



RIPPED OFF!

*High-profile thefts
raise stakes
for cargo security.*

BY ERIC KULISCH

Asophisticated gang of thieves made off with \$76 million worth of prescription drugs from an Eli Lilly and Co. warehouse on March 14 in what is considered the largest known cargo theft in U.S. history.

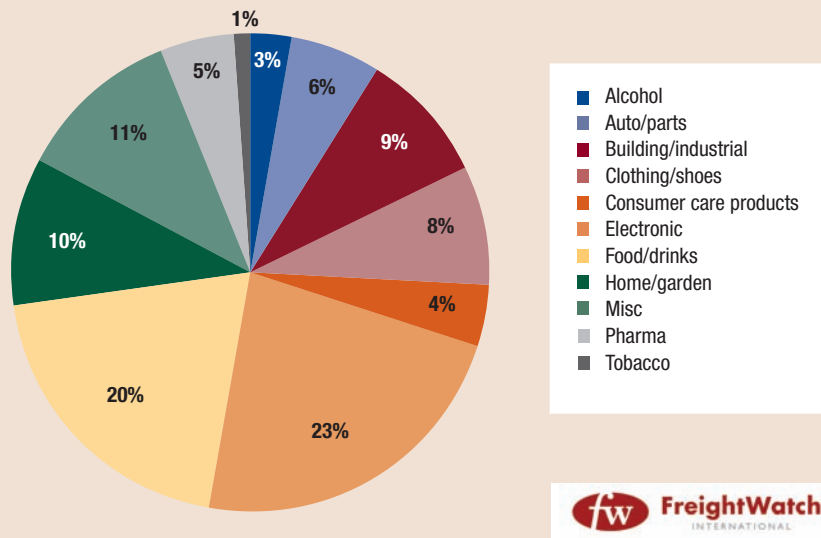
The heist is not an isolated incident. Cargo theft has been on the rise the past two years and pharmaceutical industry shipments have been a prime target of criminals, according to the U.S. government and industry experts.

Determining the extent of cargo theft is difficult because there is no consistent method for reporting such crime or a single repository for collecting incident reports. The insurance industry, security firms and different law enforcement agencies all compile their own fragmented information, and estimates on the total economic impact of cargo theft widely vary from \$5 billion to \$40 billion.

In 2009, there were 869 cargo theft incidents, up 13 percent from 2008 and 22.6 percent since 2007, when there were 672 incidents, according to the latest data from FreightWatch International, a logistics security firm. The value of cargo lost

Table 1

Thefts by commodity - 2009



Source: FreightWatch International.

to confirmed thefts in 2009 increased 71 percent to \$497 million from 2008, mostly driven by a few big events. The value of lost cargo was \$191 million in 2007.

The figures are fairly consistent with those from insurance claims and other sources compiled by Chubb Corp., a large insurance company based in Warren, N.J.

Most of the stolen shipments involved full truckloads, but there also were 36 warehouse burglaries. In the second half of 2009, FreightWatch observed a noticeable spike in cargo theft incidents at truck terminals, distribution center locations and trailer drop lots.

“We saw a lot more thefts from secured lots, either breaking into the lot or using false IDs or documentation to remove the truck. Traditionally, the highest rate of theft comes from truck stops when trucks are left unattended,” FreightWatch General Manager Ron Greene, said during a mid-March webinar produced by *American Shipper*.

In February, thieves tied up a security guard and stole 10 containers full of Vizio flat-panel TVs worth about \$2 million from Pacer Distribution Services’ Southgate, Calif., facility, said Los Angeles County Sheriff’s Department Sgt. Michael Arriaga in an interview.

Security professionals attribute the rise in highway and warehouse thefts to the recession, greater realization among criminals that cargo is a soft target, and the growing value of truck shipments.

Criminals are looking for anything that has a street value and can be sold. The economic downturn has encouraged people

to steal things they can quickly unload and created a bigger pool of those looking to get merchandise on the cheap.

Stolen merchandise often makes its way to online retailers, where consumers can get great deals but have no way of verifying whether the sellers are legitimate, Dan Burges, FreightWatch’s director of intelligence, said in an interview. Criminal syndicates also sell products to buyers for export to Latin America and other places, where they are resold on the street, or used as models for counterfeiters, he added.

The hardest hit commodity sectors are electronics, tobacco, food and beverage, building supplies, and pharmaceuticals, all of which are targeted by criminal gangs because of their high resale value. Criminals like to operate on weekends, when loads typically are left idle in a truck yard, distribution center lot or truck stop and fewer people are around. Areas with high cargo throughput and warehouse concentrations, such as Los Angeles, Miami, Dallas-Fort Worth, Atlanta, Memphis, Indianapolis, Louisville and the I-95 corridor in New Jersey, are most prone to cargo theft.

Prior to 2005, it was rare for pharmaceutical shipments to be stolen. There were 46 in-transit thefts last year compared to 11 in 2006, according to FreightWatch.

The value of drug thefts nearly doubled in 2009 to \$189 million from \$94 million in 2008, with the average value of a stolen load similarly jumping to \$4 million from \$2.1 million, Greene said.

The numbers are likely to be skewed again in 2010 by the Eli Lilly burglary. The

problem is greater in the United States than other parts of the world because of the active domestic black market for prescription drugs, he said.

Cargo losses are going up irrespective of the number of attacks because the economic value of certain commodities and criminals’ ability to target them continue to increase, while miniaturization and logistics advances enable more products to be stuffed in a single truck trailer. Some criminals are so discriminating that they even go after smart phones rather than regular cell phones, Greene said.

Sophisticated criminal organizations will scout a facility’s operations and truck routes, and then follow trucks from the warehouse until the driver takes a break at a truck plaza or other site, according to industry experts.

“These are very well organized criminal groups. Many have backgrounds in logistics and transportation. And they are very good at what they do. They can disable alarms, case warehouses, and steal trucks in a matter of seconds,” Greene said in a follow-up interview.

Cargo thieves are also taking advantage of the Internet to steal more cargo, Arriaga said. They watch for bid solicitations by truck brokers on Internet load boards and accept the load or drive up to the warehouse with phony documentation, including ei-



Ron Greene
general manager,
FreightWatch
International

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ther stolen or fabricated drivers' licenses and Department of Transportation truck identification numbers, pretending to be the scheduled hauler.

"They relinquish the load to whomever comes to pick up the item. It's almost impossible to defeat because these people are expecting someone to show up," Arriaga said. The problem is compounded, he said, when large trucking companies subcontract loads to another carrier and the criminal beats them to the customer's dock.

The other side of the spectrum involves low-level street thieves who are simply looking for targets of opportunity — preferably white, unbranded trailers — to steal. They don't care about the contents and will sell the goods to mom-and-pop grocery stores or local taverns, and at flea markets. Petty thieves also frequently engage in partial load thefts in which they find trailers without a lock, break off the seal and unload as many cases into a van as they can in a minute or two.

Some of the increase in freight loss figures is attributed to better reporting and collection of data. Green cautions that FreightWatch's statistics, while accurate, are limited to thefts the company can verify and don't provide a definitive picture of the overall cargo theft environment.

Burges said estimates of direct annual cargo theft losses in the billions of dollars are often grossly inflated for shock value, but could be close to reality if they include ripple effects such as replacement costs for stolen goods, expedited shipping, payment of insurance deductibles and higher premiums, extra security precautions and investments, man hours spent responding to insurance claim investigations, discounted pricing to placate a customer for late product arrival, lost sales, administrative costs, degraded brand loyalty and, in the pharmaceutical sector, potential recall and destruction of entire production lots the stolen drugs came from.

"The result of the theft can be devastating" for a retailer, especially if it precedes a significant sales event like Black Friday, Super Bowl Sunday or a new model release, Jeff Freeman, transportation manager for Sony Supply Chain Solutions - Americas, said on the webinar. Gray market goods also force authorized resellers to compete with street sellers on price and damage the brand.

"Add to this the increase in customer labor to coordinate returns and verify counts and you can see how the relationship

between supplier and retailer can be seriously strained," he added. Those situations result from partial load thefts, which force the retailer to fill out a shortage report and file a claim.

Getting a firm handle on the extent of the problem is complicated by the fact that until recently there was no specific category in the FBI's criminal statistics for cargo theft. Local police may report stolen cargo as burglary, auto theft, larceny, robbery or petty theft.

not devote resources to investigating cargo theft complaints.

"It's a perfect crime for a thief because he could be caught repetitive times and never see a day of jail," said John Tabor, director of corporate security for National Retail Systems (NRS), in an interview.

Although cargo theft predominantly is a passive crime, there has recently been a slight increase in armed hijackings, topping out at 16 incidents in 2008. Most of the attacks are in Southern California. Last year, about 1.5 percent of all cargo crimes involved violence, according to FreightWatch. Armed attacks occur most often during last-mile local delivery and tend to be carried out by local gangs, Burges said. Professional thieves usually are non-violent.

In early February, seven armed robbers entered a truck terminal in Torrance, Calif., held employees for at least an hour and fled with three cargo containers filled with electronics, according to a report in a local paper, *The Daily Breeze*.

Last October, two men with ski masks pistol-whipped a truck driver who was sleeping in his cab and stole his \$300,000 load of scotch and rum, the *Indianapolis Star* reported.

In late March, several individuals arrested in a violent 2008 attempted theft of electronics were sentenced in Los Angeles to more than 10 years in state prison, Arriaga said.


Chubb only reported two hijackings last year.

Armed hijackings are more prevalent in other parts of the world, such as Latin America and Mexico.

Table 2

Thefts by location - 2009

Theft locations	Jan.-Jun.	Jun.-Dec.	Total
Driver theft	1	4	5
Public access parking lot	26	32	58
Secured DC/terminal lot	31	62	93
Truck stop	78	66	144
Unsecured DC/terminal lot	49	57	106
Roadside	0	8	8
Warehouse/DC	17	16	33



Source: FreightWatch International.

The National Cargo Theft Task Force, created after 9/11 by private sector groups and law enforcement, successfully lobbied for the 2005 Patriot Act reauthorization to include cargo theft as part of the Uniform Crime Report database, but the FBI has been slow to implement the change. In January, it said it would begin accepting test filings of the new data element.

The goal is for businesses and law enforcement to use the information to develop anti-theft programs, but it will take several years to populate the database and get a clear picture of theft activity. And while the FBI is mandated to collect cargo theft data, state and local law enforcement agencies are not required to report it to the national database. The FBI is encouraging local law enforcement agencies to update their software to incorporate the new data element, a process that could take up to two years.

Another reason cargo theft has proliferated, transportation security experts say, is because the legal system tends to view it as victimless crime. Thieves realize that if they avoid violence, prosecutors will consider cargo theft a property offense subject to probation or minimal jail time. In many cases, suspects who face a short sentence are released on bail, never show up in court for their trial and are back stealing cargo within days of their arrest.

Many local police forces are also overwhelmed by other priority issues and do

Shipper Best Practices. Freeman recommends high-value shippers only use contracted carriers whose contracts clearly specify liability coverage, driver selection and security requirements. Sony's logistics division avoids truck brokers and tends to favor large trucking companies that demonstrate a commitment to strong security processes.

Shippers should also develop security-related indicators, such as the amount of time a carrier takes to notify a customer of an incident and the claims ratio, by which to measure the performance of transportation providers, he said.

Sony carefully checks carriers during the bid process regarding their security plans, ability to adapt to new risks, whether their security procedures are regularly used in the field, and how often they test their drivers and facilities for compliance. It also follows

up on industry references.

“We find in conversations with carriers that many have pretty good procedures, but when you get down to the operations level with drivers, are those security procedures really enforced?” Freeman said.

The electronics maker also does an extensive financial background check on motor carriers and ranks them by risk. A heavy debt ratio or low cash reserves are the types of red flags the company pays attention to.

“When you have a carrier that is on the edge of financial ruin there’s almost nothing worse than to have a trailerload of high-value product and all of a sudden the driver knows his company can’t pay him any more. So what he’s gonna do with your freight is anyone’s guess,” Freeman said.

Many manufacturers and suppliers also have aggressive auditing programs checking their logistics service providers. The higher the risk associated with a particular product, the more layers of security are needed to defeat professional thieves, supply chain security professionals say.

Shippers improve the chances of recovering stolen property by developing contacts with local law enforcement around the country, especially cargo task forces and immediately notifying them of a theft, experts say. These task forces include Cargo CATS (Criminal Apprehension Teams) in Southern California and Tom CATS in southern Florida. Providing detailed information about the incident also helps.

In 2007, Sony experienced a sudden spike in railroad thefts. Thieves attack intermodal imports heading inland from West Coast port districts by climbing aboard slow-moving trains as they move through and exit the yard. As the trains climb into the mountains, the thieves scramble



Osterberg

among the upper-positioned containers in double-stacks looking for freight to steal. They drop the freight they’ve cherry-picked at pre-selected desert locations to waiting cohorts who hide it for later transport until the train has gone, according to Don Osterberg, senior vice president of safety and driver training at Schneider National, which handles truck-rail transport for Sony.

Another technique used by criminals is to infiltrate third-party service providers or railroads and use their access to the yard to search for freight in containers that have been grounded onto chassis for road movement, Osterberg said.

In response, Sony implemented quarterly

Shipper takeaways for protecting your cargo

- Benchmark best practices in supply chain security and draft a written corporate security plan covering cargo, data, personnel, facilities and equipment.
- Contact your insurance carrier for assistance developing a security strategy.
- Establish contractual requirements for supply chain partners regarding liability, driver selection and security, and make them part of the plan.
- Conduct a financial background check on your carriers.
- Evaluate and regularly audit your transportation and logistics partners for security follow-through.
- Make sure private fleets or those of for-hire carriers use tracking transponders and immobilization devices such as wheel locks, fuel shutoffs, air cuff locks; ignition locks; battery-disconnect switches; and trailer locks.
- Participate in industry-led, regional supply chain security councils.
- Network with law enforcement-cargo theft task forces.

meetings with railroad police, intermodal providers, carriers and cargo theft task forces to examine weaknesses in the supply chain. The collaboration revealed that the business partners were using a specific type and color of seal that was universally recognized by thieves as they shopped containers on trains to steal, Freeman said. The situation underscores the need to periodically change up one’s locks and seals, Osterberg added.

The most significant correction western railroads implemented as a result of the talks was to put high-value loads in the bottom well position of double-stack railcars — something they had traditionally considered too difficult to do because of protocols requiring lighter loads to be placed in the top position, timing of loads and other factors, Freeman said. The segregation of high-value loads takes place under camera or visual observation.

Now one of the railroads markets this as an option to other customers and has achieved almost 100 percent compliance on a major rail lane. Additionally, railroad police have developed contacts with the Sony security group, which has resulted in more immediate notification in many cases of cargo theft, he said.

Railroads and intermodal logistics providers also began using high-security locks on containers and improved yard security.

Carrier Defenses. FreightWatch typically manages in-transit security for cargo owners. It embeds small tracking devices within customer shipments and actively monitors each truck’s progress. Depending on the value of the load, it also uses spotter teams to verify trucks are keeping to their assigned schedule and routes. A command center investigates any alerts for schedule deviation and quickly notifies local law enforcement if a theft has occurred.

Greene said the company’s greatest risk mitigation technique is staying in constant communication with the driver and reminding him or her to adhere to security protocols. A driver that plans to take a restroom break or go to sleep must call FreightWatch before stopping and call again before restarting. If the truck stops or moves without a call, security personnel immediately contact the driver to find out what’s going on.

FreightWatch requires that motor carrier

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drivers not stop for 200 miles after picking up a load, which typically reduces thefts by 80 percent, Greene said.

Schneider National, the largest privately held truckload carrier in North America and a major international logistics provider, made a concerted effort in 2006 to stem cargo losses, Osterberg said on the webinar. It started by hiring a corporate security director, creating an enterprise-wide Security Council to assess vulnerabilities and create antitheft programs, and instilling a culture of security throughout the organization, he said. That means all business decisions are filtered through a security lens and employees receive extensive training on how to minimize risks.

"Absent a strong culture of security, drivers can get desensitized to the risks that exist. Think they won't be the victims. So we maintain a high level of focus with them to just look for things that seem out of place," Osterberg said.

The Schneider corporate security team conducts an annual audit at each terminal to make sure procedures are followed.

Most companies have some security components and policies in place, the veteran trucking executive said, but many don't update them or practice how to react to a bad event.

"There are a lot of companies that have intricate plans for security that are in a three-ring binder on the bookshelf of their

safety or security director. But if those plans haven't been exercised those capabilities will atrophy over time and the plans aren't really worth the paper that they are written on," he said.

The efforts have paid off. Schneider's load thefts dropped 22 percent in 2007, 31 percent in 2008 and 75 percent last year against a backdrop of rising heists nationwide.

In February 2008, Schneider convened an electronic security summit with more than 40 supply chain professionals that agreed on a host of measures to address an increase in electronics thefts. Last year, Schneider recorded no stolen loads of electronics compared to 2007 claims of \$469,500, Osterberg said.

Many cargo thefts are aided by inside informants, according to security experts. One way top-tier motor carriers combat the problem is by conducting rigorous pre-employment verification checks. Schneider, for example, goes beyond minimum legal requirements for urine-based drug tests and requires drivers to submit a hair follicle sample, which Osterberg said is a much better test for identifying chronic drug users susceptible to bribes. The company has experienced a significant reduction in positive random and post-accident drug tests as a result of the tougher hair follicle standard, he said.

Schneider also administers background

checks for non-driver employees.

NRS, which hasn't had a cargo claim loss in seven years, takes the additional step of running background checks against every address the applicant has had for the past 10 years instead of only the current county or state of residence. NRS pays two to three times or more than the normal \$20 to \$25 background check. But the Hasbrouck Heights, N.J., company gets about 40 percent more hits about disqualifying driving or criminal behavior that otherwise wouldn't be detected.

"We think that's money well spent because we can weed out those 40 percent of drivers before they even get into our system," Tabor said.

The corporate security director also retains final say on all hires for operating subsidiaries such as truckload carrier Keystone Freight and National Retail Transportation, a less-than-truckload carrier. The practice differs from the industry norm of having terminal managers and dispatchers approve applicants for employment.

Another key layer of security for NRS is satellite-based tracking on tractors and trailers, and in the cargo itself.

Thieves are quick to disable any external GPS antennas on the tractors or cut the wires to trailers that only have tethered communication. NRS has responded by embedding GPS antennas within the interior of the tractor, which helps the company recover its assets from criminals who think they are no longer being tracked.

NRS is also in the minority of motor carriers that have invested heavily in untethered trailer tracking. The company uses the GE VeriWise system to provide position location and monitor internal environmental conditions, as needed by the customer.

The rationale behind standalone trailer tracking is that thieves typically disconnect the trailer and hook it up to their own tractor within five miles of the theft, Tabor said.

NRS takes security to another level for the top 1 percent of high-value shipments by using a third GPS device, about the size of a cigarette pack, inside a pallet or underneath the trailer to counter the growing criminal awareness of GPS on the trailers.

The trucking company partners with FreightWatch to manage the portable GPS devices and monitor vehicle progress. As with most commercial tracking systems, it offers geo-fencing capabilities that allow the user to set up invisible borders and receive an alert if the truck deviates from its pre-planned route or unexpectedly stops.

Schneider National places a premium on using team drivers for high-value loads to minimize stops and ensure cargo is never left unattended.

"If we can keep a load in perpetual motion through team drivers we decrease the likelihood of a load theft," Osterberg said.

But Tabor rejects the effectiveness of two-man crews, saying drivers invariably ignore instructions and go to truck stop restrooms or restaurants at the same time.

"The team driver is not worth the extra cost. Technology never breaks the rules. We'd rather take another device, working through the retailer, that gives us a third GPS device," he said.

NRS also benefits from close ties to cargo task forces and participation in regional cargo security councils, where representatives from law enforcement and the private sector get together to share intelligence and theft prevention techniques.

Other low-tech countermeasures employed by Schneider for high-value loads include a requirement that drivers fuel before making a pick up so they can drive at least 200 miles before making a pit stop, investing in terminal security so trailers are safe if a relay between trucks is necessary, and using kingpin and air cuff locks.

A kingpin lock goes over the trailer hitch and blocks it from engaging the fifth wheel on the back of the tractor to prevent a trailer from being hooked up. An air cuff goes over the two air brake levers in the cab so they can't be disengaged to move the truck.

Schneider drivers are instructed to park against a wall or a pole to make access to the back of the trailer more difficult, decouple from the trailer, and install the kingpin and air cuff locks.

Nine years ago NRS instituted a policy mandating all trailers be secured with the biggest available lock to prevent petty thieves from opening the back doors and stealing part of the load at truck stops. Tabor said 60 percent to 70 percent of tractor-trailers he observes driving on the New Jersey Turnpike every day don't have locks on them.

NRS is one of a few carriers that provides liability insurance of more than \$1 million per load, which it does by setting aside its own funds rather than paying for an insurance policy.

Both Schneider National and NRS spend a lot of time analyzing where threats exist and adjusting routes accordingly.

The companies also try to avoid truck stops as much as possible because many plaza operators don't take adequate precautions to reduce criminal activity, the security directors said.

They also provide drivers with a list of approved or preferred truck stops that have more effective security, like good lighting, or lower crime incidents.

"Truck stops provide little to no protec-

tion as it pertains to cargo theft," Tabor said. "It's a huge bone of contention.

"We'd love to have truck stops be more proactive in the design and implementation of security procedures. It's somewhat frustrating that they are not doing much," such as installing video camera systems.

"I look at every one of these trucks as an armored car. Each one could contain millions of dollars of stuff and they're sitting unprotected in these truck stops," he said.

"NATSO (previously known as the National Association of Truck Stop Operators) and its members have long been committed to helping the trucking community ensure

the security of its drivers and cargo ... We strongly encourage members and their customers to work together and in conjunction with law enforcement to assess and implement security measures," said Tiffany Wlazlowski, the trade association's spokeswoman, in an e-mailed statement.

NRS drivers who transport high-value loads are instructed to take breaks in secure areas, such as an NRS terminal or a customer's distribution center, where there are fences and cameras. Tabor said having to drive out of the way to one of these locations may be a bit inefficient, "but it's better than a million-dollar loss." ■



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Bari Bookout
Director, Marketing
(206) 787-3361
bookout.b@portseattle.org

Steve Sasala
National Accounts
(206) 787-3667
sasala.s@portseattle.org

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