

The Effects of Cargo Theft in a Down Global Economy

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As General Counsel and Director of Security for a United States based logistics company, I have had the unique experience of dealing first hand with the theft of our clients' cargo. Through this experience my company and I have decided to become more active in the fight against cargo theft. We recently became active members of the National Cargo Theft Task Force, which was created and organized by law enforcement, insurance and logistics industry entities dedicated to the fight against this growing problem. The following paper will focus on who is involved in cargo theft, how it is occurring, what items are being targeted by the criminals, how cargo theft affects the economy, what the National Cargo Theft Task Force is doing to combat the problem and finally how insurance can be utilized to protect or make the victims of cargo theft whole.

Cargo theft is not some sort of new sensation that has been brought about by the recent economic turmoil. In fact, cargo theft has been around for centuries in some fashion, whether by pirates stealing valuable cargo from the seas or by bandits on horses robbing stage coaches. Today, cargo theft has taken on a new form due to the shift in how cargo is transported. Trucks, ocean containers, rail cars and warehouses have replaced horse drawn carriages, and instead of pirates or bandits we are dealing with organized international theft syndicates operating in several countries around the world. With more and more people out of work and the need for every day staple items like food and clothing staying relatively high, the demand for black market items is on the rise.

Cargo theft is an international problem that affects consumers and businesses alike. In today's global economy, the manufacturing and sourcing of materials takes place in one part of the world, while the shipping, warehousing and consumption of the finished product takes place in another part of the world. Cargo theft can happen at any point along the supply chain and its very existence threatens the integrity of our products and the availability of these products for the end user.

In the United States, the cargo thieves are highly sophisticated, organized and generally speaking not home grown. In Cuba, truck drivers and common thieves are recruited and trained by Cuban crime syndicates and brought back to Florida to establish their home base of operations. In California, violent gangs like MS-13 (also known as Mara Salvatrucha, with its leaders originating from El Salvador), have been known participants in the cargo theft arena. In parts of Canada the Chinese Triad has been linked to several reported cargo thefts. According to various law enforcement reports, most of the stolen cargo in the United States is brought back to ports like the port of Miami and exported on ocean containers to countries such as Paraguay, Venezuela, Columbia, Brazil, Argentina, the Dominican Republic and Costa Rica, where it is then sold through black market distribution channels. Europe, in particular the United Kingdom, has also seen an increase in reports of cargo theft and related crimes.

However, in Europe the crimes have become more violent in recent years. Eastern European crime families are still very prevalent in the cargo theft world. Mexico is in the middle of a serious drug war crisis and violence is all too commonly associated with the hijacking and taking of cargo by these warring drug cartels. Lastly, very serious concerns have been raised that the money generated by various organized cargo theft rings in the United States is being funnelled back to terrorist organizations like Al Qaeda and Hezbollah in order to help fund future attacks against American interests.

The actual taking of the cargo can be quite complex. The following details a typical cargo theft scenario:

The cargo thieves do research on where the cargo is being stored, manufactured or brought into the United States. They go online and use the internet as a search tool to seek out information on industrial parks and the location of manufacturing/distribution facilities where they can target items that can easily be brokered through a “fence”. The thieves then formulate a plan to either break into the manufacturing or distribution facility or set up surveillance positions outside of the facilities to monitor the shipping operations, in particular the use of trucks to ship the commodities. Depending on which modus operandi the thieves operate under (i.e. breaking into the physical building or the stealing of the truck and trailer), they will then wait for the moment of opportunity to strike. If the modus operandi is to steal the truck, the thieves may have already secured a warehouse to temporarily store the stolen freight, as well as taken possession of a stolen truck to attach to the stolen trailer, and then possibly stolen another trailer to off load the cargo into. Often the drivers of the trucks are paid to “give up” their trucks at rest stops or fuelling stations when the driver is stopped. Other times the driver is stopped and has left the truck and trailer unattended. The thieves are knowledgeable and trained on how to gain access to the truck, manipulate the ignition system and drive off with the stolen equipment. If the trailer is not connected to the truck (often referred to as a dropped trailer or unattended trailer) the thieves will use their recently acquired stolen tractor to hook up to the loaded trailer and relocate the trailer to a secured location, or alternatively, the thieves off load the trailer into an empty trailer to further hinder the ability of law enforcement to recover and locate the stolen trailer. Even more telling of how complex and sophisticated the criminals are is how they often steal the truck and/or trailer and “dump” it on the side of the road or in an industrial area. The criminals do this in order to test whether or not there is any tracking system embedded in the truck and/or trailer and to see if any type of law enforcement or other entity is monitoring the stolen equipment. If they believe nobody has followed the truck and/or trailer, they will then move it to the secured warehouse location and begin breaking the product down for its resell on the black market. This may entail changing the packaging, relabeling the boxes and even creating falsified bills of lading or customs paperwork to facilitate the movement of the stolen cargo out of the country. One might ask why customs or law enforcement is not inspecting these containers or trailers when they are being exported out of the country. The reality is that it is nearly impossible to ask for this kind of screening for containers coming into the United States, and to reverse that process would be cost prohibitive. Again, this is something I believe the criminals have already factored into their plan and why they are so successful in what they do.

In the United States the most highly sought after cargo consists of pharmaceuticals, consumer electronics, apparel and food. Any product can be stolen, but these commodities are reported stolen most consistently, according to the various law enforcement and insurance entities tasked with monitoring and dealing with cargo theft situations. As demand and prices for certain goods rises, the cargo thieves react to that

information by updating their list of commodities to target and fence. For example, when the price of metals like gold, platinum, copper, or steel increases, the rate of theft of these commodities increases. Again this shows the level of sophistication that these criminals are undertaking to keep their criminal enterprises profitable. With the current economic crisis, food and other “necessities” like bottled water have seen a sharp increase in reported thefts over the past several months.

When goods are stolen in the scenario above it has a rippling effect on the economy. Take for example the theft of a truck load of Nintendo® Wii™ gaming stations that were on their way to be delivered to a Best Buy® distribution center that serves the greater metropolitan Atlanta area the week before Christmas. Best Buy® won't be able to replace that shipment in time from the vendor in order to meet the demands of its customers. Instead those customers will seek out another retailer in the same area that has the desired product. Best Buy® will also lose out on potential related sales like games and accessories because that customer will more than likely be turned off that the store did not have the product that was promised to them a few weeks earlier. The trucking company involved will most likely be held liable for the loss and have to pay Nintendo® or Best Buy® for the amount of the stolen product. Even if the trucking company has insurance (we will discuss later that this might not be as likely as you think) it may not cover the entire loss because of the policy deductible or it will result in higher insurance premiums next year as a result of the reported loss. Then the trucking company will start charging more to transport this product from origin to destination in the future to cover the additional losses it incurred either through out of pocket expense or by paying higher insurance premiums. Those additional transportation costs will be passed onto Best Buy® who in turn will pass those additional costs on to the customer. The government could potentially lose out on needed revenue through sales tax of those items. As you can see the domino effect from this one loss is nearly endless. Take all of these negative aspects of cargo theft combined with the fact that we are in a severe depression, and you have a recipe for a global economic meltdown. Not to mention the fact that when goods like perishables or pharmaceuticals are stolen the thieves are not storing them in a temperature controlled environment and therefore there is the potential for a serious health crisis if that product is sold in mass quantities to the unsuspecting public.

The National Cargo Theft Task Force is spearheading the effort to greatly reduce the amount of cargo theft in the United States and to find a more permanent solution for this growing problem. Before you can tackle a problem you first have to know how big of a problem you have. The difficulty in doing that, at least in the United States, is that cargo theft is not always reported and even if it is, it is not reported as cargo theft by the various law enforcement agencies. Various estimates have been given that put the amount of cargo theft in the United States at about \$30 Billion (U.S. Dollars) per year. The reality is the problem is probably much larger. It has also been reported that if you added up all the different types of thefts like identity theft, bank robberies, jewelry heists, etc., the total of all those thefts combined would not equal the amount of losses suffered as a result of cargo theft. The media has done very little to report on this growing problem except in areas of the United States where a cargo theft task force is present and actively working on curbing the efforts of these criminal gangs. The National Cargo Theft Task Force is working on getting more media attention and working on educating the transportation professionals, insurance professionals, law enforcement agencies and the government on how to measure, report, prevent and punish those involved in the theft of our cargo.

The first and most important step is to get people to report that a cargo theft occurred, but herein lies the root of the problem. When you ask a victim of a cargo theft if they had a choice between recovering their stolen cargo or being made whole financially, the majority of the victims would probably choose the latter. Even if the answer was the former, if you are dealing with perishables or quality control issues presented by products like pharmaceuticals, the recovered goods may not be able to be used or sold, thus resulting in a total financial loss. Being made financially whole comes at a cost as well. Additionally, there is a concern of further repercussions if the loss is reported, such as a negative public perception about the particular trucking company. The trucking company could lose current or potential customers for fear that the trucking company was involved in the theft or does not have proper security standards and protocols in place. Retailers don't necessarily want to publicly acknowledge that they have supply chain issues either, in case it gives one of their competitors a strategic advantage. So before groups like the National Cargo Theft Task Force can go to Congress and demand more funding or tougher laws, we need to encourage the victims of cargo theft to come forward and accurately report the losses. The National Cargo Theft Task Force is already working on ways of storing and mining the data so that it will be useful for its intended purposes with the ability to protect the privacy of the victims who are providing the raw data.

As mentioned above, the insurance industry is playing a significant role as members of the National Cargo Theft Task Force to combat this very serious theft problem. A common question that is raised is, how can insurance be utilized to make the victims whole or to protect the trucking company that had their truck stolen by these gangs of thieves? Anyone that has insurance knows how complex the wording on the insurance policy can be. Underwriters are tasked with writing and properly assessing the risk that each policy is being subjected to. As more and more cargo thefts have been reported, and subsequently losses paid by the insurance companies, there has been a direct correlation to the amount of insurance policies that have been written for the trucking industry that exclude some very interesting things. For example, many cargo insurance policies have been written to exclude protection/coverage if the truck is left unattended. Additionally, there have been geographic limitations placed on the same policies whereby they exclude theft losses if those thefts occur in the areas that have high theft rates, like Miami, FL or Los Angeles, CA. Specific types of goods are also excluded from coverage, and coincidentally, they tend to be the goods like consumer electronics, apparel, and pharmaceuticals because of their targeted nature. Finally, you get some policies that either won't cover the theft if the driver is involved or won't cover the loss if the loss is a result of theft. Assuming you actually spent the time to discuss all the ins and outs with your agent or insurance broker prior to getting the insurance policy (which unfortunately, many people in the industry do not), you may be able to purchase a policy that does afford you all of the protections that you need in order to operate in this current market. However, the premium that you will pay for having these additional coverages will cost you plenty. Then, what happens if you do have a loss? Do you report it and risk having the policy premium increase as a result of the loss? Will the trucking company or person reporting the loss through their policy be able to pass that additional premium cost along to the manufacturer or customer? What if the insurance company decides to cancel the policy after the loss is paid out? These hypothetical's are not really hypothetical's. These are the issues that we as members of the logistics industry face day in and day out. No matter which scenario plays out above, the consumer will be taxed with the additional expenses caused by cargo theft. At the end of the day we can't fix this problem through insurance coverage alone. Although insurance alone won't solve the problem, we cannot become and ostrich and bury our head in the sand either. The

insurance companies are probably in the best position to gather all the data and accurately report the statistics to the crime fighting bureaus. Without these statistics there can be no true understanding of the problem and without a true understanding to the problem we cannot begin to put the resources in place to resolve the problem. Therefore, my solution for the above questions is to report the issues and work with an insurance company that understands your business well enough to properly charge you for the risk that your business is involved in and offers you some type of gain share pain share when it comes to losses.

A better collaboration needs to take place between the various entities mentioned herein and that process has already begun. In October 2009 the National Cargo Theft Task Force is hosting a summit in Washington D.C. Numerous members from the insurance industry, law enforcement, logistics and transportation, as well key members of our government will be in attendance. We are hosting the summit in Washington D.C. because we need to bring this issue to the national spot light. By raising awareness and spreading the word through proper media attention, we are optimistic that this crisis will get the attention it has long deserved. The summit will be followed by strategic meetings with key members of the federal government and the government affairs subcommittee of the National Cargo Theft Task Force. The focus of these meetings is to demand a federal response and outline the framework within which a proper solution can be achieved.

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