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## In this case, bad news is good news

**T**he good news on cargo security is that the highest available estimates for cargo theft are far too low. That is good news because it means that reducing vulnerability to terrorism will produce a bigger economic payoff.

Theft, smuggling and terrorism are the trinity of cargo-security threats. Theft and traditional smuggling are problems in their own right, but they are of strategic concern because they can fund, train and succor terrorists. Of the trinity, supply-chain vulnerability to terrorism is the greatest concern to national security and global economic security.

Many observers note that reducing vulnerability to terrorism, whether via the Container Security Initiative, Customs-Trade Partnership Against Terrorism or new technologies, would produce spinoff improvements against theft and smuggling. I agree — but the converse is also true: Effective measures against theft or smuggling will reduce vulnerability to terrorism. This article argues that better understanding the impact of cargo theft will enable us to reduce vulnerability across the unholy trinity by better enrolling market forces.

A sign at the entrance to the exhibit hall of the recent National Cargo Security Council conference reported that the FBI estimates cargo theft in the U.S. to be \$18 billion. A Department of Transportation report several years ago looked beyond the value of the goods and also examined the administrative cost of claims and investigations; the DOT estimated that the annual cargo loss in the U.S. might be \$20 billion to \$60 billion.

Both the FBI's \$18 billion and the DOT's \$20 billion to \$60 billion understate the problem. The real economic impact, by my estimate, exceeds 1 percent of the U.S. gross domestic product. The GDP is about \$11 trillion, and the true annual impact of cargo theft — just in the U.S. — is well over \$100 billion. There are two steps that take us from \$18 billion to over \$100 billion.

First, cargo-theft statistics are poor. Law-enforcement officials estimate that 60 percent of all thefts go unreported. If that rule of thumb fits cargo crime, then the real U.S. total for direct theft losses is about \$45 billion. Let's err on the side of caution and say only 40 percent is unreported, which takes the direct loss down to "only" \$30 billion.

Next, the economic loss to a firm goes far beyond the value of lost goods. Indirect costs of cargo theft include sales lost to stolen goods, added expenses to expedite the shipment of replacement goods, disrupted customer service and damaged brand value. Other indirect costs include claims processing and the potential impact on insurance rates and coverage.

Some experts estimate the indirect costs are three to five times greater than the direct cost of the loss; others suggest the multiplier is greater than five. Applying the range to our lower estimate of \$30 billion in direct loss places the total annual cost of U.S. cargo theft between \$90 billion and \$150 billion — meaning the best estimate is well north of \$100 billion and 1 percent of GDP.

There are important micro and macro implications of correcting our

estimate of the magnitude of cargo theft. Most important, it means the business benefits of reducing cargo crime are greater than most of us have believed.

On a micro scale — firm by firm — corporate controllers, those notorious skeptics about spending money for security, can become more-effective allies of loss-prevention programs if they better understand the total cost of theft to their firms. Security professionals and general managers must improve their ability to make the business case for better security. First, they must measure or prepare credible estimates of the indirect costs of cargo theft. Second, they need to communicate the results in business metrics — they need to "speak ROI" about security.

On a macro scale, in terms of public policy, officials in the Homeland Security and Transportation departments and on Capitol Hill can do three things. First, recognize the causal linkage between theft reduction and terror-vulnerability reduction. Second, support the development of clear, believable numbers about the total impact of theft and smuggling for U.S. and global losses. Third, drive the incentive theme home, in the U.S. and overseas, in public speeches and materials: "Help yourself as you help national security — be proactive on cargo security and reap the surprisingly large business benefits that come with reduced theft."

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