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MARITIME SECURITY REPORT

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Prepared by:

*Office of Ports and Domestic Shipping
Room 7201, 400 Seventh Street, SW
Washington, DC 20590
Tel: (202) 366-4357, Fax: (202) 366-6988*

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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PIRACY - Reporting and Analysis Initiatives by BIMCO in Brazil and IMO Worldwide May Diminish Piracy Incidents

The frequency and severity of piracy attacks in Brazil have prompted the Baltic and International Maritime Council (BIMCO) to issue new reporting procedures for its member ship owners and port agents operating in that country. And, in a related development, the International Maritime Organization (IMO) will analyze and issue reports on world piracy trends.

BIMCO/Brazilian Cooperation. Announced in November 1995, BIMCO's reporting procedures are intended to provide Brazilian police and port security commission officials with improved communication and exhaustive details on piracy incidents to facilitate their criminal investigations. The procedures require that all ship masters whose vessels have been attacked, either in the anchorage or in port, file a report with the local police via the ship's agent. Upon filing, the Brazilian police are to provide a detailed reporting receipt and investigate the attack without delaying the vessel from a timely departure.

The chief of the federal police in Santos has informed shipping agents that his station has established a 24-hour communications link with the Santos port captaincy, which will facilitate reporting of incidents. BIMCO's maritime security committee and the Maritime Security Council (MSC), a trade association with U.S. and European chapters, will jointly undertake to file copies of the reports with the Brazilian Embassy in Washington for use by the country's National Commission on Security in Ports, Terminals, and Navigable Waterways.

The reporting edict follows diplomatic discussions with Brazilian authorities, BIMCO, and MSC held in Washington in October 1995. According to BIMCO, the Brazilians confirmed that they were directed by the chairman of the National Commission on Security in Ports, Terminals, and Navigable Waterways to take all necessary steps to deal with issues of port security. The initial actions to improve security include commencement of Brazilian Navy patrols in the major ports and anchorages, and creation of a mechanism to exchange security related information among the coastal states. Funding from Brazilian state and municipal governments will be required for full implementation of the Commission's plans.

IMO Reporting. The International Maritime Organization (IMO), a component of the United Nations, has initiated a program to compile and report information on global piracy incidents.

Through its Maritime Safety Committee, IMO issues quarterly composite reports, by region, of all incidents of piracy and armed robbery against ships reported to the IMO. The reports include an analysis of the piracy situation and indications of increasing or decreasing frequency of incidents, and advise of any new feature or pattern of significance. The complete reporting of Brazilian piracy incidents by BIMCO members will complement and facilitate the IMO program.

In a preceding effort, since August 1995, IMO has been issuing monthly information reports from its data base of piracy incidents. These reports contain specific information on attacks, including the incident number; name of ship, type of ship, flag, gross tonnage, and IMO number; date and time; position of the incident; details of the incident; consequences for crew, ship, and cargo; action taken by the master and the crew; coastal state authority to whom the incident was reported; reporting state or international organization; and action taken by the coastal state.

COMMENT: The frequency of piracy in Brazil is one of the highest in the world. In mid-1995, the U.S. Office of Naval Intelligence (ONI) reported that the number of piracy attacks in Central and South America since May 1991 ranked second only to Southeast Asia. Boardings, attacks and thefts which occur at anchor, in port, or during transit in territorial waters fall within the jurisdiction and sovereignty of the littoral nation.

Although attacks in Brazilian waters occur primarily while vessels are at anchor, ships have been attacked while at berth during cargo handling operations, primarily in the ports of Santos and Rio de Janeiro. For example, thieves posing as stevedores and longshoremen have boarded ships at berth, and used their own keys to gain access to crew quarters, according to *The Maritime Violence Bulletin*, produced by ONI. In all cases, the pirates have been heavily armed.

The U.S. Maritime Administration (MARAD) continues to promote the use of the Defense Mapping Agency Navigation Information Network's Anti-Shipping Activities Message (ASAM) System as the sole U.S. Government means for reporting threats and incidents of piracy and hostile boardings. In cooperation with ONI, MARAD has been publishing the ONI World Wide Threat to Shipping Report on MARAD's public access bulletin board system called MARLINESPIKE. The access line to MARLINESPIKE is 202/366-8505, with standard modem settings (8, none, 1) and multiple baud rates. Access is also permitted through MARAD's Internet World Wide Web Home Page (found at <http://marad.dot.gov>).

Also, to assist mariners in preventing piracy, and to advise on training techniques and informational resources, MARAD actively participates with international maritime industry partners, such as the Maritime Security Council, BIMCO, and the Seaman's Church Institute.

COLOMBIA - Currency Smuggling from U.S. Facilitated by Front Companies Exporting Containerized Maritime Freight

Bulky shipments of unreported currency, particularly drug trafficking profits, are increasingly being smuggled out of the United States concealed in commercial maritime freight exports. The smuggled currency is being shipped to drug trafficking source countries, such as Colombia, where organized criminal syndicates are using trade-related schemes involving front companies to "launder" about \$3 billion a year in cocaine sales, exploiting a wide variety of legitimate U.S. firms in the process.

Money Laundering. Illicit cash proceeds, once taken out of the U.S., are not subject to the Department of Treasury's reporting requirements. And, numerous sovereign states feature bank secrecy laws which facilitate money laundering. Subsequent to deposit in such an "offshore" account, the funds can be reintroduced into the international financial system through reputable banks and create the perception of legitimacy, thus "laundering" the money.

Currency smuggling is also a growing problem for drug smuggling transit countries, such as Mexico -- through which billions of U.S. dollars are being shipped -- and Brazil, where smuggled currency arrives after being transshipped from Colombia. In addition, Argentina, now an important transit route for cocaine shipments to the U.S. and Europe, is reported to have become a center for laundering drug money.

Rationale for Smuggling Cash. Criminals are increasingly resorting to smuggling currency out of the U.S. as a method of circumventing the banking sector's increased cooperation with federal law enforcement. Attempts to exploit U.S. banks for money laundering purposes has been made increasingly difficult by Department of Treasury requirements to report cash transactions in U.S. currency exceeding \$10,000, including transportation into or out of the country. For example, Treasury's *Report of International Transportation of Currency or Monetary Instruments* (Customs Form 4790) requires that the destination, method of transport, and owner of the funds be identified. The reports, combined with bank compliance, can be used to trace illicit money to the individuals or businesses involved and effect seizure and forfeiture of the funds.

Interdicting Smuggled Cash. At the ports of Los Angeles and Long Beach, for example, the U.S. Customs Service Export Enforcement Team has targeted illegally exported currency through the review of documentation and examination of outbound maritime containers

and freight being shipped to select countries. And large amounts of cash are being discovered inside export shipments moving through the seaports on the Middle Atlantic coast, reported recently by the Norfolk district of U.S. Customs. During fiscal year 1992, U.S. Customs seized over \$7 million in currency being smuggled out of the country on commercial ocean vessels, which represented about 17% of the year's total by all means of conveyance. By contrast, 71% seized was aboard commercial aircraft.

But the millions of dollars in currency being interdicted represent only a small fraction (perhaps only one tenth) of the total amount being smuggled. The actual demand for the smuggling of currency, however, can be inferred from comparative estimates of money laundering. In November 1994, the United Nations Economic and Social Council convened ministers and top government officials from 138 countries for the World Ministerial Conference On Organized Transnational Crime, and heard experts report that the volume of laundered money in Europe and North America, from drug trafficking alone, had surpassed \$1 trillion.

Shipping Logistics. Smuggling currency out of the country in maritime exports is considered relatively easy given the high volume of U.S. containerized trade, and that U.S. Customs Service resources devoted to inspecting maritime containers are primarily focused on imported cargoes. Also, the freight container itself offers considerable opportunities for smuggling bulk currency concealed in legitimate shipments. To illustrate, \$18 million of U.S. currency in \$20-denominations consists of 900,000 bills, weighing 2,000 pounds and amounting to approximately 40 cubic feet in volume (one measurement ton). The interior space of a standard twenty-foot freight container measures 1,100 cubic feet, which can accommodate 27.5 measurement tons.

Front Companies. Smuggling schemes are involving apparently legitimate export/import firms -- with inventories, sales, and customers -- in the transportation of bulk currency or the infusion of illicit cash into the legal sales of the company. In New York, U.S. Customs recently broke up an elaborate criminal enterprise involving small warehouses and export businesses, which also operated in New Jersey, Houston, and Miami. The smugglers were concealing cash inside containerized shipments of rolled fiberglass which they exported to Colombia and Aruba. The operation had a capacity to launder \$2 million in currency a day.

In addition to currency smuggling, colluding front companies are engaged in related money laundering schemes. Drug trafficking

syndicates have infiltrated the legitimate foreign trade sector, according to Robert S. Gelbard, Assistant Secretary of State for International Narcotics and Crime. The proceeds of their transactions serve to legitimize the "value" of the front companies' trades, introduce laundered money into their operations, and provide cover to drug smuggling operations. The U.S. Customs Service has identified 105 American companies that accepted money derived from drug proceeds for goods shipped to Colombia.

The following are brief examples of two money laundering schemes facilitated by colluding front companies.

Significantly overvalued invoice. Illicit cash is infused into a legitimate export trade to the United States by the consignee, and -- once transferred to the exporter -- becomes a "legitimate" profit. In Colombia, the seafood industry has been used in this way to launder drug trafficking proceeds.

Fraudulent cargo loss claim. A containerized shipment of cocaine is smuggled to a drug transit country under a bill of lading for legitimate or fictitious cargo. At the discharge port, but before the consignee takes receipt of the container, the manifested cargo is "stolen" and the cocaine removed in the process to be subsequently transshipped to market. A fraudulent cargo loss claim, usually covering a high insurance value placed on the cargo, is subsequently registered by the consignee. In the Caribbean, marine insurers are losing millions of dollars a year to such fraud, which is usually drug-related.

COMMENT: Currency smuggling is an integral component in the money laundering process and the accumulation of illegitimate wealth. Organized crime uses that financial power to corrupt officials, infiltrate legitimate business through legal purchases and criminal means, and create monopolies. According to the Department of State's, *International Narcotics Control Strategy Report*, the increasing concentrations of wealth among organized criminal groups is a concern to legitimate commerce, government, and the integrity of the political process in several parts of the world. Illicit funds and corrupt officials represent a continuing threat to democracy worldwide.

U.S. Initiative. On October 22, 1995, President Clinton disclosed -- in the keynote speech at the 50th anniversary of the United Nations -- that he had directed U.S. agencies to identify Colombian drug traffickers, their associates and front companies,

and freeze their assets in the United States. The action targeted dozens of individuals and companies, including export/import firms, linked to a major cocaine trafficking syndicate in Cali, Colombia. The International Emergency Economic Powers Act gives the President such authority when accompanied by a finding that determines the targets of the sanctioning to be an "unusual and extraordinary threat to the national security, foreign policy, and economy of the United States."

International Action. Foreign governments are also attempting to counter the problems posed by the use of front companies to launder the illicit proceeds of transnational crime syndicates. For example, in December 1995, Argentina hosted the Ministerial Conference on Money Laundering and Criminal Mechanism, attended by 24 American countries, including the United States. In Panama, the Office of the Drug Prosecutor, supported by the Panamanian Banking Association, has been investigating 45 companies in the Colon Free Zone allegedly involved in laundering money. In early 1995, 60 Costa Rican export/import companies were under investigation, suspected of laundering \$50 million annually in drug trafficking revenue for the Cali cartel in Colombia. An operation conducted by counternarcotics agencies from 12 countries, including the U.S. Drug Enforcement Administration, precipitated the investigation.

Maritime Industry Cooperation. The practical cooperation of the maritime industry is essential to deterring the opportunities for exploitation of the foreign commercial trade sector by currency smugglers and money launderers. For example, outbound booking reports, provided by vessel agents, are used to target suspect shipments by U.S. Customs. Detained shipments are held pending additional documentation from the carrier without delaying the vessel. This documentation may be in the form of a shipper's export declaration (SED) or ocean bill of lading. For enforcement reasons, this process is done without notification to the shipper.

In some transactions, legitimate freight forwarders are failing to declare on bills of lading and loading lists that a container will be transshipped from one vessel to another. This is sometimes done in order to give the impression that the forwarder is offering a direct service to customers. However, in addition to breaching a forwarder's contract with the cargo owner, such an omission may result in the container being targeted for inspection by Customs.

BRAZIL - Thieves Exploit Cargo Congestion Caused by Compounding Intermodal Deficiencies at the Port of Santos

Brazil is one of the world's fastest growing markets, but a surge of imports, inadequate port facilities and labor, bureaucratic port administration, and alleged customs improprieties are combining to cause extraordinary cargo congestion, contributing to a serious cargo theft problem, particularly at the Port of Santos. Armed gangs have stolen containerized cargo from ships waiting in the anchorage and at berth, and from storage areas in the port. The backlog of containers, often idle for inordinately long periods, has increased the opportunities for criminal exploitation of their cargoes.

Surging Cargo Volume. The majority of U.S. exports to South America goes through Brazil's Port of Santos, the country's leader in freight volume. In the first half of 1995, for example, containerized exports from U.S. east coast ports to South America increased 65% over the same period in 1994, according to the Port Import/Export Reporting Service, a unit of the *Journal of Commerce*.

Inadequate Facilities. Intermodal freight volume has exceeded the capacity of facilities at the port of Santos. Containerships have waited up to two weeks in the anchorage, some six miles from the port, for a berth equipped with a container crane. Handling rates at some terminals in the port have been as low as 10-15 containers per hour. Although Santos handled 450,000 TEUs in 1994 -- a volume of containers far in excess of its design capacity of 144,000 TEUs/year -- throughput performance has not been equal to the volume of imports. Consequently, the port had a backlog of some 10,000 containers awaiting customs clearance in late 1995.

Landside port access, inbound and outbound, is impaired by the port congestion, which further compounds the problem. Trucking operations are being constrained by insufficient room to maneuver around containers in overloaded storage areas, where some containers may have been pending for as long as 60 days, often in unsecured, extemporaneous areas. Trucking, which hauls about 70% of all cargo transported inland in Brazil, overshadows railroad as an alternative means of port clearance.

Longshore Labor. Santos has experienced intermittent strikes by port workers, causing additional cargo handling delays and further exacerbating congestion. Operating within a nationalized port system, militant longshore labor unions have achieved work

rules that reduced the operating hours of some terminals by 25%, and permitted longshoremen to subcontract their cargo gang assignments to lower-skilled, substitute labor.

Privatization. Brazilian government officials anticipate that privatization of the ports will improve operations and also substantially improve security. However, the majority of Brazil's ports are already privately operated and handle 75% of the country's foreign trade, according to *Fairplay*. The requisite laws enabling port privatization have been passed, and in September 1995, the Brazilian government announced plans to privatize the operations of the country's 35 federal ports. Transport Minister Odacir Klein added that the government would emphasize a policy of progressive decentralization.

Alleged Official Corruption. Brazilian President Fernando Cardoso initiated action against customs abuses at the Port of Santos in 1995, and the Ministry of Justice began investigating corruption in the customs service. Allegations have included fraud and involvement in the smuggling of arms and drugs by corrupt customs officials.

Shippers using the Port of Santos claim they have been forced to pay bribes demanded by customs, port administration and other workers, in order to accomplish transactions. Allegedly, shippers have had to pay customs agents a "surcharge" of \$500 for the privilege of "expedited" processing and release of containers, or to avoid "missing" or "delayed" cargoes.

At the 1995 World Ministerial Conference on Organized Transnational Crime, the United Nations Economic and Social Council Report issued guidelines admonishing that corruption greatly facilitates the activities of organized criminal groups. The perception of official corruption emboldens organized crime groups to infiltrate or otherwise exploit legitimate businesses. Actual complicity on the part of port workers, such as customs officials or longshore labor, could be of instrumental value to an organized gang engaged in such crimes as piracy and cargo theft.

COMMENT: Despite the severe crime rate, Brazilian police have selectively demonstrated an impressive capability to secure a port facility. In late May 1995, Brazilian marines occupied the Port of Rio de Janeiro in an operation designed to search for drugs, arms, and smuggled goods. As part of a combined operation by the Federal Police and the Federal Revenue Secretariat, the marines took up positions at all entry points, open storage

areas, and warehouses throughout an area of seven kilometers in the port. Arriving workers were asked to show identification papers. Trucks transporting cargo were not allowed to leave the port. Containers and warehouses were searched, as were ships in port and in the anchorage awaiting a berth.

In October 1995, Brazil formed a new federal-state security council to develop joint actions to fight drug trafficking and other criminal activities by integrating state police operations with the Federal Police and the Federal Highway Police. The governors of the states of Sao Paulo, Rio de Janeiro, Minas Gerais, and Espirito Santo met with the Justice Minister to formalize the establishment of the Southeast Region Security Council. However, adequate funding continues to be an obstacle to policy implementation. Consequently, Brazil is likely to seek from other countries and international financial institutions, via the IMO, technical and financial assistance for implementing what Brazilian officials characterize as a "system to prevent and suppress illicit activities in ports, terminals and navigable waterways."

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