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of Transportation

**Maritime
Administration**

MARITIME SECURITY REPORT

Number 1

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MARITIME SECURITY REPORT

*** August 1995 ***

Prepared by:

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Dear Colleague:

This is our initial release to the commercial maritime industry of our unclassified Maritime Security Report. The report focuses on international criminal activity and security issues, which could pose a threat to U.S. commercial maritime interests and the movement of U.S. civilian cargoes in foreign trade. The Maritime Security Report conveys our research and analysis of recent, significant developments.

The Maritime Security Report is intended to inform the commercial maritime industry, senior Maritime Administration officials, the Secretary of Transportation's Office of Intelligence and Security, and the *Ad Hoc Federal Working Group On Maritime Security Awareness*. The information contained in the Maritime Security Report is compiled from commercial and press sources and U.S. Government reports. Previous maritime security reports produced as internal Government memoranda, March - June 1995, are also included in this issue as an addendum.

Please direct questions and comments on the information in this report to Thomas Morelli, Coordinator, Maritime Intelligence & Security (202) 366-5473 or fax (202) 366-6988, in the Office of Ports and Domestic Shipping.

Sincerely,

Margaret D. Blum
Associate Administrator for
Port, Intermodal, and
Environmental Activities

INTRODUCTION

The *Maritime Security Report* is an unclassified quarterly publication prepared to inform the commercial maritime industry, senior Maritime Administration officials, the Secretary of Transportation's Office of Intelligence and Security, and the *Federal Ad Hoc Working Group On Maritime Security Awareness*. The report focuses on international criminal activity and security issues which could pose a threat to U.S. commercial maritime interests and the movement of U.S. civilian cargoes in foreign trade.

The global nature of U.S. trade means that U.S.-flag ocean carriers call ports in nearly every country, and cargoes owned by U.S. interests may be embarked on ocean vessels of any flag or in any port worldwide. U.S. commercial maritime interests, therefore, can be jeopardized worldwide by a broad range of criminal activities, adversely affecting their competitiveness.

The *Maritime Security Report* is intended to increase awareness of the scope and severity of economic crime affecting U.S. maritime commerce. The Maritime Administration expects increased awareness to contribute toward deterring criminal exploitation of the maritime transportation system, its users and providers.

The *Maritime Security Report* is produced under the authorization of Margaret D. Blum, Associate Administrator for Port, Intermodal, and Environmental Activities. The information contained in the report is based on our research and analysis of recent, significant developments, and is compiled from commercial sources and U.S. Government reports.

Please direct any questions and comments on the information in this report to Thomas Morelli, Coordinator, Maritime Intelligence & Security, or John Pisani, Director, Office of Ports and Domestic Shipping, Maritime Administration, U.S. Department of Transportation, 400 Seventh Street, SW, Washington, DC 20590, or telephone (202) 366-5473/fax (202) 366-6988.

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TERRORISM - Middle Eastern Terrorist Group May Be Targeting American Assets Or Interests In Latin America

On July 14, 1995, acting on information provided by the U.S. Department of State pertaining to the possibility of an impending terrorist attack directed against an unspecified American target in South America, the Maritime Administration (MARAD) issued Advisory No. 95-5 alerting mariners of the situation. The U.S. Government had become informed that Middle Eastern terrorists may be planning an attack during the month of July, and the information was made available by the Department of State as a public announcement. No such attack has been reported as of the date of this report.

Dissemination of warning information to the maritime industry is effected through the coordination of the Department of State, MARAD, the U.S. Coast Guard, the Office of Naval Intelligence, the Secretary of Transportation's Office of Intelligence and Security, and the Defense Mapping Agency. Earlier this year, for example, two Special Warnings to Mariners were issued by the U.S. Department of State, informing mariners of potential terrorist attacks directed against shipping in Pakistan and Algeria.

COMMENT: The recent escalation of awareness regarding terrorist threats is cause for increased attention by the maritime industry. A review of vulnerabilities pertaining to shipboard and terminal security plans and contingency response procedures should be reexamined, for both freight and passenger trades.

GLOBAL - Data Transmissions From Seacontainers/Trailers Via Satellite Offer Potential For Combating Cargo Theft

The integration of data communications and satellite technologies show considerable promise for tracking seacontainers, trailers, and chassis toward combating hijacking and theft of intermodal containerized cargoes while at sea or during inland transit. This system makes it possible to, for example, monitor container location, its temperature and humidity, receive signals detecting intrusion or tampering, and to facilitate customer requirements

for daily fleet management of intermodal equipment inventories. Intrusion monitoring capability is effected with small sensors installed on the intermodal equipment to signal, via satellite transmission, any unauthorized door openings of sealed containers to ensure container integrity while transiting high risk environments and throughout the shipping cycle.

This technology, being marketed by several companies to the shipping industry, involves various combinations of equipment purporting to perform a range of services. The features most critical for maritime security include long range, near-real time, remote command center monitoring capabilities for: tracking the location of containers in transit, receiving signals of intrusion from the container/trailer and the cargo, transmitting securing-commands to the container/trailer, tracking the location of cargo removed from containers, dispatching a rapid response security team to interdict the hijacking/cargo theft event or recover the cargo.

Using a low earth orbit (LEO) satellite system communications link to receive data transmitted from transceivers interacting with microprocessors installed on dry and refrigerated containers, Caribbean Satellite Services, Inc. (CSSI), is marketing such a service throughout the Caribbean Basin for South Florida steamship lines, from its office near the Port of Miami.

CSSI is an 18-month old data communications company serving the shipping industry throughout the Caribbean and Latin America, and one of about 12 companies now marketing time on government-owned LEO satellites to the transportation industry.

CSSI uses a technology it calls "SMART CONTAINER," which signals when the container has been breached. CSSI's Cargo Recovery Transceiver (CRT) monitors the cargo itself for removal from the container while in transit. The CRT intrusion detection signal, which includes time, date, and location of intrusion, is transmitted to the CSSI Service Center and customers making possible a rapid security response and allowing possible recovery of the stolen property using cargo tracking data.

CSSI intends to establish this service as an accurate and reliable electronic bonding system for the movement of international containerized cargo by introducing its use by the U.S. Customs Service. In that capacity, the SMART CONTAINER intrusion monitoring service could have potential use in expediting cargo handling at U.S. ports of entry by increasing assurance of container integrity.

Environmentally Secure Products, Inc. (ESP) is also marketing a product to counter container/trailer hijacking and cargo theft. Called the StarTrack System, it operates in conjunction with a technology package provided by AirTouch Teletrac (both are California companies) and utilizes a computer-driven group of remote-controlled, electro-mechanical devices installed on the intermodal equipment to perform passive and active functions.

ESP's StarTrack System includes a passive monitoring capability compatible with remote/mobile telecommunications and satellite communications technologies. Signals are received at a tracking station in "real time" to enable detection of specific events occurring to the vehicle and container/trailer, including route irregularities, unauthorized entry or exit of the tractor's cab (seat sensor), detachment of the trailer from its tractor, and opening of container/van doors. Active command capabilities include locking or unlocking container/van doors, engaging or disengaging the tractor's engine or clutch, and applying the brakes of the tractor and trailer chassis.

Loss Prevention and Insurance. According to the Federal Bureau of Investigation, two to three containers bound for export or local destinations are hijacked every day in the New York City metropolitan area. Losses attributed to the value of the cargo cost shippers and insurers between \$250,000 and \$4 million per container. The cost of a truck and container-on-chassis may average as high as \$50,000. Areas in the U.S. where cargo theft is most pervasive are New York, Miami, and Los Angeles. Hijacking is also a safety issue, as violence is often used by the perpetrators.

Inland Marine Underwriters Association, CIGNA, ITT Hartford, and Atlantic Mutual insurance companies agree that the cargo theft problem is getting worse, and regard theft prevention as a necessity in order for firms to retain insurance. Shippers with significant loss histories encounter difficulty obtaining insurance coverage. The United Kingdom composite insurer, Norwich Union, is now giving premium rebates to customers which have fitted approved security devices to their vehicles.

COMMENT: Reliable, cost effective, and widespread availability of this technology would certainly be a favorable development for alleviating cargo theft and hijacking in the maritime industry. Additional technical capabilities, considered useful for such systems, include installation of ruggedized equipment that can operate in hostile environments, and countermeasure sensors and circuitry to detect tampering with the system and prevent

jamming. Also, the information obtained routinely from tracking and monitoring services afford improved security resource allocation, enables accurate assignment of liability, and facilitates security trend analysis.

The application of data communications technology to counter cargo theft in the transportation industry has been under study for some time. In 1976, the Aerospace Corporation prepared for the U.S. Law Enforcement Assistance Administration, a report based on research, development, and field testing of an electronic system utilizing radio frequency transmitters and detectors to enable a rapid response to stop cargo theft and truck hijacking. The system was considered technically reliable in providing service to a fleet of about 40 vehicles operating on dozens of routes over a 400 square mile area in the Los Angeles metropolitan environs. At the time, costs were a negative factor, and emerging microelectronics technology was expected to eventually resolve the issue.

* ADDENDUM *

MARITIME SECURITY REPORT

June 1995

**UNITED STATES - Hijackers Of Southern Pacific Trains
Jeopardizing West Coast Seacontainers**

Trains hauling doublestack seacontainers, truck trailers, and hazardous tank cargoes shipped on Southern Pacific line (SP) are being forced into emergency stops by armed robbers intent on hijacking their cargoes, just north of the Mexican border. The attacks have occurred primarily in Texas near El Paso, but also in New Mexico.

Sea-Land, APL, and Textainer are among the ocean carriers and intermodal leasing companies shipping on these SP trains consisting of 200 railcars and carrying some 10,000 tons of cargo. Cargoes stolen have predominantly been electronic equipment.

During 1994, SP experienced some 700 train robberies near El Paso, where one section of track was sabotaged 110 times. From the ports of Los Angeles and Long Beach, in 1993, SP was moving

doublestack container trains to Houston and New Orleans on a schedule of six trains per day in each direction.

The affected route, the Lordsburg district of SP's southern corridor, is a favorite target because one section of the company's track near El Paso parallels just 50 yards north of the Mexican border. A Union Pacific line also parallels within yards of the Mexican border, for 60 miles between El Paso and Sierra Blanca, where its trains have been attacked. Union Pacific operates fewer trains than SP on this route, which also provides service to the Port of Houston.

Hijackers are forcing trains into emergency stops by piling debris on the tracks, engaging emergency brakes, or sabotaging signals, switching devices and trackage. The hijackers then quickly board the railcars to offload cargo from containers, trailers, and boxcars. The thieves disperse primarily south across the border into Mexico. The size of attacking gangs has been as large as 40-50 robbers.

The increased costs to the rail lines are attributed to increased security (e.g., the constant need to stop and search trains), disrupted schedules, replacement of damaged or stolen goods, and potential loss of trade to trucking. Companies using the border route have requested Federal permission to install more than a mile of steel fence on the southern side of the rail line where attacks have been most prevalent.

COMMENT: In a proactive measure to deter hijacking opportunities, the U.S. Border Patrol is stationing officers every few hundred yards along the border. The officers use night vision equipment to monitor segments of track. A joint strategy involving U.S. and Mexican law enforcement, in conjunction with the commercial transportation interests, is necessary for effectively alleviating the hijacking problem.

The train hijackings have the potential to also create widespread human and environmental impact. A freight train can require as much as a mile to stop after the emergency brake has been applied. The rupture of a tank car or tank container carrying some types of chemical cargoes has been estimated to necessitate an evacuation up to a five-mile radius, affecting, for example, the population of El Paso.

A monitoring technology being developed by Burlington Northern Railroad Company may facilitate improved response by law

enforcement and railroad security personnel to the site of an attack. Burlington Northern now has a \$120 million communications center providing near real-time status reports of its entire system. By autumn 1995, the company's 70,000 units of rolling stock (including container/trailer-on-flatcar) will be outfitted with radio identification tags, which will provide continuous tracking of cargoes shipped on its system. The technology is intended to improve on-time delivery from 60% to 90% by the end of 1995, but may also improve the security of shipments in transit.

June 1995

**BRAZIL - Piracy Problem Moves Brazilian President To Form
A Federal/State Multi-Agency Task Force**

Acknowledging the serious threat to trade posed by the continuing piracy attacks on commercial vessels in Brazilian ports and territorial waters, the President of Brazil, Fernando Cardoso, issued an official decree on May 30, 1995, establishing a new national, interagency commission specifically to respond to the piracy problem. The presidential decree creates the National Commission for Public Security in the Ports, Terminals, and

Waterways and has the purpose of establishing and implementing a system to prevent illicit acts in those conveyances. The national commission will be headed by the Minister of Justice, and includes representatives from Brazil's Foreign and Transportation Ministries.

The decree also orders the formation of Brazilian state commissions modeled on the national version. Each state commission is to prepare a detailed plan for combating the piracy problem within their jurisdiction and port localities. The state commissions are to cooperate in designing detailed countermeasures to stop piracy attacks. Each port is to create and staff a liaison office. The Federal Police of the Justice Ministry will coordinate the state commissions to ensure strong interagency cooperation and effectiveness.

Brazil recognizes it has a serious problem, not only in piracy attacks on vessels but also in drug trafficking in the port areas. Improving police operations in the ports will serve a dual purpose of eradicating piracy and drug smuggling. The chief of the Brazilian Foreign Ministry's transportation division,

Marcia Brasil, has stated that President Cardoso is committed to tightening security and achieving significant improvement in Brazilian ports.

COMMENT: The Brazilian harbor piracy issue was included in recommendations for Federal action from the commercial maritime industry, conveyed in 1994, to the *Federal Ad Hoc Working Group on Maritime Security Awareness*, which MARAD coordinates. In a continuing effort to sustain Brazil's resolve in this matter, Department of State's Office of Maritime Affairs and Land Transport, a member of that working group, has prepared a position paper on the problems of piracy and port security for inclusion in the U.S.-Brazil Maritime Consultations scheduled for July 25-27, 1995. The position paper was coordinated with MARAD's Office of Ports and Domestic Shipping, and was submitted to MARAD's Office of International Activities for use in the consultations.

June 1995

PANAMA - Cocaine Seizures Double At Panama's Colon Free Zone and Associated Ports During 1994

Panama interdicted a record 12.2 tons of cocaine during 1994, seized in 962 cases, more than doubling the 5.3 tons of cocaine seized in 1993, according to official Panamanian figures. Most large seizures of cocaine or heroin occurred in the Colon Free Zone (CFZ) or the port facilities which serve the CFZ.

The increase is primarily attributed to the expanding use of Panama as a transit conduit for Colombian cocaine traffickers. But the surge also reflects some improved effectiveness in counternarcotics operations, according to a Panamanian official.

Panama's commercial maritime trade and transportation infrastructure is being exploited by drug smugglers who take advantage of the country's weak controls on the import/export trade. The volume of maritime trade moving through Panama provides considerable opportunities for traffickers to facilitate drug trafficking and money laundering activities among legitimate cargoes. Annually, the Panama Canal typically handles some 12,000 ships transiting with about 150 million tons of cargo from 85 countries -- about 4% of all seaborne trade.

The CFZ, located three kilometers from the port of Colon, has ranked as the world's second largest free trade zone, behind Hong Kong which also accounts for a significant percentage of exports from the CFZ. In existence since 1953 and operated by a state-owned corporation, the CFZ was by the late 1980's a base for some 460 companies and accounted for the direct employment of as many as 6,000 workers. Until surpassed some years ago by manufactured exports, transport and warehousing were the principal revenue generators of the CFZ, which also includes among its services freight forwarding, freight consolidation, manufacturing assembly, and transshipment.

Since September 1994, Panama has placed increased emphasis on improving controls at the CFZ. Systems are being established to analyze commercial movement and transactions. Fraudulent invoicing of re-exported goods has been a convenient device for facilitating drug trafficking and money laundering through the CFZ. Speaking before a forum on June 26, sponsored by Panama's Legislative Committee to Control Drug Trafficking, the CFZ's manager, Victoria Figge, emphasized the capability of drug traffickers to infiltrate businesses and to corrupt public officials.

COMMENT: According to the Department of State's annual report, *International Narcotics Control Strategy Report*, the dramatic rise of cocaine seizures in Panama during 1994 is attributed in part to two maritime interdiction campaigns conducted jointly by Panama and the United States. In an effort to constrict the opportunities for criminal exploitation of transport and the CFZ, the U.S. has made implementation of tighter customs controls at Panama's seaports a specific objective for 1995. Panama is making progress toward accomplishing the goals of its bilateral agreements with the U.S. in the following areas: maritime law enforcement for drug interdiction, and controls on shipments of precursor chemicals essential to the production of illicit drugs.

A MARAD initiative by the Office of Ports and Domestic Shipping to provide training for port officials in Latin America is consistent with U.S. counternarcotics objectives while also deterring the criminal threat to trade by improving port security. The first of three planned seminars on "Port Security Training For the Control Of Drugs, Chemicals and Hazardous Materials" was held for English-speaking Caribbean Basin countries in Barbados during April 1995. Officials from Panamanian ports will attend the third seminar, to be held in Honduras in April 1996. The second seminar, scheduled for December 1995 in Peru, is intended to accommodate South American countries, including Brazil and Chile.

These training seminars are sponsored by the Organization of American States and its Inter-American Drug Abuse Control Commission. They are funded by the Department of State's Bureau of International Narcotics and Law Enforcement Affairs. Instructors are from USCG, DEA, U.S. Customs, Royal Canadian Mounted Police, and private industry.

MARITIME SECURITY REPORT

May 1995

PIRACY - Regional Increases In Piracy Attacks May Forecast A Worldwide Upsurge In Incidents For 1995

Regional analysis of piracy attacks on merchant ships is demonstrating a significant upsurge in some geographic areas, according to the U.S. Office of Naval Intelligence. The number of successful boardings has also increased during attacks on ships at sea and in port, and an apparent escalation in the severity of attacks. The odds are now considered high that a pirate attack will be successful.

The regional trend of increasing piracy incidents contrasts with the worldwide statistics which have shown a slight decline in piracy attacks since 1991. The International Maritime Bureau's Regional Piracy Center in Kuala Lumpur, Malaysia, reported 106 piracy incidents worldwide in 1994, compared with 103 in 1993, 115 in 1992, and 107 in 1991. But officials are worried that the rate of regional piracy attacks may forecast an increase in the worldwide total for 1995.

The geographic areas where piracy is most pervasive are waters in South America and the Far East. In particular, the South China Sea, and specifically the Hong Kong-Luzon-Hainan islands triangle, showed a marked increase in incidents during 1993 and early 1994. In South American waters, particularly Brazil, piracy incidents have been increasing, reaching about 50 attacks in the past four years. In Indonesian waters, piracy attacks doubled during 1994, rising to 22 incidents compared with 11 in 1993. India, Sri Lanka, West and East Africa are also areas of significantly high risk.

Weather induces fluctuations in the regional occurrence of piracy incidents. In Latin America and the Far East, for example, piracy incidents occur in six-month cycles. There, hurricane and

typhoon seasons often keep the small vessels commonly operated by pirates close to their bases (although attacks have been reported in Sea State 5). In contrast, relatively stable weather throughout the year in Africa has little influence on piracy opportunities.

The methods of piracy attacks and ship hijackings have varied from direct force accompanied by use of machine guns, mortar shells, and anti-tank rocket (bazooka), to subterfuge in which pirates have identified themselves on VHF radio as the national coast guard, while making their approach. Recently, a containership berthed in a Brazilian port was attacked by an armed gang which boarded and looted seven containers within 15 minutes.

Losses incurred have included crew casualties, the merchant ship's entire cargo, and its stores and navigation equipment. The result of some piracy attacks have left ships adrift and posing a grave hazard to other shipping and, with certain cargoes, to the environment. The types of vessel attacked are mostly general cargo and container ships, bulk carriers, and tankers. Secondarily, types of ships include reefers, vehicle carriers, and roll-on/roll-off.

The most effective countermeasures strategy is considered to be prevention of initial pirate access to the ship. There is also consensus on the value of a ship's master receiving a piracy intelligence briefing before entering waters of potential attack. Increasingly, cooperation in the mutual exchange of security updates is taking place between carefully selected individual shipping companies sharing this problem.

Pirates are inclined to operate in waters where government resistance is least and often lacking in both technical resources and the political will to deal effectively with piracy. The legal regime is a contributing factor. According to the International Maritime Organization, international law permits any warship or government vessel to repress a piracy attack if it occurs in international waters. In territorial waters piracy constitutes merely an act of armed robbery, dealt with under the laws of the relevant coastal state which may not permit a foreign flag combatant to intervene.

The best prospects for suppressing piracy are through international cooperation. The U.S. Department of State's Office of Maritime Affairs and Land Transport has suggested that bilateral government responses to piracy will be diminishing in

favor of diplomacy aimed more toward multilateral responses with large organizations (e.g., Organization of American States). A significant joint response by nongovernment organizations is the establishment of the Regional Piracy Center in Kuala Lumpur, Malaysia, in October 1992, by the International Maritime Bureau (a division of the Paris-based International Chamber of Commerce) with the support of the International Maritime Organization and INMARSAT. The Center functions as a focal point for the industry and liaises with the law enforcement authorities in the region. It operates on a 24-hour basis and is financed by voluntary contributions from shipping and insurance companies.

COMMENT: Accurate analysis has been hampered by incomplete reporting of incidents. In early January 1995, the International Maritime Bureau expressed the belief that piracy incidents are substantially under-reported and urged the industry to report each and every attack in order that an accurate assessment of the situation can be obtained quickly. It is possible that the apparent upsurge in mid-1995 incidents reflects more complete reporting.

More disturbing, the influx of incidents demonstrate an apparent escalation in the severity of attacks. Characteristics include greater boldness of attack, theft of entire cargoes, more frequent use of heavy weapons and violence, and increasing abandonment of the attacked vessel as a navigation hazard. Such evidence supports the conclusion that a trend in more dangerous and costly piracy attacks has begun.

May 1995

**GUATEMALA - Truck Hijackings Drive Intermodal Ocean Carriers
To Cast Off Inland Transport Job To Shippers**

The largest ocean carriers calling Guatemala terminated inland trucking services on May 19, 1995. An untenable situation caused by hijackings and theft of import/export cargoes being trucked inland in seacontainers, accompanied by associated labor strife, has precipitated this action by the rate-setting group Latin American Shipping Association (LASA). Intermodal door-to-door transport service has reverted to the port-to-port situation of 20 years ago.

Shippers trading in the country must now arrange their own inland truck haulage to transport their freight between the ports and

their manufacturing plants around Guatemala City. However, they are not certain how the problem of returning line-owned containers and chassis after delivery will be solved. Some of the non-LASA carriers have decided to continue offering inland trucking services in Guatemala.

United States and foreign flag ocean carriers have been victimized by these truck hijackings, either directly while providing intermodal services to the country's main market in Guatemala City, or indirectly through the loss of shippers' cargo. Affected major lines include: Crowley American Transport, Sea-Land Service, Seaboard Marine, Maersk, and King Ocean America, S.A.

The truck hijackings are well organized and executed apparently with intelligence on which trucks are carry the more valuable cargoes, even the exact contents of containers. Attacks have included violence, and some drivers being shot, primarily on the highway connecting Guatemala City and the ports of Barrios and Santo Tomas de Castilla, on the country's Caribbean coast -- a route of 300 kilometers.

Clothing apparel cargoes have been the most frequent target of these truck hijackings, although expensive goods like electronics have also been hit. The apparel trade, involving brand-name clothing companies such as Levi's and Van Heusen, is conducted by sending parts of garments to Guatemala for final assembly and then shipped to the United States or other countries. Woven apparel is one of the largest import/export commodities traded between the United States and Guatemala. In 1994, woven apparel was the highest ranking import from Guatemala to the United States.

Background

Although the truck hijacking problem began to seriously affect some carriers as long as eight years ago, it began growing significantly worse in 1992. Since that time, appeals for assistance have been made to the U.S. Embassy and all levels of the Guatemalan government including the president, but the situation intensified. Conservative estimates have put the losses from the hijacking thefts at \$3 million a year in merchandise alone. Operating costs for extraordinary security measures, including armed private security guards escorting truck convoys, raises the figure considerably.

On February 1, 1995, members of LASA initiated a Theft Prevention Surcharge of \$200 per container, applicable to all cargo containers moving into and out of Guatemala through the port of Santo Tomas de Castilla. This cost was passed on to their shippers, but did not approach covering the actual costs incurred in providing security for inland transport.

Subsequently, the situation became exacerbated when Sea-Land Service tried to terminate a trucker it employed, after determining his participation in the theft of at least one cargo he had hauled. Area truckers rallied, striking Sea-Land and other carriers. Striking truckers partially ended their action against shipping lines on May 11, 1995, after Sea-Land dropped its job sanction against the trucker. Crowley and other lines were affected for two days but Sea-Land Service, the main target of the strike, did not receive service from truckers for two weeks.

COMMENT: Sea-Land's physical security measures utilized for its seacontainers in Guatemala are sound. The fact that the hijackers act with apparent intelligence about the cargo manifests, suggests that collusion is occurring at the intermodal freight interchange points. Although the hijackers have killed, they have not been reported to be especially heavily armed or connected with the guerrillas. The Government of Guatemala has been operating a multi-agency highway security task force in recent weeks but has asked LASA for funds, claiming it cannot afford to continue the action much longer.

MARAD and Department of State have met with the transportation task force of Caribbean/Latin American Action (CLAA is a trade association whose transportation task force represents primarily maritime shippers and ocean carriers), at its request, to discuss the truck hijacking problem in Guatemala. MARAD encouraged CLAA to communicate its position in a letter to the Maritime Administrator, and was assured that the Secretary of Transportation's Office of Intelligence and Security would be informed of the matter. Department of State is attempting to elevate the issue, possibly for multilateral action.

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May 1995

**MARITIME FRAUD - False Registration Of Ships Used By Asian
Crime Gangs In Theft Of Entire Cargoes**

The International Maritime Bureau (IMB), a division of the Paris-based International Chamber of Commerce, has reported that phantom ships are the latest form of maritime larceny. The crime is perpetrated by using a stolen or purchased ship which is then fraudulently registered. Subsequently, the ship is used to take on cargo under a false outward manifest and fails to deliver the cargo to its destination. The cargo is either transferred to another vessel at sea or the vessel and cargo are sold directly to a buyer. The targeted cargo is usually high value and of a type easy to dispose of, i.e., timber, plywood, oils, textiles, rubber, resins, copper concentrates, and frozen fish. The IMB estimates the value of this form of cargo theft at \$200 million annually.

In a typical case, a Southeast Asian-based crime syndicate will buy an old cargo vessel for about \$1 million. The syndicate registers the vessel under a new name with a flag-of-convenience country for about \$5,000, and without inspection of the vessel required. The syndicate then sets up an elaborate network of dummy offices and companies to deceive port officials and shippers. A temporary office might be opened in Singapore. Various ship's documents will be forged. A crew will be hired and given false passports, usually made up in Jakarta or Bangkok.

The syndicate selects its cargoes carefully, choosing those which are easy to transport and trade. It will learn when certain shipments are likely to be made and where they are going. After the syndicate's vessel takes on cargo under a false outward manifest and sails out of port, the ship's name is again changed. The cargo is then traded in China, probably at the port of Beihei. According to the IMB, almost all the cargoes stolen in this manner find their way to China.

In the case of the WINDSOR III, changed to ASOK II, Chinese customs acted on information provided to them by suspicious officials at the loading port and seized the ship. But the ship somehow escaped from the port of Beihei. Shipping and trade officials say that a combination of lax controls and corruption in many countries in Asia has facilitated the growth of phantom-ship syndicates.

COMMENT: This type of cargo theft is made possible largely by the permissiveness of some ship registries. Key deficiencies include allowing mid-voyage change of the ship's name and without physical inspection, vague records of changes, and inadequate scrutiny of the circumstances during which name changes are requested. Pressure by the International Maritime Organization for tighter standards could alleviate this problem.

The International Association of Airport and Seaport Police (IAASP) estimates that worldwide, maritime fraud in all its variations accounts for annual losses in the billions of dollars.

In an effort to combat this and other major criminal activities, IAASP has established an information network designed for the purpose of exchanging criminal intelligence on members of organized crime involved in maritime fraud, as well as drug trafficking, extortion, bribery, cargo theft, terrorism, and the smuggling of stowaways.

MARITIME SECURITY REPORT

April 1995

UNITED STATES - Cargo Theft Loss Leaders: The Ports of Miami, Los Angeles, NY/NJ, and Long Beach

The ports presently experiencing the highest incidence of cargo theft and hijacking are Miami, New York and New Jersey, Los Angeles, and Long Beach. The Port of Miami has incurred cargo theft-related losses in excess of \$150 million during some years.

In 1993, six Southern California counties reported 675 cargo thefts amounting to more than \$109 million in merchandise, a 35% increase over 1992. Among its various forms, theft through fraudulent documentation causes the highest loss rate.

The Insurance Services Office and the National Association of Independent Insurers report that in 1992, there were losses of \$112.9 million on earned premiums of \$211.4 million for the motor truck cargo class of business. This means that on the value of cargo insured, those lines experienced a staggering 53.4% loss ratio. Executives with the Association of International Marine Underwriters (AIMU) and the Inland Marine Underwriters Association (IMUA) suggest those figures, and those of the FBI, understate the true scope of the problem. Some law enforcement sources estimate that half of all cargo thefts go unreported. Compounding the problem is the absence of a reliable clearing house for cargo theft information.

Working cooperatively, AIMU and IMUA are developing a claims questionnaire that insured entities could fill out anonymously. The location of theft incidents would be identified to the level of individual piers. Besides location and time, the forms would document names of trucking companies, warehouse operators, and drivers. In addition, IMUA's vice president, Karen Sherbine, emphasized the need "to be totally familiar with the reputations of various ports, piers, warehouses, trucking firms, and their practices."

COMMENT: In 1975, Executive Order 11836 gave the Department of Transportation the lead role in a program intended to increase the effectiveness of transportation cargo security in the United States, which was coordinated among Federal, state, and local law enforcement agencies, and the commercial industry. In the program's final report, issued in 1979, it was estimated that theft-related cargo losses cost the U.S. economy in excess of \$1

billion annually. The report optimistically concluded that the rate of loss had been stabilized by the program, but added that overall program effectiveness was impaired by inadequate reporting from the commercial industry. The maritime industry, the report stated, had elected not to periodically advise the government of its cargo loss by cause and commodity.

Consequently, comprehensive cargo loss data were not available. Today, this lack of data remains a serious deficiency impairing efforts to reduce theft-related losses in the maritime industry.

April 1995

SOUTHEAST ASIA - Ethnic Chinese Crime Syndicates Prefer Port Cities and Containerized Heroin Exports

Concealing heroin shipments in legitimate containerized consignments aboard maritime transport has for years been the narcotics smuggling method of choice by ethnic Chinese criminal syndicates, known as Triads. According to one estimate, 90% of the world's heroin is controlled by the Triad societies concentrated in Hong Kong. The Triads have been the main source of heroin supplied to the Italian Mafia in the United States (La Cosa Nostra) since the 1930's.

The opium-heroin trade has been controlled primarily by those Triad members now living in Hong Kong and Bangkok who emigrated from the province of Guangdong, China (adjacent to Hong Kong), having fled the Communists in 1949. In Hong Kong, the three dominant Triad societies are the Sun Yee On, the 14K, and the Wo group, comprising a total of 65,000 members. Large Hong Kong Chinese communities also exist in Toronto and Vancouver.

The heroin trade originating in Southeast Asia, primarily in the "Golden Triangle" region of Burma, Thailand, and Laos, provides the Triads with their oldest and most lucrative business. Owing in part to its transportation system, Thailand has been the primary conduit for Golden Triangle heroin, nearly all of which is transshipped in Hong Kong and then smuggled into North America.

Although highly secretive, the Triads often run legitimate multi-million dollar corporations in addition to their illegal operations, as do other organized crime groups. The increase in the volume of legitimate containerized commercial maritime

exports from Thailand has expanded the Triads' opportunities for heroin smuggling, primarily under the cover of those import/export trades.

COMMENT: Hong Kong will, in 1997, revert to the sovereignty of the Peoples Republic of China, changing Hong Kong and the way it operates. The following make it plausible that the Triad societies will soon relocate their headquarters, probably to Bangkok:

- * Ethnic Chinese are the largest non-Thai minority, totaling six million people (11% of the population), enabling Triads to integrate into Bangkok culture;
- * Bangkok is central to the Triads' source and control of heroin exports;
- * Thailand has not been a party to the 1988 United Nations Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances, contributing to a weak counternarcotics enforcement environment in the country; and finally,
- * The electoral process of Thailand's political system is a target of attempts by drug traffickers to effect official corruption with illicit money.

April 1995

PANAMA - Weapons Smuggled To Colombian Guerrillas In Commercial Containers, Via Panamanian Ports

Police in the Panamanian port of Cristobal were injured when a freight container, in port for transshipment, exploded during a narcotics trafficking inspection. The explosion occurred when an acetylene torch police were using to enter the container inadvertently detonated unmanifested munitions. Following the late March incident, police determined the arms cache was intended for Colombian guerrillas and narcotics traffickers.

The Panamanian Legislative Assembly Drug Commission has expressed concern about possible collusion between drug traffickers and employees of the Port of Cristobal. The Commission intends to consult the director of the port authority and U.S. Drug Enforcement Administration representatives in Panama.

A related incident occurred in late April, in the port of Colon, Panama, when a commercial vessel of Panamanian registry was

seized after police discovered two shipments of contraband rifles and explosives among its cargo, determined to be destined for Colombian guerrillas. Following its release in Colon, the same ship was seized on April 26, in the Colombian port of Turbo (on the Caribbean coast near the Panamanian border) when security forces discovered it was smuggling a weapons shipment. The ship had completed a direct transit from Nicaragua.

Panama and Colombia have since signed an agreement for the joint development of security and interdiction mechanisms at the common border focused on drug trafficking, weapons smuggling, and illegal immigration. Terms of the agreement specify maritime security as a priority.

COMMENT: Colombian authorities, in 1993, began investigating an increase in weapons smuggled in commercial cargo transported from Central America into Colombia. Interdiction efforts by Panamanian police are complicated by free trade agreements which prohibit unilateral inspection of containers carrying merchandise in transit to another country. Although recent incidents may be a short-term phenomenon associated with the demobilization of guerrillas in Nicaragua and El Salvador, containerized commercial shipping may emerge as a preferred method of transport by weapons smugglers.

April 1995

**BRAZIL - Harbor Piracy Incidents Elevate Port Security To
the Agenda Of the Brazilian President**

Harbor piracy, including attacks by armed gangs, is a problem in Brazilian ports that has reached an alarming level, according to the international commercial maritime industry. U.S. and European shipping companies have been active in trying to mobilize the Government of Brazil (GOB) to improve port security.

The U.S. Embassy in Brazil is coordinating with its European counterparts to call for improvements in port security. And, the U.S. ambassador is advancing the issue to Brazil's new transport minister and others. European embassies have been working with GOB on the general issue of port security for several years. Ambassadors from European Union countries have made joint demarches to Brazil's foreign ministry twice in 1994; British and Greek ambassadors have done so separately.

The director of the Brazilian merchant marine agrees that port security is a problem, that the ports are poorly administered and inefficient, and that the security issue further raises the costs to ships calling at Brazilian ports. However, he contends crime is actually down since 1990. Specific deficiencies, such as cumbersome bureaucratic procedures, slow port clearances (30 days or more), and lack of customs warehouse space have increased the opportunities for harbor piracy. Also, jurisdictional authority discrepancies and equipment problems detract from efforts by GOB to patrol and secure the harbor areas in Brazilian ports.

The GOB has expressed interest in cooperating toward a solution, and expects its port reform plan, scheduled for implementation by the end of 1995, to include port security. However, the government contends that a lack of financial resources has frustrated its attempts to improve port security.

COMMENT: The newly elected Brazilian president has regularly cited the need for port reforms. But port security improvements, as a subset of infrastructure, remain dependent on increases in GOB revenues. Therefore, in the near term, it is unlikely that the problem of harbor piracy in Brazilian ports will be reduced.

The Brazilian harbor piracy issue originated as a recommendation from the commercial maritime industry, conveyed in 1994, to the *Federal Ad Hoc Working Group on Maritime Security Awareness*, which MARAD coordinates. The U.S. Department of State's Office of Maritime Affairs and Land Transport, a member of that working group, took the piracy matter and advanced it to the diplomatic level by early 1995.

MARITIME SECURITY REPORT

March 1995

COLOMBIA - Port Privatization Boosts Profits, Productivity, and Port Security Concerns

The Colombian government began a seaport privatization plan in 1991 and, in December 1993, granted 20-year concessions to independent port authorities to operate Colombia's four largest ports (Barranquilla, Buenaventura, Cartagena, and Santa Marta). Those ports handled nearly 10 million tons of cargo in 1994. Buenaventura Regional Port Authority typically handles 50% of Colombia's maritime trade.

Results of privatization have included a 60% increase in productivity, and ship handling time has been cut in half to 2.5 days despite still complicated and time consuming paperwork. New competition has also been created among private terminal operators, decreasing port fees by 52% and increasing supply and quality of service.

Port security, however, remains problematic with burglaries, pilferage, and even armed robberies occurring frequently. The head of the Colombian Council of Cargo Transporters, Nestor Restrepo, has written to the country's minister of defense expressing that, "the country will not achieve anything if it modernizes its ports and increases operating efficiency and productivity, unless there is security for the users of cargo."

COMMENT: In a recent counternarcotics policy review, the United States granted Colombia a National Interest Waiver, despite

Colombia's unsatisfactory progress to reduce drug trafficking. The waiver imposes no sanctions of any kind and does not adversely affect maritime cargo flows. However, relaxation of customs regulations and fewer inspections associated with Colombia's rapid trade privatization are making it easier for drug traffickers to smuggle illicit cargoes from the ports concealed in legitimate commercial shipments.

March 1995

ECUADOR - More Stowaways? Conflict Creates 7,500 Refugees and 50,000 Unemployed

The Red Cross reports 7,500 refugees, housed during March at temporary military camps in the Quito and Guayaquil suburbs, migrated mostly from the Amazonian border region in southeastern Ecuador. They were displaced by the country's recent conflict with Peru over disputed territorial boundaries. Authorities forecast near term social danger as additional refugees and unemployed are preparing to migrate to Quito and Guayaquil. The port of Guayaquil is approximately 300 kilometers southwest of Quito.

The main income of the 50,000 small businessmen (farmers and cattle ranchers) in southern Ecuador, which came from export commerce with Peru, has also been affected by the conflict. This daily trade was cut off when the Ecuador-Peru border was closed.

A large portion of northern Peru's food consumption was supplied by Ecuador, and during March a severe shortage existed in northern Peru.

COMMENT: If the present circumstances continue to evolve, within six to 12 months the number of stowaways embarking at the port of Guayaquil may increase to unmanageable levels, presenting a threat to ocean carriers, of all flags, bound for the United States.

March 1995

NIGERIA - Maritime Fraud Pounds Nigerian Insurers

Maritime fraud costs Nigeria's insurance industry \$50 million annually, according to the industry's journal, the *Nigerian Insurer*. Perpetrators and activities include: shipowners and charterers engaged in over-invoicing, certificate racketeering, overstating claims, container fraud, overvaluation of vessels for insurance purposes, and piracy, while importers have engaged in forging documents (e.g., bill of lading, customs bill of entry, and invoice). The result is causing already-scarce Nigerian foreign exchange reserves to decline.

COMMENT: U.S. exporters and carriers trading in Nigeria should take precautions to avoid becoming a target of maritime fraud, which is often facilitated by official corruption.

March 1995

CHILE - Counternarcotics Policy With the United States

The United States is Chile's main trading partner, whereas in contrast, Chile is 36th among U.S. trading partners. Chile-U.S. relations consist fundamentally of trade matters. U.S. trade negotiations with Chile are, therefore, almost exclusively motivated by political incentives, such as counternarcotics policy.

Counternarcotics negotiations with Chile include three primary concerns to the U.S. In descending order of importance, they are: money laundering, export controls on input chemicals transported to cocaine producing countries, and drug trafficking.

Chile is processing legislation on controlled substances, and is interested in greater cooperation with Washington on anti-drug initiatives conditioned on U.S. respect for sovereignty. Chile currently does not have a serious drug trafficking problem.

COMMENT: Chile is an attractive maritime route for Bolivian and some Colombian traffickers who use it as a transshipment country for South American cocaine smuggled to world markets. Chile's growing volume of containerized maritime trade provides drug smugglers with opportunities for diversion of precursor chemical and concealment of illicit shipments manifested as legitimate commercial cargoes. Drugs are smuggled in significant quantities from Bolivia across Chile's northern border for transshipment through its seaports, such as Arica (at the border with Peru) which is accessible by rail line. Chile's 6,435 kilometers (km) of coastline, and land borders with coca-producing Bolivia and Peru (861 km and 160 km, respectively), facilitate drug smuggling opportunities.

In early 1995, the Government of Chile promulgated into law measures to combat drug trafficking, which includes regulation of precursor chemicals and use of modern law enforcement techniques by the police. Chilean police agencies have coordinated their counternarcotics activities with authorities in neighboring countries. In 1994, cocaine seizures increased by approximately 50% above 1993, amounting to 1.2 tons. Chile is a party to the 1988 United Nations Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances.

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