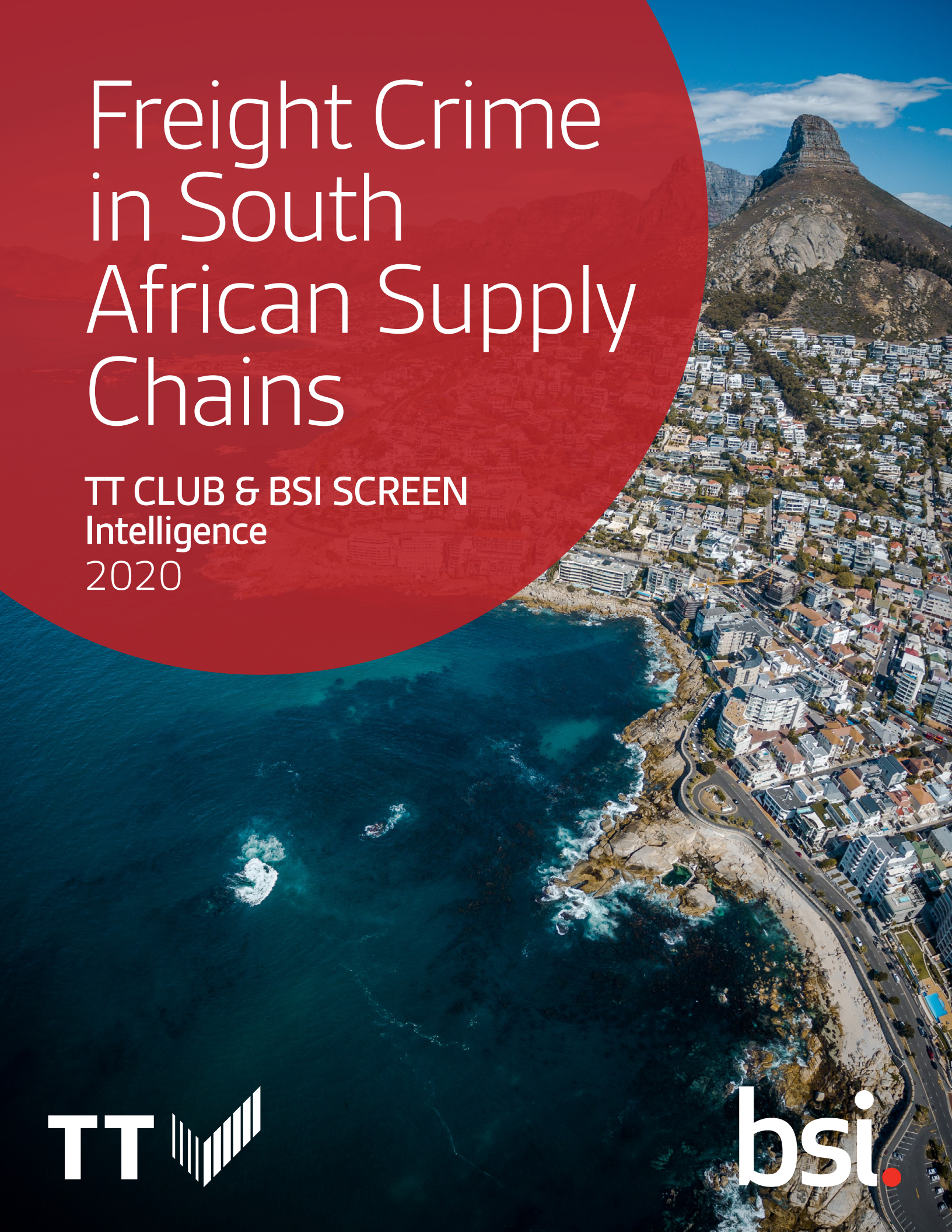
Freight Crime in South African Supply Chains

TT CLUB & BSI SCREEN Intelligence

2020



Freight Crime in South African Supply Chains

Introduction

The prevalence of cargo theft incidents continues to have a material impact on stakeholders in the supply chain in South Africa. Analysis of recorded incidents, increased data sharing agreements, collaborations, and widespread dissemination of findings all serve to improve our understanding of the underlying risks. Knowledge empowers stakeholders to take action, protecting their businesses and those they represent in the supply chain, and reducing the frequency and impact that this type of crime inevitably has. Throughout 2020, several cargo theft trends developed in South Africa. The threat and violence involved with cargo theft hijackings in South Africa are historically the primary concern for supply chains in the region. While this significant concern remains, gaining a holistic understanding of the threats and trends developing in the region provides a more comprehensive understanding of risk in the area. In addition to historical risks and trends, the first half of 2020 saw an increase in thefts from facilities and theft locations diversified between the first two quarters of 2020, reaching the Eastern Cape and Western Cape. Additionally, food and beverage and medical supplies saw an elevated risk throughout the start of 2020. Understanding these developing risks, coupled with the continual threat of in-transit operations in the country, and how to mitigate the impacts they may have on your organization is crucial in building a truly resilient supply chain.

FREIGHT CRIME IN SOUTH AFRICAN SUPPLY CHAINS

During the first half of 2020, the strategies employed by thieves shifted slightly in certain regions of the country. In addition to the historical prevalence of violent hijackings in South Africa, more often than previous years, there was an increased portion of cargo theft incidents occurring from warehouses, depots, and other facilities-- likely due in part to the restrictions implemented as a result of the COVID-19 pandemic. In areas where COVID-19 restrictions prohibited free movement, for example, the threat of cargo thefts increasingly involved cargo trucks left unattended overnight and facilities, like warehouses and depots.

What has not changed is the ingenuity of the perpetrator, the underpinning motivations, and the lengths that they are prepared to go to avoid apprehension. In order to enter a depot or warehouse, these thieves must conduct a great degree of planning and intelligence gathering. Carrying out a successful theft of cargo from a facility generally requires intricate details of security provisions, patrols, entry and exit points, and the operations on-site. Thieves may take advantage of any vulnerabilities in order to complete a theft, including corruption within the supply chain.

Supply chain managers with security responsibilities operate within an ever-changing risk and threat environment. This disruptive environment can be challenging for stakeholders and opportunistic for criminals. As one gap is closed, often the perpetrators shift their focus, either to another unwitting victim or to another strategy, exploiting inadequacies in security measures. Notwithstanding the challenge, it is crucial to take adequate steps to safeguard the business and the property brought into your care, custody, and control.

The prevalence of cargo theft incidents in South Africa continues to have a material impact on stakeholders in the supply chain. Analysis of recorded incidents, increased data sharing agreements, collaborations, and widespread dissemination of findings all serve to improve our understanding of the underlying risks. Knowledge empowers stakeholders to take action, protecting their businesses and those they represent in the supply chain, and reducing the frequency and impact of this type of crime.

A Look at Cargo Theft in South Africa

South Africa ranks among the top countries in the world and first on the African continent for BSI's forecasted losses due to cargo theft, underscoring the significant economic impact of the serious cargo theft problem in the nation. Hijackings of loaded trucks, which often involve violence against the driver or security escort, are the main form of cargo theft in South Africa, although robbery of air and rail freight and thefts from warehouses are also common. Well-organized gangs both conduct hijackings of stopped vehicles and engage in sophisticated schemes whereby criminals disguised as police officers force trucks to stop in unsecured parking lots and closed warehouse facilities.

Historically, there is an inverse relationship between crime and economic growth in South Africa. This year, COVID-19 impacts involving lockdowns and a decline in the economy added an additional layer to that relationship. The decline in the economy, along with the changes brought about by a restrictive lockdown in response to COVID-19 earlier this year, left the freight sector in a vulnerable situation. South Africa is an environment characterized by cargo truck hijackings. Further, cross-border truck congestion and slower freight clearance create secondary disruptions that can leave cargo more susceptible to theft and general violence.

Cargo Theft Trends South Africa

Based on historical data and qualitative analysis

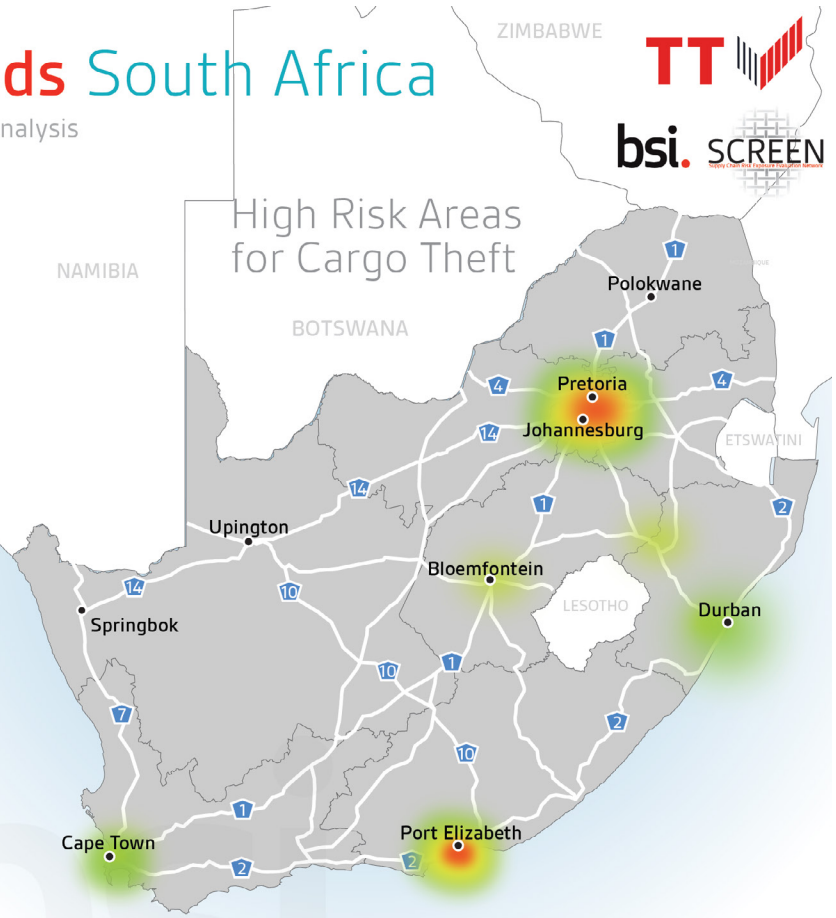
Top Commodities Stolen

Q1 2020 | Q2 2020

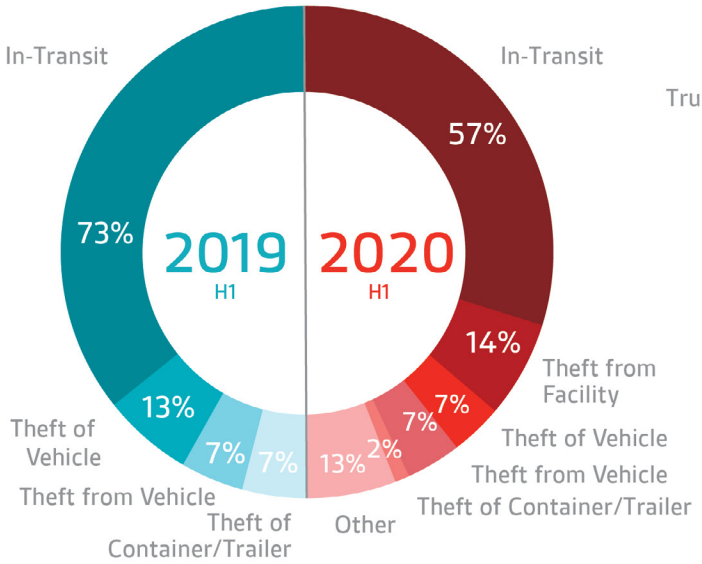
	Q1 2020	Q2 2020
Fuel	21%	20%
Electronics	21%	12%
Food & Beverage	12%	20%
Pharmaceuticals	5%	4%
Alcohol & Tobacco	6%	4%
Medical Supplies	0%	12%
Other*	35%	28%

*Includes other major types of commodities

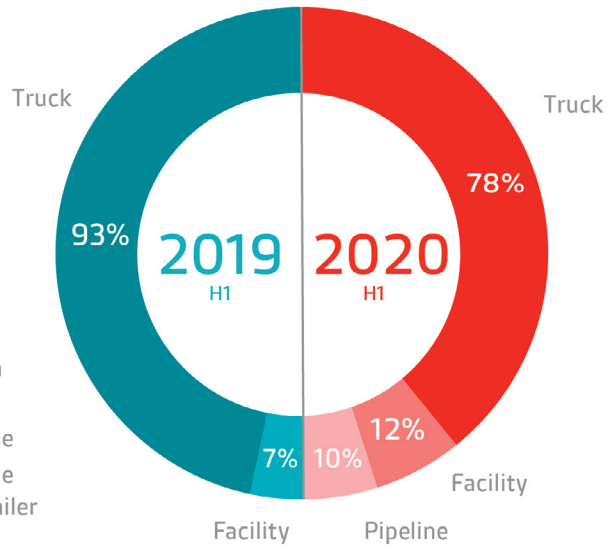
High Risk Areas for Cargo Theft



Location of Cargo Theft



Modality of Cargo Theft



Based on recent incident data via collaboration and partnerships with law enforcement, government, non-government, commercial partners, trade associations, open-source media reports, and input from BSI advisors and expert consultants

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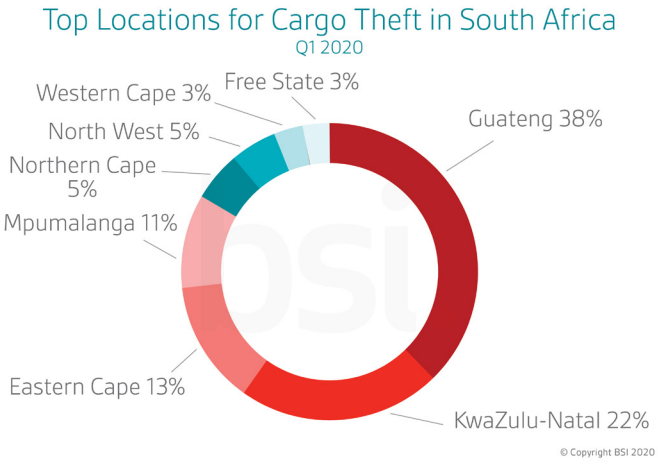
In addition to recorded incidents in 2020, statistics from both the South African Police Service (SAPS) and news sources underlined the typical characteristics of cargo thefts occurring in the country. BSI and TT Club assessed three key trends among recorded cargo theft incidents in South Africa in 2019 and 2020: thefts from facilities increased during the first half of 2020; an uptick in incidents of cargo theft occurred in Eastern Cape and Western Cape between the first two quarters of 2020; and thefts of food and beverage and medical supplies increased in Q2 2020.

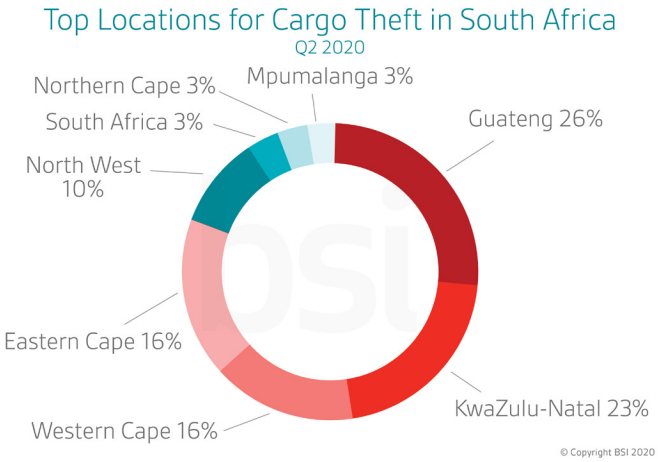
A Rising Trend in Facility and Warehouse Theft

In the first half of both 2019 and 2020, BSI and TT Club identified truck hijackings as the primary theft type in South Africa, with thefts from facilities following in second. This trend follows the analysis of incidents in 2018 and 2019, in which cargo truck hijackings proved to be the primary modality for theft in South Africa. Between, H1 2019 and H1 2020, there was a drop in the number of thefts from in-transit trucks. Cargo thefts from facilities, parking locations, delivery sites, and warehouses increased during this period. It is highly possible that the travel restrictions due to the COVID-19 outbreak that caused many companies to have limited operations, combined with the added vulnerability of goods stockpiled and backed up in warehouse facilities, explain the drop of in-transit theft and increase of facility theft in South Africa. The shift in theft location from in-transit to facilities highlights the importance of investing in mitigation strategies to reduce the occurrence and negative impacts of these thefts, including threats to worker safety, loss of valuable goods, and insecurity of facilities.

Diversification in Theft Locations

In H1 2019 and H1 2020, the areas of KwaZulu-Natal and Eastern Cape had a regular occurrence of cargo theft, diversifying the location of Theft in South Africa, which primarily occurs in the Gauteng province. Between the first two quarters of 2020, cargo theft incidents increased in Western Cape.



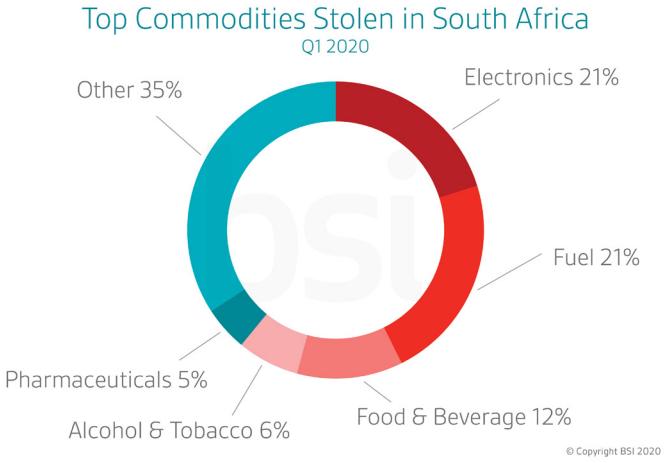


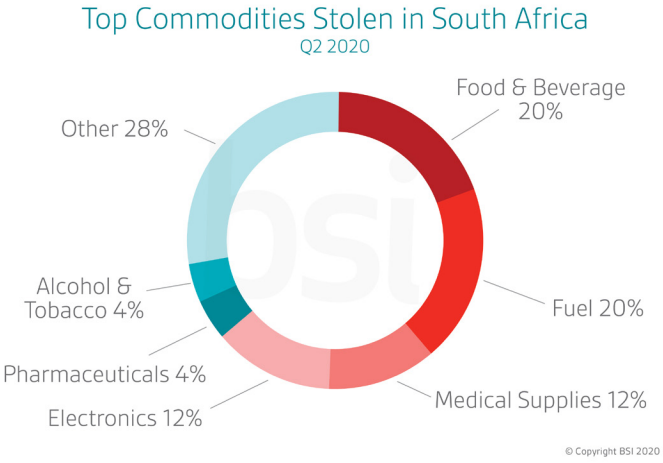
This shift from incidents occurring predominantly in Gauteng Province, which includes the country's largest commercial and population center, Johannesburg, to Western Cape, Eastern Cape, and KwaZulu-Natal, could be explained by the shift in types of thefts between Q1 and Q2 of 2020 from primarily hijacking to include a larger portion of facility thefts. Western Cape is at a higher risk of violent crimes, such as hijackings, due to the prevalence of gang violence, recently linked to the crowded spatial development and high unemployment levels. The larger portion of facility thefts occurring in 2020 may explain the diversity of locations from just Western Cape, where mainly hijacking occurs.

Due to the large rate of theft and crime in Johannesburg, Gauteng remains a province of great concern for transporters in the area, although cargo theft incidents occurred over a greater range of geography across South Africa in Q2. Highways of concern for cargo theft in South Africa include Highway N1, Cape Town; Bulawayo, ZW; Highway N2, Cape Town-Ermelo; Highway N3, Johannesburg-Durban; and Highway N4, Skipadshek-Komatipoort. Seaports of concern for theft are mainly limited to Cape Town in Western Cape and Durban in KwaZulu-Natal. Knowledge of these at-risk areas for all forms of cargo theft can assist transporters in assessing their risk when operating in these locations.

Thieves Target Food & Beverage and Medical Supplies During COVID-19

In Q2 2020, thieves more frequently stole both food and beverage products and medical supplies, shifting from the significant portion of incidents recorded by BSI and TT Club in Q1 2020 involving thieves targeting electronic products. It is possible that the spike in food and beverage theft is due in part to the rise in the value of food during COVID-19 lockdowns across the region. Globally, food prices spiked as COVID-19 disrupted food production and transportation, and individuals stockpiled food due to lockdowns. The increase in the value of food may explain the increase in theft during Q2 2020 when lockdowns occurred in South Africa. On a similar note, medical supplies, which can include test kits, hand sanitizer, respirators, and personal protective equipment, were a high-value commodity during the COVID-19 outbreak. It is possible the high value placed on medical supplies during COVID-19 explains the increase in criminals targeting this commodity. North America and Europe also saw an increase in the theft of similar supplies, such as personal protective equipment, from 2019 to 2020.





Supply Chain Corruption Continues to Play a Key Role in Cargo Theft

Supply chain corruption is the likelihood that government officials who come into direct contact with the supply chain, such as customs officers and police officers, are amenable to bribes or will demand facilitation payments. It also includes direct involvement in cargo disruption activities by government personnel. Supply chain corruption is an especially significant contributor to cargo thefts in South Africa. The country also ranks near the top third of all nations in international assessments of public sector corruption. While the country's ranking improved in recent years due to the creation of a Special Investigating Unit responsible for investigating corruption, South Africa continues to struggle with these issues.

In many of the cargo theft incidents seen in South Africa, sophisticated cargo theft groups, known as "blue-light gangs," utilize a cargo theft tactic involving corrupt law enforcement officers. These officers force cargo truck drivers to stop in unsecured locations at checkpoints established by corrupt police officers demanding a bribe to pass. Once the vehicles are stopped, the officer will drive away to allow hijackers to take control of the cargo truck. Recently, reports indicated that at least two high-level police officials in Gauteng Province were being investigated for their involvement in the so-called "blue-light gangs". It should also be noted that these groups frequently target the N12 and N3 highways in Gauteng Province for blue-light thefts, often employing firearms and explosives.

LEGAL IMPLICATIONS OF CORRUPTION

When looking specifically at supply chain corruption, companies should be aware of additional risk, that of the potential legal implications presented by insider involvement. A recent South African High Court decision involving an electronics company, its logistics operator, and their truck driver serves to highlight the potential ramifications where an employee was complicit in a cargo theft incident while acting under the instruction of their employer.

In the case, the employer instructed the driver to collect the cargo and provided with the driver with all the necessary documentation to do so by the logistics provider. The driver collected the cargo and was never seen again. The South African High Court decision found the logistics provider vicariously liable for the theft by the employee. As a rule, an employer is liable for the wrongful acts or omissions of an employee committed within the course and scope of their employment, or while the employee engaged in any activity reasonably incidental to it. After considering the facts of the case and the driver's access to the cargo, the court decided the risk of theft from the driver's access and the appearance of lawfulness by the logistics operator demonstrated a sufficiently close link between the theft and the initial lawful business which the driver was carrying out on behalf of the logistics provider. Put differently, the degree of responsibility and access to cargo in which the logistics operator placed into the hands of the driver increased or enhanced the risk of theft. In the eyes of the court, this degree of connection was enough to establish vicarious liability on the part of the logistics provider. Additionally, the logistics provider could not rely on the contractual exclusions of liability in their standard terms and conditions. The court held that the wording of the terms only excluded liability in circumstances where the loss occurred in the performance of the services and was not wide enough to cover the specific facts of the case.

The outcome of this case highlights the importance of the terms and conditions relied upon by the industry and the need to ensure that liability exclusions are drafted to cater for employee-linked cargo theft.

A special acknowledgment to Jeremy Prain, Partner at Bowmans, for his assistance providing the case law article above mentioned and assistance regarding assessing the legal issues posed by insider risks.

BOWMANS

Looking at cargo theft and corruption of supply chains in South Africa can paint a concerning picture of risk in the country. Appreciating the level of these threats, such as cost of stolen goods, safety of truck drivers' and facility workers', and disruptions to supply chain operations, is of great importance to companies looking to mitigate the impact of these threats on their organizations.

MITIGATING THE THREAT

Developing a sustainable, risk-averse supply chain in South Africa involves not only assessing the primary threats to supply chains in the region but an understanding of mitigating risk. The continual threat to cargo by hijacking remains a historical concern but additional trends, such as a rise in facility theft, a diversification in theft location, and a shift in targeted commodities, add another layer of concern. Working to secure elements of your supply chain from theft is a step towards sustainability.

With a rise in criminals targeting warehouses, facilities, and secure and unsecured parking locations in H1 2020, companies should look to decrease the vulnerability and access points of these locations to guard against the threat of theft. In higher-risk environments like South Africa, warehouses must take a layered approach to security to protect goods stored in the facility. Companies should combine multiple types of controls, technological physical, and procedural, with sound security management practices and oversight to deter, detect, and delay access to the interior of the warehouse. Security performance should be benchmarked against an internationally recognized standard, such as the TAPA Facility Security Requirements (FSR), to determine where security gaps may exist. Adherence to a standard should be combined with a dedicated security management system to ensure continuous improvement in response to new and emerging threats, risks, and vulnerabilities.

Warehouse Security Measures

Key protective measures that warehouses can take to prevent theft include the following:

Building Structure

- Limit and control access to the premises with a staffed or monitored gate at the perimeter of the facility and mandate card or guard-controlled access at the entrance to the warehouse itself
- Design access points to replicate the protection offered by the perimeter fence line
- Install rising bollards at the main point(s) of entry and exit to further bolster security
- Install road blockers or rising curbs where higher levels of security are necessary
- Limit the number of entrances to both the premises and the facility to the absolute minimum needed for operations
- Adequate perimeter fencing should be:
  - At least two meters tall
  - Constructed of a robust material
  - Cover the entire perimeter
  - Have outward-facing "V" irons that support barbed wire or topped with razor wire
  - Buried in the ground (for the lowest section of the fence)
  - Not of a rivet design which can be easily manipulated (mesh design is preferable)
  - An effective height - create an additional trench to assist with this if needed

- Security signage around the perimeter of the facility should be considered as a deterrent. Stakeholders could engage with third-party security providers or local authorities to create signage stating that the depot is being monitored and under constant surveillance

Surveillance and Alarm Systems

- Ensure that CCTV systems, as a minimum, are capable of viewing vehicle entry to the premises, all exterior walls of the facility, the interior and exterior of the loading docks, and entry and exit point into the facility
- Make sure CCTV cameras are of sufficient quality to recognize the color of vehicles and other identifying details such as the height of individuals and the color of their clothing
  - Good housekeeping is vital - CCTV for instance, positioned along the perimeter fence line, might be triggered by overgrown foliage or continuously triggered by the movement of litter blown around the yard area. Constant false alerts such as these will dilute the importance personnel place on the CCTV equipment, risking them not responding to a real trigger
  - The equipment must be well maintained and monitored
  - The recording and viewing capabilities should be well understood and managed by those responsible for operating the machinery
- Ensure that lighting is adequate inside and outside the warehouse to support high-quality camera recordings and illuminate the critical areas detailed above
  - Security lights could be fitted with Passive Infra-Red (PIR) sensors that have a motion-activated light
- Ensure that an intruder alarm system is installed to detect unauthorized entry into the warehouse during out of operations hours
- Ensure the intruder alarm system includes both door contacts on pedestrian and dock doors, as well as motion detection within the main warehouse and office areas
- Connect the alarm systems to an Uninterrupted Power Supply (UPS) (such as a battery) and have multiple methods of alerting, such as cell and radio, in case phone and power lines are cut
- Ensure a reputable company is engaged that will promptly respond to any alarms if alarm monitoring is outsourced
- When considering the appointment of third party contractors, review ***TT Club's due diligence guidance***

Access Controls

- Protect any ground-floor windows with bars on the inside to prevent access and use motion detection devices or glass break alarms to alert to any intrusion
- Consider forensically coded grease or liquids to provide vital evidence to convict apprehended thieves
- Use an electronic access control system to limit employee access to only those areas where they are authorized
- Ensure that access cards are returned when an employee leaves the company
- Limit the use of physical keys. If keys are used, implement a key log system and key lockbox for any keys used on-site. Do not allow employees to take keys home with them and ensure that keys are recovered at the end of operations
- Strictly control access to the site. If possible, only allow truckers, visitors, and contractors on-site if they have a prearranged appointment. Truckers should be prohibited from accessing dock areas and the interior of the warehouse and ensure that all visitors and contractors are escorted at all times while on-site
- Log all visitors, contractors, and truckers (and their vehicles) accessing the site, including their name, company, the reason for visiting, and time in and out

Information Security

- Limit access to warehouse management and other systems displaying customer information to only those who need access to the information for operational purposes. Prohibit sharing of workstations on the warehouse floor and ensure that strong passwords are required (with frequent password changes) for these systems and store any hard copy information in a secured area

Employee Screening

- As a minimum, during pre-employment screening, operators should collect the following information that should, if the prospective candidate is subsequently hired, be regularly updated and maintained in an HR filing system:
  - Home address
  - Contact details
  - Proof of address and identity
  - Copy of driving license or operator's license for machinery
  - Emergency contact details
  - Employment/character references for the last 5 years – have a process to follow these up
  - Criminal record checks for any countries lived in, in the last 5 years
  - Credit check, if possible
- Ensure that any staffing agencies also conduct stringent background screening, to the extent allowed by local law
- Ensure that employees who were previously terminated are not eligible for rehire

Security Management System

- Ensure there is a robust security management system to continually review and improve security:
  - Have documented security policies and procedures that are reviewed annually, with clearly defined security responsibilities
  - Conduct an annual risk assessment and self-audit at least yearly to help detect any deficiencies in security and address developing risks and threats. Corrective action plans, with clear timelines and persons responsible for remedying defects, should be used to fix identified issues
  - Ensure that there are maintenance contracts in place for all security systems with established KPIs (such as turnaround time for repairs) for maintenance providers

  - Develop a training program for all employees that includes recognizing and responding to unauthorized persons and suspicious activities
  - Ensure that any hired security firm has a clear understanding of their roles and responsibilities at the site and that their employees are adequately trained to perform their tasks

Depot Security Measures

In addition to the suggested security measures for warehouses, those stakeholders operating trucking depots should also consider the below:

Trailer Security

- Consider devices, such as kingpin locks, to increase the difficulty for the thief to couple up and drive the trailer away, particularly where high-value cargo is left loaded overnight or for an extended period
- Consider bolts, locks, and alarms as further deterrents
- Use Automatic Number Plate Recognition (ANPR) cameras to provide greater efficiencies and opportunities for automation. For instance, a recognized or expected vehicle registration could be allowed instant access to the depot, whereas an unrecognized vehicle registration could trigger alerts or barriers to remain closed. Local authorities might be interested in collaborating in the use of this technology to identify false plates or stolen vehicles
- Avoid leaving high-value cargo on trailers overnight or for prolonged periods. When this is not possible, further controls must be established:
  - Park trailers far away from the perimeter fence
  - Consider reversing trailers up to a solid structure such as a building or wall or up against another trailer, preventing easy access to the trailer doors
- Discuss security at regular operational meetings such as shift changeovers, alerting all personnel to the importance of security but also any breaches or associated issues

- Implement an escalation process to ensure that senior management is aware of any concerns or violations and are able to influence the behaviors of all personnel
- Use key control processes as a vital aspect of depot security
  - Keys for access gates and security barriers hold an obvious immediate value in the wrong hands
  - Controlling keys for vehicles and handling equipment is vital in respect of both security and safety. Where thieves are able to gain access to the depot, it is essential to prevent them from easy access to ignition keys for trucks or vans

Once security measures are considered and installed, it is imperative to ensure that they are regularly inspected and maintained. A formal defect process will ensure that any repairs are sufficiently completed and where such actions remain outstanding, an escalation process is established.

Of particular importance are regular inspections of the perimeter fencing, gates and barriers, and the CCTV equipment. It may be prudent in certain circumstances to enter a maintenance contract with a third-party provider to ensure that such equipment is routinely maintained to prevent unexpected breakdowns.

As cargo theft continues to impact business operations and disrupt supply chains, companies must stay on top of potential threats and risks. Due consideration to these factors should be given at the outset of any review to ensure that the features chosen are sustainable. It is also essential that security measures are scaled proportionally to the operations of the depot, not least the volumes of high-value cargo being handled or stored. Security awareness and proactive risk management actions, to avoid occurrences of theft and interference by criminals, is an essential step to mitigating the negative impacts of cargo theft to build a more secure, sustainable, and risk-averse supply chain.

TT Club is the established market-leading independent provider of mutual insurance and related risk management services to the international transport and logistics industry. TT Club's primary objective is to help make the industry safer and more secure. TT Club's Risk Management team is committed to the ongoing development of advice and information underpinning this objective.

This includes:

- Providing support to reduce the risk of claims occurrence
- Promoting 'best practice' opportunities
- Helping to improve risk assessment, mitigation, and control

Theft remains a top five area of claims cost in TT Club's global claims analysis. Analysis of incidents, increased data sharing agreements, collaborations, and widespread dissemination of findings, all serve to improve understanding of the underlying risks. While focused on South Africa, this report demonstrates TT Club and BSI's shared goal of educating the transportation and manufacturing sectors about the dynamic cargo theft risks present globally.

With enhanced awareness of cargo crime trends, the industry will be able to engage in a proactive approach in preventing cargo crime, while minimising the resulting financial loss and brand reputation damage.

HIGHLIGHTING RISK, REDUCING EXPOSURE. ADVISING INSUREDS, SERVING THE INDUSTRY.

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