

AAPA Port Security and Safety Seminar

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Combating Cargo Crime

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What We Will Cover

- **Different Avenues of Supply Chain Loss.**
- **Economic Impact Of These Losses.**
- **How Supply Chain Losses Occur.**
- **Loss Prevention Practices to Help Curb Losses.**
- **How 9/11 Changed the Competitive Landscape.**
- **Security Challenges in a Post 9/11 Era.**
- **Wrap-Up**

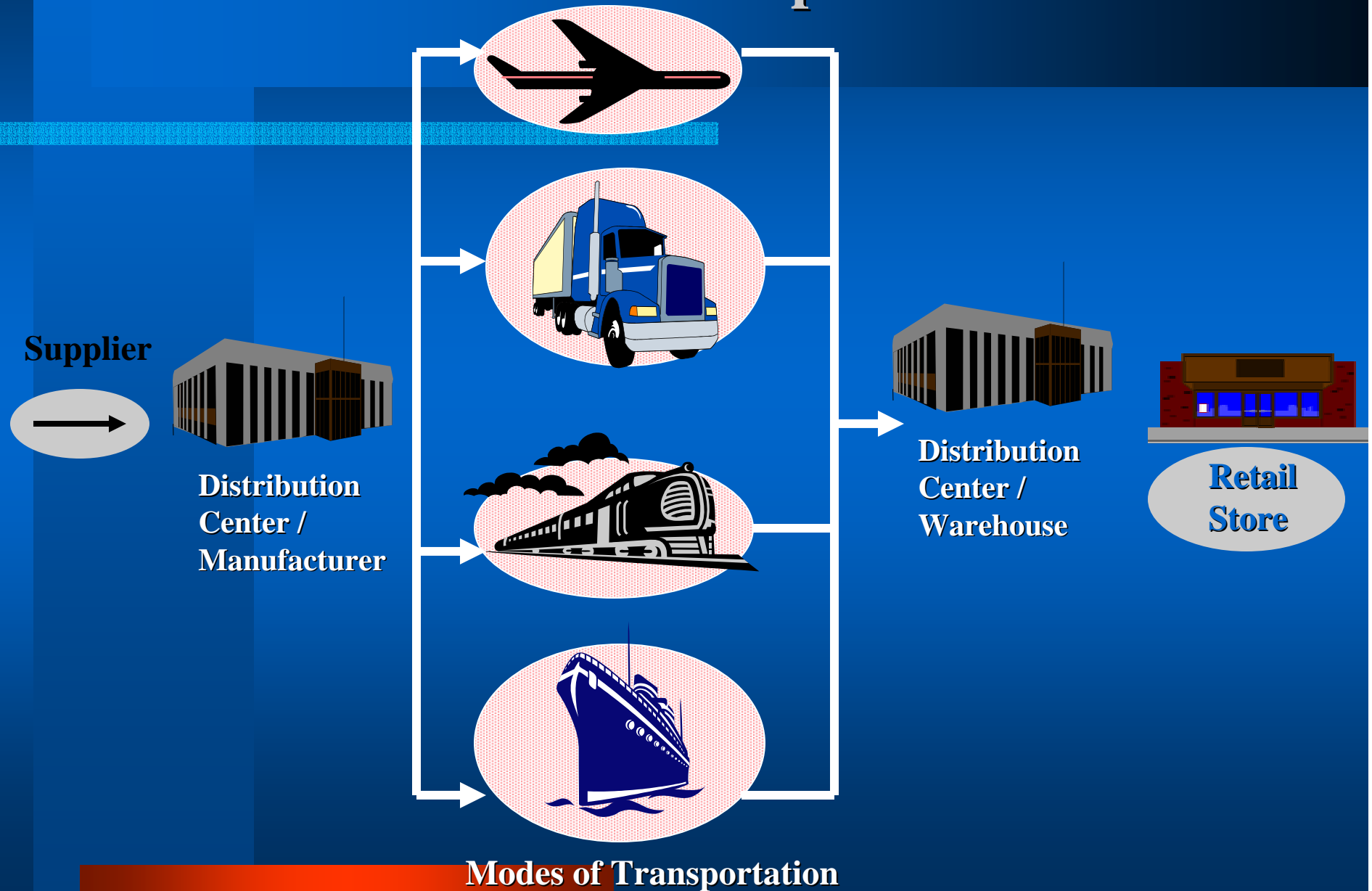
Losses Can't Happen in My
Warehouse!

Or Can They?

Watch.....

17:03 PM

What are the Vulnerable Areas in the Merchandise Pipeline?



Simply Put.....

ALL SUPPLY CHAIN
CHANNELS ARE
VULNERABLE TO LOSS!!!!

The Iceberg Effect: The True Cost of Supply Chain Crime

\$15-18 Billion in Direct Costs

Loss of Merchandise

\$60 Billion + - In-Direct Costs

Lost Sales

Lost Reputation

Fraudulent Refunds

Insurance Costs

Investigative Cost

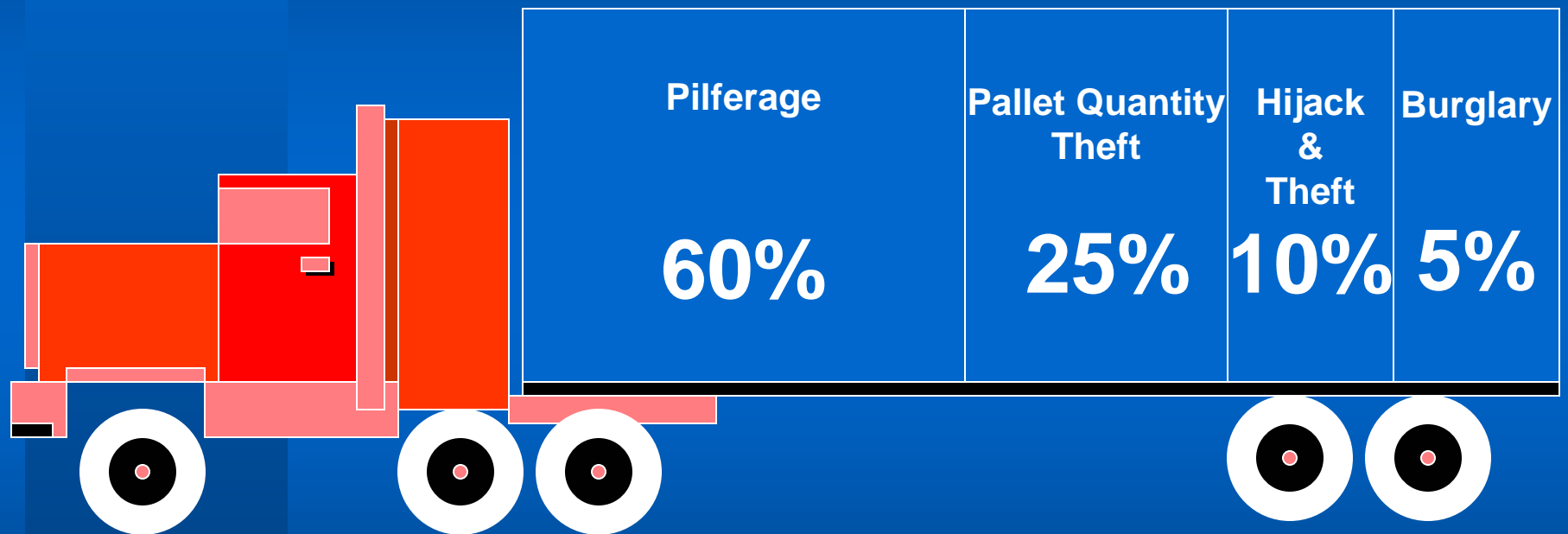
Re-order Costs

Paying Claims

Administrative Costs

Product Diversion

Supply Chain Crime - Factoids



Percentages of cargo crime broken down by category.
Source: Cargo Security School, US Merchant Marine Academy

Supply Chain Crime - Factoids

- **Average value of single cargo theft - \$500k**
- **Trucking companies and their facilities (warehouses, etc.) experience the majority of all reported losses (85%), followed by maritime, rail and air.**
- **Approximately 80% of cargo thefts are perpetrated by internal employees, or involve some internal collusion.**
- **Pilferage is the most common form of cargo theft.**
- **The FBI estimated that most stolen cargo remains in the possession of those who stole it for less than 24 hours.**

Supply Chain Crime - Factoids

- **Cargo theft is not in the public spotlight, it is regarded as a victimless crime and therefore it does not carry severe sentencing.**
- **A kilo of heroin is worth the same as a kilo of Pentium chips. Organized crime is going after the chips and other cargo because the criminal penalties are less severe.**
- **Today, you can knock off a truck with \$1m worth of cargo and the courts can treat it as a misdemeanor. Rob a bank for \$10, and it's a major felony.**

Supply Chain Crime - Factoids

- The FBI stated, “the theft of cargo has become so wide spread that it constitutes a serious threat to the flow of commerce in the U.S.”
- New York/New Jersey, Southern California, Atlanta and Miami are the three regions where 75% of the nation’s cargo theft occurs.
- “When the freight is moving, no problem; when it stops, that is when the problems start.”
- “Cargo at Rest is a Cargo at Risk.”

“How Do the Bad Guys Do It”?

Here's One Way....Watch!

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“How the Bad Guys Do It”

- **Containers/Trailers - removing the hinges, drilling the rivets or cutting through the floor, roof or side.**
- **Padlocks - using lighter fluid, then freon and then shattering the lock..**
- **Falsely claiming the truck was hijacked leaving a port, a DC or a store, when the driver is actually complicit in the crime and receiving a cut of the profits.**
- **Using fraudulent paperwork to steal a loaded trailer.**
- **Crashing through fences and security checkpoints (at DCs, etc.).**

“How the Bad Guys Do It”

- **Stealing loaded trailers off the street, from trailer yards and from behind stores.**
- **Bribing the security guard at the gatehouse of a DC.**
- **“Selling or trading” their trailer for drugs or other considerations.**
- **Receiving dock (DC or store) personnel in collusion with the driver.**
- **Pilferage - associates concealing (“Mule”) product on their person and stealing every day.**

What Can We Do To Reduce Supply Chain Losses?

PLENTY!

● **Establish A Transportation Security Program -**

Major Components to Include:

- Contract Liability**
- Security Standards for Carriers**
- Comply With C-TPAT Guidelines**

● **Establish Physical Security Controls**

● **Establish an Effective Audit Program**

● **Establish Security Protocols for Deterring Theft and Collusion**

● **Establish Lock and Seal Program**

Loss Prevention – Best Practices

Physical Security

- Lighting - adequate lighting must provide enough illumination to be a deterrent for intruders while permitting observation during night time hour (minimum of 1.0 foot candles).
- Perimeter Fencing/Barriers - a barrier that surrounds the facility and is adequate in height (8') to control ingress and egress of persons, vehicles and property.
- Access Control - systems must be in place to control, limit, and document employees, visitors and vehicles entering and exiting the facility.

Loss Prevention – Best Practices

Physical Security

- CCTV - a system must be in place that is capable monitoring and recording activity at the facility.
- Employee/Visitor Badges - must be issued and worn while in in the facility to include the trailer yard.
- Yard Control -systems must be in place to organize and monitor the proper movement of vehicles and trailers.

Loss Prevention – Best Practices

Physical Security

- Warehouse Controls
 - Barrier Lines on the Loading Dock to Limit Driver Access to Building
 - Locking of Bay Doors when not in Active Use
 - Truck Driver Entry Cages to Control Warehouse Access

Loss Prevention – Best Practices

Personnel Policies & Procedures

- **Drivers transporting company merchandise are required to maintain at all times, a State issued commercial driver's license and a company photo ID.**
- **A zero tolerance policy towards drugs and alcohol.**
- **No weapons of any kind are allowed in the tractor or on the driver's person when transporting company product.**
- **Pre-Employment Background Screening**
- **Employee "Hot-Line" for the Reporting of Dishonest Activity**

Loss Prevention – Best Practices

Personnel Policies & Procedures

- Award Program for Information leading to the apprehension of dishonest employees.
- Establishment of Dress Code
- Single Point of Access for Employee Entrance / Egress
- Exiting Inspection - All Parcels / Packages
- Random Inspection of Exiting Personnel
- Opening and Closing Controls for Warehouse Access

Loss Prevention – Best Practices Inspection / Audit Programs

- **Random Escorts of Containers From Entry Ports/ Depots to Warehouse**
- **Random Audits of Goods Shipped and Received.**
 - Weekly minimum requirement
 - use in-house and independent outside auditors
 - documentation of all audits



Loss Prevention – Best Practices

Collusion Deterrents

- **Random Guard Post Rotation**
- **Rotating Dock Assignments for Shipping / Receiving Teams**
- **Rotating Assigned Bay / Dock Locations for Regular Drivers**



Loss Prevention – Best Practices

Cargo Container Lock / Seal Program

- Establishment of Container / Truck Locking Standards
- Establishment of Container Seal Standards
 - “Electronic Seals”
 - “Barrier” vs “Semi-Barrier”
 - Indicative Seals
- Logging Controls for all Incoming and Outgoing Seals and Locks



Loss Prevention – Best Practices

Cargo Container Lock / Seal Program

- **Storage and Distribution Controls for all Seals and Locks**
- **Establishment of Auditing and Follow-up Controls of all Noted Discrepancies**

And If All This Is Not Enough For Us To Keep Up On As We Perform Our Jobs... We now Have to Factor In One more Element...

***Like It or Not, 9/11 Changed the Way We Will
Conduct Our Business For Many Years to
Come!***

- **Prior to 9/11, security expenditures for protection of cargo were predicated mainly on financial ROI vs. actual cost of losses.**
- **Post 9/11, government regulations and liability concerns were added as main components in determining security costs.**

Since 9/11, Corporate Security Executives now have.....

- **More visibility (and often more responsibility and authority) within their corporations.**
- **Increased responsibility for the international supply chain and increased interaction with new areas within their companies, their trading partners, and government agencies.**
- **The task of chasing the correct balance of corporate security, cargo security, and homeland security (a moving target at best, impacted by the latest intelligence or terrorist event.)**

“Nowhere is the debate over voluntary participation vs. mandatory compliance more visible than in the US political system.”

- **Impact of the 9/11 Commission Report is to create a renewed sense of urgency in the US Congress to adopt many of the Commission’s recommendations before the November elections.**
- **“Private-sector preparedness is not a luxury; it is a cost of doing business in the post-9/11 world. It is ignored at a tremendous potential cost in lives, money and national security.”** (*Quote The 9/11 Commission Report*)
- **Over 80 Congressional committees have jurisdiction over some aspect of homeland security. Creates funding and turf battles among those committees and among Federal agencies. All are trying to do the right thing but opinions vary.**

The Challenge This Poses.....

- **How best to balance the cost for loss prevention, security and safety against the need to conduct our day to day business?**



Cargo Security War Game

Source: Booz Allen Hamilton. War game simulation October 2-3, 2002.

Day 1: Radioactive bomb discovered in shipping container at the Port of Los Angeles; carriers at the port halt operations for 24 hours

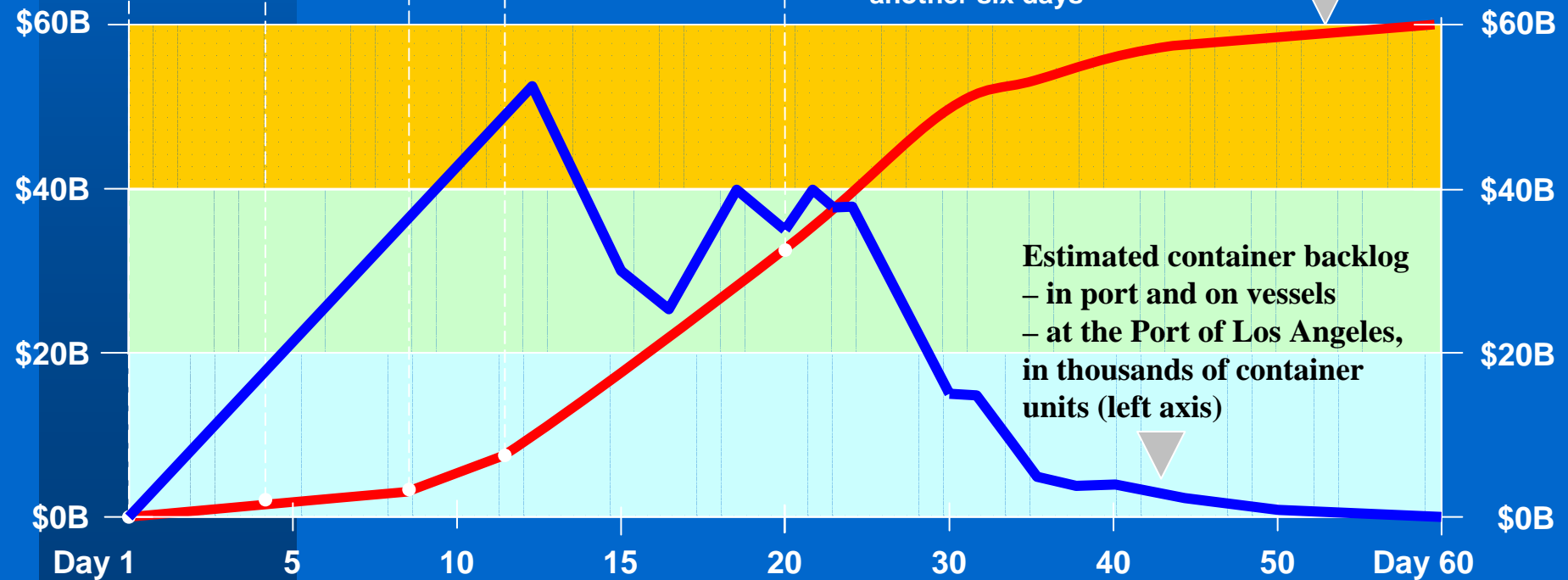
Day 4: Second dirty bomb found in Minneapolis; Customs Service Closes all ports and border crossings

Day 8: Inventory shortages force plant closures as gas prices skyrocket

Day 12: Ports Reopen

Day 20: A dirty bomb explodes in Chicago, closing all ports for another six days

Potential cumulative losses from delays at all U.S. ports, in billions (right axis)



Programs Impacting Both US and International Supply Chain Professionals

- **C-TPAT – Customs Trade Partnership Against Terrorism**
- **US Customs and Border Protection’s Container Security Initiative**
- **Custom’s pre-notification requirements for shipments to US**
- **Electronic advanced manifest requirements**
- **Operation Safe Commerce (OSC)**



Impact of Government Initiatives

- **Focus Before C-TPAT/CSI/Operation Safe Commerce**
 - **Trade compliance, Anti Smuggling, Cargo Security**
- **C-TPAT/CSI/OSC....Making Significant Impact**
 - **Industry is Responding (Importers and Transportation)**
 - **Just in time (JIT) delivery, Assist in War Against Terrorism**
 - **Brand Protection, Competitive Advantage**
 - **Security has moved to the boardroom**
 - **Additional resources being provided for cargo security efforts**

Impact of Government Initiatives

- Importers and Transportation are enhancing security requirements, obligating source manufacturers, forwarders and carriers, providing education and awareness training
Conducting assessments embarked on program of continued improvement
- Importers have found benefits outweigh costs
 - Reduced Cargo Loss
 - Leveraged Supply Chain
- Thousands of additional soldiers in war against terrorism

Challenges For the Logistics Community

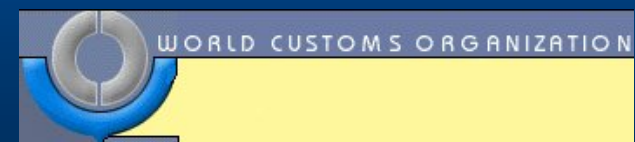
1.- Most come from trying to plan for the unknown.

- **What new rules will come from the US Government (100% screening, new record keeping requirements, new background inspection requirements for employees handling cargo, ANSI standards, etc)**
- **Business continuity plans to address heightened threat levels or a terrorist event.**



Challenges For the Logistics Community

- **How will other governments respond to US initiatives?
Could be WCO, WTO, EU, or a single nation**
- **Could be retaliatory in response to US requirements**
- **Which rules will take precedence and will there be multiple sets of rules with which our companies need to comply?**
- **US and other governments recognize this and are attempting to reach international security standards that are both reasonable and effective.**



Challenges For the Logistics Community

2.- Balancing the sometimes-conflicting security requirements of our companies and other government bodies.

- Importance of staying involved in the issue to insure we see the big picture and make informed decisions.
- Importance of representing company positions and concerns
- Importance of making our expertise available without being seen as a threat to other stakeholders.
- Importance of working together as a broad based supply chain community to help shape these debates in a way that assures security measures are appropriate and effective.

Challenges For the Logistics Community

3. - Navigating the growing tendency to blend logistics operation, security, cargo theft, and anti-terror measures.

- Though not mutually exclusive they are not the same.
- If we are not careful, we run the risk of misallocating limited resources and ignoring the traditional responsibilities and role of supply chain professionals. Neither serves our companies or our profession well.



IN CLOSING

**Let's Never Forget Why Our Jobs
Are Much More Difficult Now
Than They Were Pre-9/11....**

AFTERNOON **EXTRA** EDITION

THE CINCINNATI ENQUIRER

ESTABLISHED 1804

NEWS FROM THE AIR

U.S. ATTACKED

Hijacked airliners lead terrorist assault on
World Trade Center, Pentagon































































Pentagon
Mall and River
Entrances
EXIT 1/4 MILE

244 WEST
Columbia
↓





**NEW YORK CITY
CLOSED TO
ALL TRAFFIC**





DEPARTING FLIGHTS

ALL
FLIGHTS
CANCELLED

105

ALL FLIGHTS CANCELLED
DUE TO WEATHER

ALL CROSSINGS
TO NEW YORK
CLOSED

G.O.P.





Resources

- **International Cargo Security Council (www.cargosecurity.com)**
- **Western States Cargo Theft Association (www.wscta.com)**
- **Mid South Cargo Security Council (901.327.5670)**
- **Technology Assets Protection Association (www.tapa3.org)**
- **American Society for Industrial Security, Transportation Committee (www.asisonline.org)**
- **American Trucking Association, Loss Prevention & Security Committee (www.trucking.org)**
- **Federal Bureau of Investigation (www.fbi.gov)**

WRAP UP

Questions?