посебно на нивоу Европске уније, допринели унапређењу контроле, и даље постоје значајни недостаци у погледу транспарентности, идентификације стварног власништва и ефикасног надзора. Рад закључује да ефикасна превенција захтева свеобухватан и координисан приступ који укључује финансијске, пореске, царинске и органе за спровођење закона.