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Cargo thefts surge with drug-related violence in Mexico

Inside information blamed for up to 85% of freight losses

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Warring drug cartels in Mexico and the associated violence and thefts have pressured supply chains between Mexico and the United States as cargo thefts have soared, often with insider help, experts say.

Cargo theft long has been an issue in North America, experts say. With the problem continuing to grow in Mexico due to the influence of drug cartels, companies are under pressure to keep their employees safe and their supply chains intact from outside, sometimes violent attacks.

However, cargo theft in Mexico also has increased due to internal information leaks and driver collusion, according to Austin, Texas-based FreightWatch International, a global provider of logistics security solutions that monitors supply chain risk management in Mexico.

In the third quarter of 2010, FreightWatch said food products were the top target of thieves, followed by building materials and miscellaneous products (see chart, page 19). Nearly 90% of all cargo thefts in Mexico during the second quarter were done by armed hijackers, FreightWatch said.

The National Multimodal Transport Alliance estimated that cargo thefts in Mexico cost businesses between \$650 million and \$750 million in 2009, a 40% increase over the average during the previous three years. In 2006, Mexico's president announced a crackdown on drug cartels.

Gangs and drug cartels searching for alternative means of funding by selling the stolen products on the black market often are the perpetrators. However, experts say information leaks and driver collusion about shipments are occurring at an alarming rate.

"We know that between 80% to 85%...of hijackings or thefts that occur are linked to inside information," said Peter Scrobe, New York-based vp of Starr Marine Agency Inc.'s loss control services unit. "This is why it's important for companies to vet their global supply chain and to make sure the people within it are trustworthy."

Mr. Scrobe was part of a team of insurers and underwriters that put together an October white paper on cargo loss in Mexico for the American Institute of Marine Underwriters. The paper was put together to help understand and mitigate exposures to cargo theft and provide underwriters with a snapshot of current trends in Mexico. The white paper concluded that cargo theft in Mexico is a problem and that if companies take steps to minimize the threat, they can avoid becoming a target.

Hotbeds of cargo theft activity include the State of Mexico and Federal District of Mexico City, which FreightWatch reported was where 33% of all Mexico cargo thefts took place between January and June 2010. Meanwhile, ports of entry between Mexico and the United States—Ciudad Juarez, Nuevo Laredo and Nogales—all saw increases in freight disruptions and thefts.

Nuevo Laredo is the busiest of the port of entry corridors, accounting for 33% of trade volume between the United States and Mexico, while Juarez is the second-busiest with 16%, according to FreightWatch. Juarez also is the most violent and deadly.

“Ciudad Juarez is the second-busiest commercial port of entry, and is now considered the most dangerous city in the world in terms of violence and murder rates, accounting for nearly 10% of all drug-related murders in Mexico,” FreightWatch said in its November report, “Violence in Mexico and the Impact on Supply Chain Operations.”

A security director for a U.S.-based Fortune 500 company operating in Juarez, who asked not to be identified, said Mexico quickly has become a very violent country and that most of techniques being used by the Mexican drug cartels are similar to those employed by Colombian drug cartels during the 1970s and 1980s.

“Depending on the operation, you can mitigate risk of cargo theft or supply chain disruption by having layers of security,” the security director said. “You need to be especially careful in Mexico not only because of violence, but because the shipment can be compromised with drugs” stealthily added to the cargo.

Scott A. Cornell, national manager-special investigations group in Travelers Cos. Inc.’s Rochester, N.Y., office, said companies need to be “extremely critical” of information security pertaining to shipments. Vetting employees associated with the supply chain and reducing how many are privy to shipment information can help mitigate losses.

At the Fortune 500 operation in Juarez, the security director said employees and security personnel within the supply chain are subject to thorough background checks and drug and polygraph testing.

“Information is on a need-to-know basis,” he said. “We compartmentalize information about shipments, and people are given small pieces, so it is limited on who gets to see the big picture. This is so we don’t compromise the entire operation.”

Companies also should work with freight carriers and drivers with experience working in Mexico. More importantly, the company shipping the product and the carrier should have protocols in place that protect not only the driver but also the cargo, experts said.

Insurance coverage for the shipments vary depending on the safety protocols used, the commodity being shipped and the route it takes to get to its destination, said Paul A. Friel, New York-based managing director and cargo broker for Marsh Inc.'s global marine practice.

“We evaluate the protocols drivers follow and how a company selects its transportation carriers,” Mr. Friel said. “We also look at the customers they are shipping to and how that company controls information about shipments, the timing of the shipments, how long the cargo is in motion and what route it takes.”

Steven Weiss, Houston-based vp of project cargo and marine risk engineer at Liberty International Underwriters, said some steps that carriers can take to mitigate the risk of being targeted include moving product in a convoy, using team drivers to ensure the cargo is always in motion and when stopped is always protected, avoiding predictability and routines, traveling at least 200 miles before the first stop to get out of the vicinity of any gang that might be following the shipment, and securing parking spots in advance along the route that are safe.

While global positioning systems on trucks are good at tracking cargo, Mr. Weiss said thieves can disable the units, which is why it is better to position tracking devices within the cargo itself.

“These are steps we can take as a group (businesses, transportation carriers and insurers) to make shipments less of a target,” Mr. Weiss said. “All shipments are targets of opportunity, but using best practices can keep you one step ahead.”