



Supply Chain Risks in Mexico & Business Tips

COVID-19 Outbreak | May 2020

SUPPLY CHAIN RISKS IN MEXICO AND BUSINESS TIPS DURING THE COVID-19 OUTBREAK

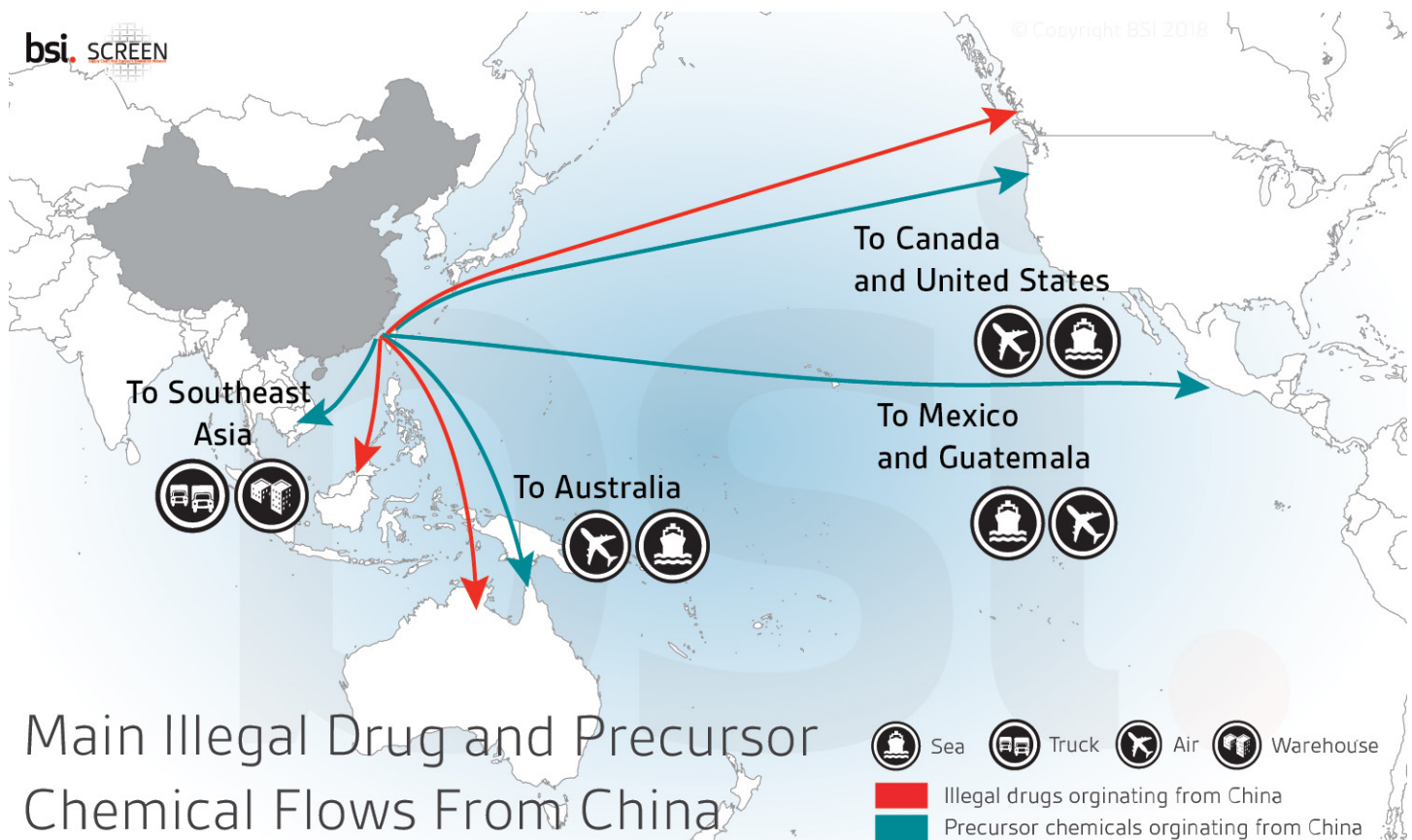
Introduction

The continued spread of coronavirus disease 2019 (COVID-19) and the subsequent reactions by governments globally will likely force Mexican drug cartels to turn further toward alternative sources of revenue, which may have significant implications for supply chains in the country. Relevant issues for supply chains in Mexico could possibly include an increased targeting of cargo for illegal drug trafficking and migrant stowaways and trafficking, an uptick in cargo theft conducted by cartels, increased violence affecting company operations, and a more pervasive criminal environment should the government fail effectively provide for citizens.

COVID-19 Affecting Criminal Supply Chains Too

Like many companies, Mexican drug cartels have similarly felt the impacts of the initial outbreak and spread of COVID-19 in China on their criminal supply chain. Specifically, the measures that the Chinese government implemented to halt the spread of COVID-19 disrupted the ability of cartels to secure the precursor chemicals needed to produce illegal drugs as well as the counterfeit goods that cartels sell both domestically and internationally. BSI has previously covered how Mexican cartels frequently exploit the legitimate supply chain to source these items, using both falsely manifested sea and air shipments.

The United States' recent announcement of enhanced illegal drug interdiction efforts in the Caribbean Sea is likely to converge with the supply constraints of precursor chemicals and further impact Mexican cartel supplies. Colombia remains a key supplier of cocaine to Mexican drug cartels, and because smugglers in the Caribbean utilize a variety of trafficking methods, including speed boats, rudimentary submersible vessels, and light plane flights, likely, the initiation of these enhanced drug interdiction efforts by U.S. forces could at least slow shipments of cocaine. In addition, the global drop in the number of flights due to COVID-19 suggests that it may be



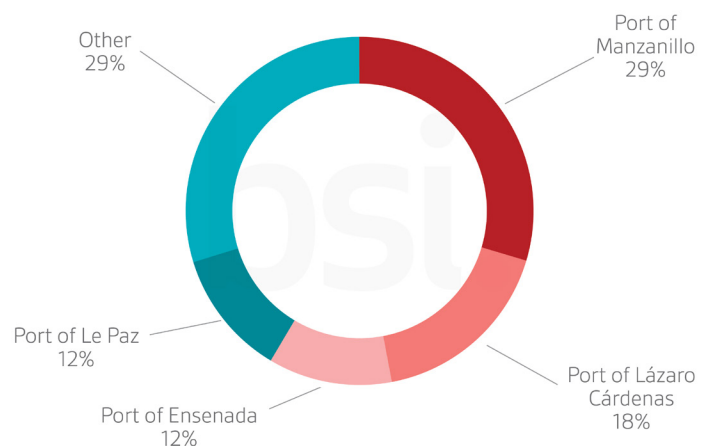


Major Colombian Cocaine Supply Routes to Mexico

easier to detect these so-called "narco flights," further constricting the ability of Mexican cartels to source product. The impact that these developments will have on Mexican cartel cocaine supplies may only be mitigated by the fact that it appears that the Pacific smuggling route between Colombia and Mexico still exists unimpeded. BSI frequently records shipments of illegal drugs seized at western Mexican ports including Manzanillo or Lazaro Cardenas, for example.

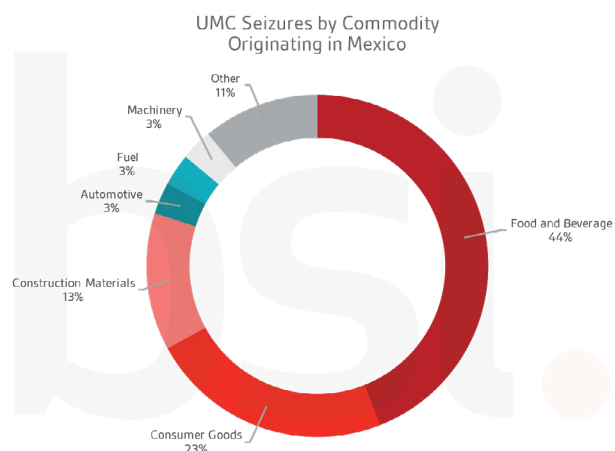
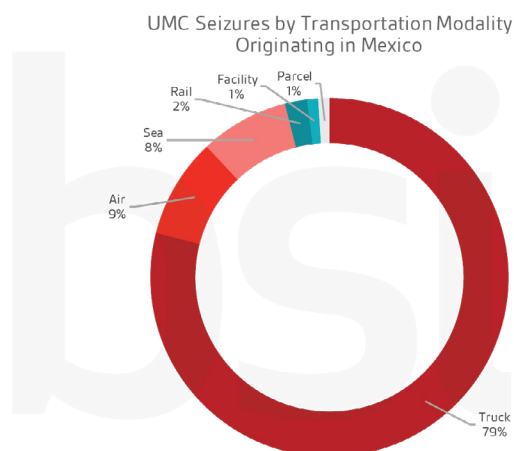
The spread of COVID-19 in Mexico and the United States has also led to several developments that similarly affect the operations of cartels. Perhaps most notably, the closure of the U.S.-Mexico border to all but essential traffic, namely freight, has removed a key avenue utilized by cartels to traffic illegal drugs into the United States that, combined with supply constraints, is likely to have significant ramifications for supply chains in the short to medium-term. Cartels may also increasingly seek to exploit corrupt individuals or infiltrate those supply chains deemed essential to make up for this now restricted transportation route.

Incidents of Smuggling by Mexican Ports



What Does This Mean for Supply Chains?

The effect of COVID-19 on Mexican drug cartel operations will likely have several ramifications for supply chains in the country as cartels attempt to overcome supply constraints and disruptions. Cartels in Mexico may increasingly target cargo trucks for illegal drug smuggling operations, as these types of vehicles are still able to cross the U.S.-Mexico border. BSI already notes a significant number of seizures of illegal drugs from cargo trucks at the border, with the vehicles representing the overwhelming majority of supply chain transportation modes used in illegal drug smuggling attempts in Mexico. Overall, BSI most frequently records seizures of illegal drugs from Mexican shipments of food and beverage items, followed by consumer goods and construction materials. However, cartels will likely target a wider range of commodities to traffic illegal drugs through the restricted border.



In a similar vein, with the added restrictions on the U.S.-Mexico border, migrants may be more inclined to try and stowaway in cargo trucks for the similar reason that these are the only vehicles allowed through the border. This trend may come to fruition rapidly should economic conditions in Mexico worsen, spurring migration north in an attempt to find economic opportunities otherwise absent. Recent reports indicate that migrant smugglers in Mexico are already increasingly utilizing cargo trucks and less traveled routes along with Mexico's highway system, rather than rail freight as traditionally seen in years past. In a similar vein, U.S. Customs and Border Protection officials in the El Centro Sector indicated that they have seen a spike in migrant smuggling attempts via cargo trucks over the past four months. Likely, migrants will increasingly target cargo trucks until officials ease border restrictions and open other avenues previously exploited. Drug cartels may also take advantage of the border restrictions and increased difficulty of entering the United States illegally by charging premium fees in an attempt to make up for lost income from drug trafficking. As such, cargo trucks may again be the target for this organized migrant smuggling.

Cartels in Mexico may also attempt to further diversify their criminal operations to overcome deficient illegal drug supply and a more limited capacity to traffic the substances. One possibility could be a turn to cargo theft, which BSI has noted in incidents previously collected in Mexico. In particular, the theft and fencing of goods made high-value by the COVID-19 outbreak, such as personal protective equipment or other medical supplies and food, could be one alternative source of income. Criminal groups in Mexico could similarly re-take up fuel and oil theft from the country's pipelines, although the currently low price of oil globally suggests that this may not be as plausible as it would have been even several months ago.

Another possible venture that cartels may take up is the targeting of mining operations for theft or extortion. Mexico currently has the world's largest deposits of lithium, an extremely valuable element critical to modern technology, specifically batteries. BSI has previously recorded instances in which mining companies had to switch to air transportation to move mined ore because of cargo theft and extortion. In the short to medium-term, it is feasible that cartels in Mexico would turn inward and carry out criminal operations where possible domestically. This trend would likely involve other legitimate business ventures, which cartels target for both investment and extortion.

Other Risks for Supply Chains

Violence between and from cartels is also a possibility as Mexico and the rest of the world grapples with COVID-19. So far, the Mexican government has largely taken a passive approach to combat COVID-19, which suggests that a wider spread of the virus is possible. Should this occur, the government would likely have to pivot and divert resources from anti-cartel operations in a move that may allow cartels to more freely fight for territory in localized areas. The federal government may also incite further violence between cartels and



authorities should it impose transportation restrictions as BSI has recorded in other countries around the world, as these limitations would also surely affect cartel operations.

Already this year is on pace to be the most violent on record, with officials registering 2,585 homicides in Mexico April this year alone. This violence in the past has impacted business operations in a variety of ways, from business continuity disruptions to security risks seen during what is colloquially referred to as 'narcobloqueos,' or instances in which cartels hijack and set alight cargo trucks and other vehicles to block road access from responding police. Both of these issues could occur more frequently should cartel violence escalate due to a vacuum in which the government diverts armed forces to COVID-19-related tasks.

An uptick in violence directed toward businesses is also a distinct possibility. Criminal organizations in Mexico have long extorted legitimate businesses, requiring payments for either protection or the right to do business. In one survey, 16.4 percent of businesses in Mexico responded as being a victim of extortion. Another more recent report indicating that the highest-ever recorded percentage of companies reported being victims of extortion in 2019. BSI has also previously noted that extortion, and the threat of violence for non-payment,

led to major international companies having to close or relocate. Cargo theft drivers have also previously been on record as saying that they had to pay gangs to operate in Mexico City, further highlighting the pervasiveness of extortion in the country. However, given the constraints on businesses and manufacturing due to the COVID-19 outbreak, it is plausible that companies operating in Mexico, particularly smaller businesses, may lack the funds needed to pay cartels or other criminal organizations. In this case, businesses may

LASTEST FROM SCREEN: Stowaways Detected Along East Coast Route in Mexico, Possible Heightened Risk for Transporters



- Transporters operating in and near the highlighted regions of Mexico should exercise additional caution for the possibility of stowaway introduction
- According to BSI analysis, states with highest incidents of discovered stowaways, typically in cargo trucks, form a general path to the United States alongside the coastline of the Gulf of Mexico
- The map above shows a possible major route chosen by Central American migrants moving toward the United States:
 - The path along the east coast features a relatively shorter travel distance than other options, such as those that pass through Mexico City to reach the border towns of Ciudad Juarez and Piedras Negras, or those that follow along the west coast to the border crossings at Tijuana and Nogales
 - The shorter distance is likely a major factor for the use of this route as the shorter path requires roughly 2,000 kilometers of travel versus other methods that necessitate over 3,000 kilometers to cross
- The BSI threat rating for stowaway introduction in Mexico is Severe

suffer retaliation in the form of property destruction or kidnapping for ransom, both of which BSI has seen occur previously in Mexico. Worsening social unrest is also another distinct possibility in Mexico. Already this year, BSI has recorded multiple protests by a range of groups in Mexico, some over COVID-19 precautions - or the lack thereof - and some not, but all with varying impacts on business continuity. So far, the Mexican government has not even hinted at the possibility of issuing economic support to businesses, suggesting that it is very possible that businesses in the country could begin to lay off workers should the outbreak of COVID-19 worsen over an extended period. These strikes and protests have generally resulted in localized delays to transportation and may increase in frequency and geographic distribution should the economic stress of the outbreak become overwhelming.

In the absence of government financial support, it is also possible that cartels will step in to provide relief, which BSI has noted already happening in certain parts of the country. There are recorded cases in which cartels are providing citizens with essential goods that are otherwise hard to obtain. Although on paper these "gifts" may seem free, in reality, it is a transaction in which the cartel is buying loyalty and the likely favor at a future date. This could lead to potential entanglements between workers at a given company and cartels, presenting risks of corruption.

Tips for Conducting Business in Mexico During the COVID-19 Outbreak

Operating in Mexico as a business or transporter was already a difficult endeavor given the security conditions present in the country before the outbreak of COVID-19. Despite the challenging array of security risks, many of these threats were largely static trends overall, meaning that companies could oftentimes effectively mitigate risk through the implementation of tailored policies and procedures. The spread of COVID-19, however, represents an added variable that could alter some of these longstanding risks and require additional, or at least modified security measures.

As usual, a good first step for any business operating in Mexico is to assess and map out the supply chain while identifying key suppliers or business partners that should then receive the bulk of the attention. Next, a plan of action can then start to be developed and tailored by using the risk analysis found in this report and the SCREEN Intelligence platform as a means of determining which countermeasures to employ. In general, applicable security measures to contend with cargo theft and smuggling risks in Mexico tend to focus on maintaining visibility into both shipments and their movement as well as those who may come into contact with the supply chain. According to Tony Pelli, BSI Practice Director for Security and Resilience, these measures would include:

1. Tracking assets in-transit by using GPS services
2. Maintaining contact with drivers at all times
3. Developing and maintaining protocols in order to react quickly when an incident occurs or vehicles are forced to make unplanned stops
4. Avoiding unauthorized or unplanned stops
5. Implementing strict driver vetting practices
6. Increasing the security of vehicles through numerous means such as strengthened locks, panic buttons, or kill switches, among others

Another aspect to consider is the business continuity plan, ensuring that one exists in the first place, and then that it is current for business operations in Mexico. This plan may need to be implemented should the level of violence or threats of extortion increase to a point in which the continuity of business operation suffers. Due to the spread of COVID-19, it may be difficult to continue employee-screening practices; however, some effort should be made to continue employee monitoring and follow-up reviews in an attempt to mitigate the risk of extortion and corruption among workers. Lastly, keeping abreast of changes to the risk environment by monitoring SCREEN can help to ensure that decisions are made using the latest available information and analysis.



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