

PROJECT REPORT

On

**THE STUDY OF MARITIME FRAUD AND ITS EFFECT ON  
COMPETITIVENESS OF INDIAN PORT**

*Submitted for the partial fulfilment of the requirement of the degree of  
Master of Business Management*

*In*

**International Transportation and Logistics Management**

By

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Waterways)**

**COCHIN CAMPUS**

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## DECLARATION

I (Akhil Francis) student of School of Maritime Management, Indian Maritime University, Cochin Campus pursuing **Master of Business Administration in International Transportation & Logistics Management**, hereby declare that this report titled **THE STUDY OF MARITIME FRAUD AND ITS EFFECT ON COMPETITIVENESS OF INDIAN PORT** has been prepared and submitted by me towards the partial fulfillment of the requirement for the award of degree of “**Master of Business Administration in International Transportation & Logistics Management**, ” under the guidance of **Dr. JAYAN P.A**, Assistant Professor, School of Maritime Management, Indian Maritime University, Kochi Campus.

I also declare that this project report is my original work and has not been copied from any of the report previously submitted for the award of any Degree, Fellowship, or other in similar titles.

## **ACKNOWLEDGEMENT**

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# CHAPTER 1 INTRODUCTION

## 1.1 BACKGROUND OF THE STUDY

Despite the government of Indian efforts to combat corruption in all sectors, several unwholesome activities continue in the maritime sector, most notably by shipping agencies and terminal operators conspiring to slam fictitious charges on importers and agents under the watchful eye of government agencies in what has been described in the maritime domain as a never-ending economic rape. The result of this orchestrated graft, which frequently amounts to several billions each year, has continued to increase the level of capital flight that the country experiences each year.

The negative side of this peculiarity is that, in their fight to stay in business and develop, importers and clearing agents pass on the excessive charges to consumers, who now pay significantly more for the goods than is necessary. According to prior reports, terminal operators, shipping lines, and shipping agents have taken advantage of highly uncontrolled maritime industry to raise charges such as demurrage, container deposit, and other fees that differ from those in neighbouring Asian ports. According to a complete research of shipping charges undertaken by a marine industry publication, "Shipping Position," across three Asian countries. Experts, on the other hand, have linked the exorbitant fees to unsavoury practises among shipping businesses operating in Indian ports. While getting the container deposit reimbursement at other ports takes a few days once the empty container is returned, it could take up to a month in this port.

Owner, charterer, master or crew of the ship, and insurance. Banker, broker, or newcomer Maritime fraud happens when one of these parties succeeds, unjustly and illegally, in obtaining money or commodities from another party with whom he has assumed specific trade transport and financial obligations on the surface. In some circumstances, many of these parties operate in concert to defraud another. While preparing guidelines to reduce maritime fraud in 1979, the International Chamber of Commerce (ICC) noted that while banks and insurance companies find. They have been involved in cases of fraud, occasionally as perpetrators, although the ICC is not aware of any case where a banker or insurer has committed federal fraud.

## **1.2 STATEMENT OF PROBLEM**

Ports play an important role in the Indian economy and development since they handle roughly 90 percent of all trade between India and the rest of the world. As a result, the necessity of guaranteeing port efficiency is linked to a country's capacity to compete internationally. Unfortunately, extortion by shipping agencies, terminal operators, and government officials has continued to frustrate importers, resulting in increased commodity prices, increased smuggling, and reduced the competitiveness of ports, as many importers prefer to use ports in neighbouring Asian countries. The researcher, on the other hand, is looking into the extent of fraud in the maritime sector to see how it affects the competitiveness of Indian ports.

## **1.3 OBJECTIVES OF THE STUDY**

The following are the objectives of this study:

To examine the level of maritime fraud in the Indian ports.

To examine the effect of maritime fraud on the competitiveness of Indian ports

To identify how the maritime fraud can be combated.

## **1.4 SIGNIFICANCE OF THE STUDY**

The findings of this study will inform the Indian government and the broader public about the current wave of maritime corruption and how it affects the port's competitiveness. It will also provide training on how to combat the threat of corruption in the maritime industry.

This study will add to the body of knowledge in the domain of the impact of personality traits on academic achievement in students, thereby forming the empirical literature for future research in the field.

## **1.5 SCOPE/LIMITATIONS OF THE STUDY**

This study will cover the level of fraud being carried out in the Indian maritime sector and how it affects the competitiveness of the Indian Ports.

## **CHAPTER2: LITERATURE REVIEW**

### **2.1 On the Waterfront: an empirical study into corruption in ports Sequeira, Djankov, 2008**

[http://international.cgdev.org/sites/default/files/archive/doc/events/2.10.09/Sequeira\\_Corruption.pdf](http://international.cgdev.org/sites/default/files/archive/doc/events/2.10.09/Sequeira_Corruption.pdf)

The authors identify three major consequences of this type of corruption: 1) a diversion effect where firms avoid the most corrupt ports to avoid bribe extraction; 2) the revenue effect, as bribes reduce overall tariff revenues and 3) the congestion effect, as the “rerouting” of cargos for avoiding bribes creates imbalances in the regional transport network. The study confirms that bribe payments, far from only “greasing” cumbersome bureaucratic procedures, act as a distortionary tax on trade and a significant revenue drain for the government.

Policies to address corruption in ports can include reducing in-person contacts between clearing agents and customs officials or reducing the number of steps in the clearing process (e.g. online submission of clearance documents or pre-clearance programs). Understanding the patterns of discrimination between high and low bribe shipments may also help concentrate monitoring efforts on certain categories of products.

### **2.2 Corruption and firm behaviour: Evidence from African Ports Sequeira, Djankov, 2013([http://personal.lse.ac.uk/sequeira/Corruption\\_Firm\\_Behaviour\\_Sequeira\\_Djankov.pdf](http://personal.lse.ac.uk/sequeira/Corruption_Firm_Behaviour_Sequeira_Djankov.pdf))**

Drawing on the data analysed in the above-mentioned initial research, this study further examines the strategies of firms to respond to various forms of corruption. The authors distinguish between collusive corruption, when public officials and private agents collude to share rents generated by the illicit activity or coercive corruption, where port officials are coerced into paying a bribe to clear goods. These types of corruption have a different impact on firms: collusive corruption appears to be cost-reducing while coercive corruption increases costs. Using the dataset on bribe payments at ports of Durban and Maputo matched to firm-level data, the authors investigate how firms respond to each type of corruption by

adjusting their shipping and sourcing strategies. “Collusive” corruption is associated with higher usage of the corrupt port, while “coercive” corruption is associated with reduced demand for port services, with firms travelling further, and in some cases almost doubling their transport costs, just to avoid “coercive” corruption at a port. Corruption can also affect the cost of imports relative to domestic product sourcing by determining the total cost of using port services and clearing goods through customs. The study suggests that cost-reducing “collusive” corruption is associated with a higher proportion of imported inputs, whereas cost-increasing “coercive” corruption is associated with a higher proportion of domestically sourced inputs. These findings suggest that firms respond to the opportunities and challenges created by different types of corruption, organizing production in a way that increases or decreases demand for the public service.

### **2.3 Trade costs and corruption in ports Sequeira, Djankov, [http://www.porttechnology.org/technical\\_papers/trade\\_costs\\_and\\_corruption\\_in\\_ports/](http://www.porttechnology.org/technical_papers/trade_costs_and_corruption_in_ports/)**

This article is a synthesis of the two above papers. There is broad awareness on the role of trade costs in hindering trade, particularly in the developing world where these costs are highest. This article explores the role played by corruption in transport bureaucracies in driving up trade costs. The study distinguishes between two broad categories of port officials with different opportunities for extracting bribes: customs officials who have greater discretionary powers and full access to information on all shipments and port operators who have a narrower mandate and lower bribe-extracting capacity. Corruption opportunities are also determined by the frequency of interactions, the type of management overseeing port operations and the time horizons of each official: customs officials with the shortest time horizon, the broadest bureaucratic mandate and more frequent interaction with clearing agents are more likely to extract bribes.

While firms can engage in both collusive and coercive corruption, tariff evasion appears to be one of the most prevalent forms of corruption in the port of Maputo. Tariff liberalisation in Mozambique resulted in a decline of bribes paid for tariff evasion but shifted to products that did not experience a tariff reduction or other methods of bribe extraction from collusive corruption (tariff evasion) to coercive forms of corruption such as identifying irregularities in documentation or “selling speed” due to the alleged congestion of the port. This implies that

targeted interventions focusing on one form of corruption can result in not eliminating but displacing corruption to other stages of the clearance chain.

#### **2.4 Fighting Corruption on the Transnistria Border: Lessons from Successful and Failed Anti-Corruption Programmes Bryane, 2007**

[http://works.bepress.com/bryane\\_michael/11](http://works.bepress.com/bryane_michael/11)

In 2007, Ukrainian and Moldovan authorities took steps to reduce corruption along the Transnistria border. Customs and border services were tasked in both countries to design department-specific plans and instructions to implement the national anti-corruption law and action plan. Measures included the dissemination of rules against bribery, testing of staff for psychological predisposition towards corruption, ban on pocket money or use of mobile phones during working hours, increased oversight by newly-formed departments for internal security, etc. The author recommends establishing a system of guiding principles instead of rigid rules, and a system of random sampling and audit for detection, with the view to realising cost efficiency as well as quality gains of inspections, as well as reducing the incentives for bribe-seeking by reducing regulations.

#### **2.5 Centre for the Study of Global Ethics, University of Birmingham**

[http://www.frontex.europa.eu/assets/Publications/Research/Ethics\\_of\\_Border\\_Security\\_Report.pdf](http://www.frontex.europa.eu/assets/Publications/Research/Ethics_of_Border_Security_Report.pdf)

As most EU Border Guard agencies operate under Codes of Conduct broadly designed to apply to the police forces, this study provides border guards with an overview of the specific ethical issues that can arise from their work. The first part is a survey and analysis of codes of conduct currently in use by border agencies in EU countries. The second part of the study addresses these gaps by providing a comprehensive overview of the main ethical principles that relate to border guard practice. The third part of the study provides an overview of the ethical issues arising from the use of detection and identification technologies by border guards.

## **2.6 Maritime Anti-Corruption Network, 2012**

<http://www.bsr.org/en/our-work/working-groups/maritime-anti-corruption-network>

The Maritime Anti-Corruption Network (MACN) was initiated by major shipping companies in 2012 to promote integrity and compliance in corporate practices in the maritime shipping sector. It is a global business network to promote good corporate practice in the maritime industry for tackling bribes, facilitation payments, and other forms of corruption. The network has developed the MACN Anti-Corruption Principles against which members communicate on implementation progress. It also allows members to share best practices, and raise awareness on industry challenges. MACN also collaborates with key stakeholders, including governments, authorities, and international organisations, in markets where corruption is prevalent to its membership, to identify and mitigate the root causes of corruption in the maritime industry.

## **2.7 Customs Manual 2018**

[customs-manual2018.pdf \(cbic.gov.in\)](#)

Central Board of Indirect Taxes and Customs (CBIC or the Board), Department of Revenue, Ministry of Finance, Government of India deals with the formulation of policy concerning levy and collection of Customs, Goods and Service Tax (GST) and Central Excise duties, prevention of smuggling and administration of matters relating to Customs, Goods and Service Tax (GST), Central Excise, and Narcotics to the extent under CBIC's purview. The Board is the administrative authority for its subordinate organizations, including Custom Houses, Customs Preventive Commissionerate's, Central Goods and Service Tax (CGST) Commissionerate and the Central Revenues Control Laboratory.

The important Customs related functions include the following:

- (a) Collection of Customs duties on imports and exports as per the Customs Act, 1962 and the Customs Tariff Act, 1975;
- (b) Enforcement of various provisions of the Customs Act, 1962 governing imports and exports of cargo, baggage, postal articles and arrival and departure of vessels, aircrafts etc.;
- (c) Discharge of agency functions and enforcing prohibitions and restrictions on imports and exports under various legal enactments;
- (d) Prevention of smuggling including interdiction of narcotics drug trafficking; and
- (e) International passenger clearance.

## **CHAPTER 3: THEORETICAL FRAMEWORK**

### **3.1 Maritime Frauds:**

In the maritime context, maritime fraud occurs when one party, knowing it to be false and with the intent of obtaining an illegal benefit, makes a misrepresentation to another party who, believing it to be true, acts on the misrepresentation to his or her detriment or the detriment of an innocent third party or parties. Marine fraud occurs when there is a deliberate misrepresentation of a truth or event in connection with maritime activity, allowing for the unjust acquisition of money or goods. Misuse of commercial contracts and documentation, such as bills of lading, charter parties, and maritime insurance policies, is a common occurrence.

Falsification of bills of lading accounts for the majority of fraud losses. The need of tight controls on the fabrication and transmission of bills of lading stems from their function as proofs of the transport contract and ownership of the goods, not only as receipts. A faked bill and associated paperwork may be sold to a buyer who later discovers that the cargo and possibly even the ship does not exist. Other important types of fraud include shipowner cargo theft and/or insurance company fraud, which occasionally involves the scuttling of over insured boats, in which case further crimes, such as theft of personal property and life, are committed. Shipping agents also conduct fraud by charging consumers for services that were never rendered. Mortgage paperwork are also falsified to allow intermediaries to pocket a portion of the mortgage repayments. Governments are victims of these maritime-related crimes because to understated invoicing to avoid customs taxation or exaggerated invoicing to move foreign currency out of the buyer's country in violation of foreign exchange restrictions.

Throughout the years, there have inevitably been some instances of fraud. International maritime trading practises. It's unlikely that this will ever be completely resolved. During

periods of economic political instability and depression in the maritime industry, the sinking of an over-insured vessel carrying a very valuable non-existent cargo has occurred on a regular basis. Unusual losses have occurred in the past. However, in general. The number of such fraudulent practises remained manageable, and the majority of occurrences were both? Local in both origin and consequence, it might be dealt with using similarly local approaches.

However, as global trade has grown and trade puffers have emerged, freight transportation issues have become more complex and worldwide. These and other circumstances have resulted in a significant increase in the number of occurrences that can be classified as maritime frauds in recent years.

### **3.2 Types of Maritime Frauds**

Fraud comes in a variety of tints and colours. Because of its transnational nature, it is used in the maritime industry as a catch-all word for several sorts of fraud. It extends well beyond legal definitions. The list below provides an overview of the several types of fraud that can occur, although it is by no means complete.

- DOCUMENTARY FRAUD
- BLACKMAIL FRAUDS
- BUNKERING FRAUDS
- CYBER FRAUD
- FAKE JOB OR MLC FRAUDS
- BARRATRY

Charter Party Frauds, Bills of Ladings Frauds, and Marine Insurance Frauds are some of the subcategories.

#### **3.2.1 Charter Party Frauds**

Shipping is complicated by its inherent international nature. The majority of the time, the stakeholders are located in different regions of the world and have never met. While the cargo

is transported from Brazil to China, a shipowner may be situated in Singapore, with the ship registered in Panama and rented by a person based in Switzerland, with the charter party controlled by English Laws. Things get even more convoluted when the charter party allows for ship sub-chartering, which creates a sub-charter who may be based in South Africa. Such problems are ideal for committing fraud. In one of the most recent occurrences, a vessel was on a time charter and, according to the charter party's authorization, was sub chartered for a voyage. The charterer appears as the despondent owner under the sub charter. The charterer vanished after collecting the freight and failed to pay the shipowner the charter hire. The helpless shipowner, whose Master signed the Bill of Ladings, was forced to discharge the cargo despite having no lien on it. Another alternative is for a shipowner to load goods, issue Bills of Lading, collect freight, and then declare bankruptcy. The cargo owner is faced with disrupted cargo delivery schedules and is sometimes forced to go to court. Courts may then auction the vessel and cargo to a new owner who is not responsible for the cargo's delivery.

It is often advisable to investigate the antecedents of the opposing party in order to ensure appropriate security against such frauds. Law firms must also be contacted / consulted in order to verify the histories of contracting partners.

### **3.2.2 BILLS OF LADINGS FRAUDS**

The carrier submitted original Bills of Ladings for the cargo loaded on his ship as recently as 2018 in a shipment of sheepskins. The freight forwarder, in turn, created "House Bills" that appeared to be original by mentioning "To the order..." on the House Bill and stamping "Original." The shipper effectively placed two sets of "Document of Title" into the market by issuing house bills. Furthermore, the shippers obtained credit against the Freight Forwarders' House Bills. The loan business was left to claim against the house bills when the shipper defaulted on his payments, but it was too late because the cargo had already been discharged against the original Bills of Ladings (*Australian Capital Financial Management v Freight Solutions (Vic) Pty Ltd*).

Making false Bills of Ladings is another common practise around the world. A case where cargo was delivered against a false bill of ladings recently came before English courts. The plaintiffs in *Motis Exports Ltd. v Dampskibsselskabet AF 1912 Aktieselskab and Aktieselskabet Dampskipsselskabet Svendborg* had delivered various consignments from

China/Hong Kong to Cotonou/Abidjan on Maersk Line ships. Maersk Line Bills of Ladings were used to transport goods.

Certain parties approached carriers' representatives and presented fraudulent Bills of Ladings, claiming to be working on behalf of the notifying party. Agents of the carriers were duped by the bogus bills of ladings and gave delivery orders for the products to be released.

The plaintiffs alleged wrongful delivery in their complaint, but the defendant asserted that they are not liable for the goods once they pass the ships rail due to a clause in the bill of ladings.

In this circumstance, courts concluded that the carrier cannot hide under the clause because the carrier's primary responsibility is to deliver the goods to the correct consignee. The Court went on to say that only if the Bill of Lading contained a word implying a defence against delivery would it be valid. By developing digital platforms, all actors involved in international trade, including carriers, exporters, and importers, are seeking to overcome the problem of fraud or unauthorised change of bills of lading. The Bills of Ladings Electronic Registration Organisation (BOLERO) system was implemented. It enables the usage of E-Bills as part of a Blockchain and makes them visible to everyone in the chain, removing the possibility of fraud in paper bills of lading.

### **3.2.3 FRAUDULENT MARINE INSURANCE**

The case of the vessel BRILLANTE VIRTUOSO was dubbed the "MOST SPECTACULAR FRAUD." This ship was transporting fuel oil cargo from Ukraine to China and was drifting off the coast of Yemen on July 5, 2011 to embark a security team before entering the Gulf of Aden during the peak of Somali piracy. When a small boat with seven people on board holding Kalashnikovs approached the ship, the captain mistook them for the security team and allowed them to board. They attacked the Master and crew upon boarding, and the ship was reportedly hijacked.

The Chief Engineer was carried to the engine control room, while the Master was taken to the bridge. Rest of the crew were rounded up in the day room. While the VDR audio recording provided evidence that the armed men told the Master to sail towards Somalia, in fact the ship headed towards Djibouti. The engine stopped a few hours later, and the engine room

caught fire. The fire was said to have started as a result of the pirates detonating an explosive device. The pirates are thought to have departed the ship once the Master and his men abandoned it. A passing vessel rescued the master and crew. Poseidon salvors arrived quickly, prompting the Judge to observe that "their response was pretty amazingly speedy." The heavily damaged vessel had to be demolished afterwards.

Suez Fortune Investments Limited, the ship's owner, and Piraeus Bank AE, the ship's mortgage bank, filed a claim for a constructive total loss on the ship's war risks policy. The insured value was \$55 million, plus \$22 million for disbursements and enhanced value, totaling \$77 million.

Following a series of claims and counterclaims between owners and insurance companies, as well as a lengthy trial, the court determined that the entire incident was staged in order to obtain a substantial insurance payout. The claim of the owners was denied, and the story became one of the most well-known examples of maritime fraud.

Another well-known case, though not a scam, is that of The Star Sea, which is still mentioned today. A number of vessels were covered under a single insurance policy in this case. After catching fire, the vessel was ruled a constructive total loss. The insurers' initial line of defence was that the vessel was unseaworthy. When this defence failed, the insurers resorted to claiming a violation of the highest level of good faith. But that didn't work either.

Marine Insurance, just like any other, is a contract and hence must be very carefully drafted with minutest legal details.

### **3.2.4 BUNKERING FRAUDS**

Industry is fraught with several bunkering frauds. They can be in various forms like Manipulating the Fuel Density & Weight Relationship / Manipulating the Fuel Temperature & Volume Relationship / The Cappuccino Bunkers / Fuel Delivered with High Water Content / Mixing Slops into Bunkers / Tampering with Gauging Equipment. Industry has been constantly attempting to combat these frauds as bunkers constitute a major chunk of shipowner's expenses. Various P & I clubs have repeatedly alerted their members against three most probable bunker frauds namely.

A) the vessel's consumption;

A) the vessel's consumption;

C) the number of delivery

Clubs also urge its members, through various circulars, that hiring third-party bunker surveyors and constantly exhorting their ships' crews to be more aware during bunkering operations is a likely way out of this difficulty.

### **3.2.5 CYBER FRAUDS**

Like any other industry shipping has had its fair share of cyber frauds. Given the increased digitalisation in shipping, the industry has now started taking this threat seriously. Has It started also embarked on training its personnel both ashore and on ship? It has now been made part of the ships ISM manuals with contents drawn from guidelines given by IMO and various other international shipping bodies.

Some of the well-known shipping cyber frauds was attack on Maersk offices by the “Non Petya” ransomware which caused a loss of nearly 300 million dollars to the company.

Cyber assaults and the resulting damages are thought to be more of a financial nature in shipping circles. This is erroneous, as an oil tanker named "A" landed in Singapore on June 26, 2020, and reported her position to VTIS East at 1400 hrs. However, the VTIS was unable to find the ship using AIS. They gave Master notice not to sail until the AIS was repaired. The owners quickly arranged for a technician to board the vessel while it was anchored. He double-checked and confirmed everything with the VTIS. However, the AIS malfunction occurred again during departure on June 28th, necessitating a flag state dispensation.

On arrival at next stop Singapore on July 4th, a new AIS was installed. AIS was judged to be adequate after the technician checked with VTIS. The identical issue was reported by the berthing Pilot on July 5, and the vessel's voyage was postponed to allow the service engineer to board at anchorage.

The owners arranged for service engineers to inspect the AIS once more. Three other vessels were utilising "A's" MMSI number, according to the attending technicians. This resulted in interference and intermittent AIS transmission failure from "A." On the 5th of July, the MPA Singapore was notified. IFC Singapore, IMB Kuala Lumpur, Singapore Marine Police, and Inter. were also notified.

Later, the owners' P & I club learned that one of the ships with the same MMSI number was involved in illegal narcotics trafficking. This not only posed a navigational risk in congested regions, but also jeopardised the Owners and Managers of "Areputation ""s due to the false identification. As a result, cyber fraud is as dangerous in the shipping business as it is in any other. Some Examples of Cyber risks / frauds and their consequences to the shipping industry are:

a) Duplicate Bill of Ladings

b) Changing Cargo Manifests: by doing so remotely, cyber criminals are able to hide substances in containers or disguise them as something else. Cyber-attacks on the port of Antwerp are prime examples of this. Consequences of the above can not only result in financial loss to the organisation but also loss of reputation.

Other types of scams that the industry suffers include "fake jobs," "barratry," and "blackmail frauds," among others. Finally, given the international exposure and the continual risk of financial and reputational harm, every shipping company should always be legally prepared. A timely legal opinion is preferable to an expensive opinion afterwards.

### 3.2.6 Smuggling

Smuggling [contrebande in French] is described by the World Customs Organization as "a Customs infraction consisting in the transfer of commodities across a Customs border in any clandestine method, therefore evading Customs control."

The Customs Act of 1962 defines smuggling as "any act or omission that renders such commodities liable to forfeiture under section 111 or section 113" in reference to both exported and imported goods. Outright smuggling and technological smuggling are two types of smuggling. The "hidden movement of commodities across national boundaries to bypass

customs duties or import or export limitations" is referred to as "outright" smuggling. 'Technical' smuggling, which is essentially business fraud, refers to the use of legal channels of trade to escape customs charges and other taxes, such as undervaluation and mis-declaration.

Another typology is based on the classification of the smuggled items, such as drugs, natural resources, and domestic goods, and is often non-standardised. Smuggling has been determined to have a direct impact on the economy and government income. decreases job opportunities While profiting is the primary motivation for smuggling, As the 1993 Mumbai explosions demonstrated, it might also have national security implications. In addition to the economic and security concerns, smuggling can have a negative impact on the environment. Employment, society, and social well-being Smuggling takes advantage of border gaps. Border restrictions, and in management and security.<sup>6</sup> As a result, smuggling in a maritime setting is prohibited. Multiple perspectives of coastal border management, coastal management, and coastal management must be considered enforcement of customs and security.

Smuggling has become one of the non-traditional challenges to marine security since the 1990s, when the wider notion of maritime security emerged. Smuggling, like trafficking, is one of the non-traditional challenges to maritime security, according to the Indian Maritime Security Strategy (2015). It also emphasises that smugglers' use of sea routes places a persistent strain on maritime security organisations, and foreshadows the prospect of nuclear material smuggling. Smuggling of important licenced dual-use equipment might have major national and international security ramifications.

### **3.3 Signs of Logistics Fraud:**

#### **3.3.1 Undocumented vendor or service provider selection**

When a single person chooses service providers, they can choose linked, controllable, or illicit players. Competitive bids, business controller oversight, and the formation of a cross-functional team to select carriers, third-party logistics providers, or warehouse facilities based on predetermined criteria are all required for a more successful process.

#### **3.3.2 The rates paid do not reflect the company's market position.**

Compare the prices you pay to different service providers. It's difficult for a carrier that makes a reasonable profit to share a portion of its profits in bribes or illegal payments. Even illicit carriers must pay their drivers, buy petrol, and maintain equipment.

### **3.3.3 Payments made outside of the standard accounting system**

All vendor payments must be matched with a purchase order and confirmation of delivery. Companies that are forward-thinking will evaluate freight movement costs, generate a purchase order for the scheduled transfer, compare bills, and verify that the delivery was made.

Pay attention if payments to service providers are not: hand delivered; processed outside of the standard accounts payable system; not accompanied by proof of delivery; paid without an automatic computation of what the charges should be; or manually approved.

### **3.3.4 Executives who have made unexplained lifestyle changes or who have a large debt load**

Luxury cars, excursions or vacations with supplier reps, and real estate purchases are some of the more usual items to check for.

### **3.3.5 Transactions with connected parties**

When a manager has the freedom to choose a service provider with little scrutiny, he might invest in a preferred carrier. We discovered that the logistics manager had covertly owned part of the single service provider in one case where he had full responsibility for authorising 100% of the moves, matching all of the rates and invoices, and establishing that rates paid were market competitive. This carrier also artificially boosted the company's invoices by employing sub-optimal equipment, increasing our client's prices by 20%.

### **3.3.6 Unusual payment patterns**

Make your own data mining and exception reports using technology. When payment matching and approval procedures are poor, service providers will learn that when they overbill, double bill, ghost bill, or bill for the wrong service, no one notices. Falsified invoices, on the other hand, rarely follow the same patterns as genuine invoices. A rapid

spike in payments to one vendor; a high number of transactions under audit thresholds; continuous invoice numbers or several invoices on the same day; or payments that defy Binford's law, which claims that numbers that occur naturally in business follow some basic patterns. Fraudsters rarely have the expertise or ability to imitate these.

## **CHAPTER 4: DATA ANALYSIS AND RESULTS**

### **4.1 Analysis of Fraud Cases in India in 2021-2022**

SI.NO	TYPE OF COMPANY	No. of Cases	Percent
1.	Public Company  (Bribes, Forgery, Fake documents)	9	6.17%
2.	Private Company	2	1.47
3.	Others  (Smuggling)	125	91.91%

Source: Press Releases

Table explains the different types of firms analysed for this study. The results point out that majority of logistics fraud cases (Registered or Convicted) by individuals are 91.91%, at the same time, out of 136 cases analysed, 1.47 % cases are relating to private company which mainly includes fines. This analysis signifies that the public sector firms are showing some serious failures in executing. Measures to curb fraudulent activities. In comparison with the private sector counterpart, the public sector firms lack efficiency in functioning and controlling operations. But the major threat to security is the individual smuggling happens in the maritime sector on an average 2 cases are happening in a week which should considered as a serious issue regarding the maritime operation.

#### 4.2 Analysis of involvement of firm officials in 2022

Category of official/ Types of firms	Junior Management	Middle Management	Top Management	Private Individuals
Private	0	1	1	0
Public	0	5	3	1
Others	0	0	0	125

Table shows the analysis of the involvement of officials in firm fraud cases. The analysis clearly shows that majority firm officials are private individuals (more than 90%) while top management role in fraud are comparatively less (almost 2%). The role of middle management in frauds like in leaking documents are comparatively lesser (almost 16%). So we can conclude more than 90% maritime frauds are happen under smuggling. So we can analyse the maritime perspective of smuggling in India.

#### 4.3 Maritime Perspectives on Smuggling in India

The official account of smuggling in India is the DRI's yearly Smuggling in India Report. India's extensive coastline and various ports make the country vulnerable to smuggling via marine channels. Based on drug (and other contraband) seizures, it is expected that the sea route will continue to be used in the future, as it has in the past. Smuggling is a global economic crime fueled by a variety of reasons including geography, local taxes (or restrictions), consumer demand, and the efficacy of local law enforcement. With regards to Smuggling across the India-Sri Lanka maritime borders is aided by "proximity to the north-western tip of Sri Lanka, presence of fishing communities of same ethnic linkages in both countries, and cessation of internal war and return of peace in Sri Lanka," according to the DRI annual report for 2019-20. Small motorised country boats are utilised for

transshipment at predetermined sites at sea, according to the investigation, which entails a "intricate network of handlers and carriers," implying the presence of a global organised crime network.

According to the DRI report for 2019-20, gold is the most smuggled product in terms of number of seizures and value of seizures, followed by narcotics and psychotropic substances, cigarettes, foreign cash, agricultural produce, and wildlife. Because of the tariffs and other levies on imported gold, gold is smuggled into India. In 2021, it is predicted that roughly one-sixth of all gold entering India is smuggled (150-200 tonnes), with the UAE accounting for about three-quarters of it while the air route has been the conventional way, accounting for approximately 65 percent of all seizures, the use of ground routes through neighbouring countries is expanding, with Myanmar becoming as the leading source in 2020-21.

As per a World Customs Organisation (WCO) assessment of 2019, as cited by the DRI, India is the fourth largest market for illegal cigarettes, with smuggled cigarettes accounting for a quarter of the domestic market.<sup>44</sup> Cigarette smuggling into India is attributed to punitive taxation on Mis-declaration of imported air/sea cargo is the most popular way for obtaining tobacco items. The majority of cigarettes are shipped from Dubai to India (via sea routes), Malaysia (via sea, through Dubai), as well as Myanmar and Nepal (over land).The revenue Cigarette smuggling is said to have higher profit margins than gold. Nearly Rs 5 crore in total In 2019-20, the DRI apprehended worth of cigarettes.

*Pterocarpus santalinus*, often known as red sanders or red sandalwood, is included in Schedule II of the 1973 Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES). According to the DRI, an organised cartel is smuggling Red sanders from Andhra Pradesh through major ports to Southeast Asia and East Asia. The DRI seized around 150 tonnes of red sanders worth Rs 7 crore in 2019-20.

Sea cucumbers were also seized, according to the DRI. Research published in 2021 on sea cucumber poaching and smuggling from 2015 to 20 found that smuggling and poaching operations were well-organized and spreading from the Gulf of Mannar and Palk Bay to Lakshadweep. In occurrences since 2015, Indian officials have detained 81 people and seized six water-craft. The worth of the seized sea cucumbers is estimated to be over Rs 11 crore. Sea cucumbers are purportedly trafficked into markets in Southeast Asia and East Asia via

Sri Lanka, where they are used as a luxury meal or in Chinese medicine. Smugglers are also said to have employed tracked drifting items in addition to small boats.

Aside from the primary contraband listed above, the 2020-21 DRI report cites the use of the sea route for trafficking agricultural products, antiquities, and counterfeit items. In terms of national security, the DRI made two seizures in 2019 involving dual-use goods that are subject to licencing regulations under the SCOMET list published by the Directorate General of Foreign Trade. A chemical that could be used as a missile propellant was among the items on the list.

#### **4.3 HOW TO REDUCE FRAUDS.?**

**The following paragraphs outline some of the areas where India's Anti-fraud capabilities should be strengthened from a maritime standpoint:**

- **Border Management and Coastal Security** In the years 2016-2019, 6429 incidences of smuggling were registered from six land borders: 8062 cases in 2017, 7587 cases in 2018, and 2925 cases in 2019. (2019). According to the reports examined in this article, the numbers of people smuggling by water routes are quite small. As previously stated, smuggling takes advantage of loopholes in border management and customs enforcement, therefore anti-smuggling activities are inevitably linked to border security and, in the marine environment, to coastal security measures. "Border Guarding Forces (BGFs) are working in conjunction with Customs department to prevent smuggling of counterfeit and dangerous items," the Ministry of Home Affairs (MHA) said in answer to a parliamentary inquiry. The MHA has also emphasised the need of state and district-level coordination structures, as well as the role of the Lead Intelligence Agency (LIA), in preventing infiltration and smuggling from border areas. This holds true for coastal states and coastal borders, where all agencies involved in the coastal security construct must work together and coordinate their activities with Customs/DRI.
- **Localised Responses.** Seizures study shows that, over time, economic policies, supply-demand, law enforcement, technology, and other factors have influenced the geographical distribution, as well as the intensity and nature of contraband. However,

it is primarily restricted to a few areas. Despite various measures taken to bolster coastal security, particularly in the aftermath of the death of Shri Rajiv Gandhi, former Prime Minister of India, in 1991 and the Mumbai incident in 2008, smuggling over the Palk Bay/ Gulf of Mannar region remains an intractable problem. While physical proximity and historic relationships may be factors in the persistence, criminal forces are clearly exploiting the situation. As a result, in an asymmetric competition, the advantage is gained. The establishment of the Lakshadweep Sea Cucumber Protection Task, for example, has been linked to an upsurge in arrests and seizures related to sea cucumber poaching and smuggling. Anti-poaching camps were established, and the Dr. K.K. Mohammed Koya Sea Cucumber Conservation Reserve, a 239-square-kilometer region near Cheriya Pani, was established in Lakshadweep.

- **Inter-agency Coordination.** Central and state agencies have collaborated on several anti-smuggling operations. There is also evidence of the DRI working with other intelligence agencies, including for anti-smuggling operations at sea. Inter-agency coordination is essential to maritime security operations, including anti-smuggling operations, because it allows several agencies to take complementary, timely steps to combat a specific threat. Field-level coordination is facilitated by inter-ministerial and centre-state coordination. However, one of the hurdles to efficient collaboration is a drive to protect one's turf. Breaking down silos by strengthening domestic inter-agency links between central and state agencies is the way forward.
- **Customs Enforcement** Several flaws in the Customs' preventive functions were revealed in a 2017 CAG study. Shortage of personnel, including for manning boats; lack of marine expertise due to short tenures; low operational availability of boats for patrolling; lack of dedicated berthing; inadequacy of equipment to screen consignments; and intelligence collection shortcomings were among the issues faced by the marine wing. A Risk Management System (RMS), which is an automated computerised assessment system, determines whether a manual inspection by a Customs assessing officer, or a goods examination, or both, is required. The CAG pointed up some flaws in the RMS in a 2020 report and suggested that the risk parameters be reviewed and updated. As suggested by the Commission, the Customs and RMS preventive wing should be strengthened.

To build a thorough narrative of the situation, data was gathered from numerous sources—DRI, IFC-IOR, and IFC, Singapore. Smuggling has marine aspects in India. "Keeping statistics" is part of the DRI's mandate. For keeping track of smuggling

trends, including seizures and prices/rates. Similarly, the charter of Although from a nautical perspective, the IFC-IOR incorporates "trend and forecast analysis of historical data" as well as data collection, analysis, and dissemination, including on Interested Vessels (VOI). Small vessels and fishing vessels, in addition to containerized cargo, are the favoured ways of smuggling, according to regional smuggling patterns.

- **Fisheries MCS.** The need for improved fisheries monitoring, control, and surveillance (MCS) has been identified. Included into the National Marine Fisheries Policy (2017), and then, in 2020, into the MATSYA SAMPADA YOJANA PRADHAN MANTRI (PMMSY). The National Draft The role of MCS is also re-emphasized in the Fisheries Policy (2020). This includes the requirement for an appropriate fishing boat tracking system Despite various security-related activities in the United States, A full-fledged MCS system in the fisheries sector has yet to be implemented, either in states or at the federal level. National scale Strengthening MCS is fundamental to addressing illegal activities in the maritime domain, and the question now is essentially that of implementation of policy.
- **International Pathways** Smuggling pathways are found all throughout the Indian Ocean region, according to the data (and beyond). The Middle East, Southeast Asia, and East Asia are the principal origins and destinations of contraband, in addition to smuggling over maritime borders. Actions taken as part of a global operation resulted in an increase in Malaysian Customs apprehended Red Sanders. The progress of most international/regional agreements, on the other hand, does not appear to be particularly positive. Nonetheless, because smuggling is linked to transnational organised crime, there is a need to strengthen international links, whether through international organisations (INTERPOL, UNODC, and WCO), regional organisations (BIMSTEC, IORA, SAARC, and others), or bilateral/multilateral agreements, particularly with contraband origin and destination countries. To combat smuggling via sea channels, maritime security agencies must work together with partner agencies on a tactical level. Strengthening information sharing, such as through IFCs, and intelligence sharing are also part of operational collaboration.
- **Community Participation.** The DRI has a reward programme for citizens who provide information that aids in the prevention of smuggling. In certain situations, the incentive might be as much as 20% of the value of the confiscated goods plus the realised penalty. Community interaction programmes, which are often conducted by

marine security organisations, can help to popularise such schemes. This is especially true in places where fishermen may possibly be carrying contraband.

## **CHAPTER 5: CONCLUSION AND SUGGESTION**

### **5.1 Conclusion**

Fraud endangered the nation's economy in the 1960s and 1970s, prompting the CMO to be raised, followed by the Coast Guard. India's economy had been liberalised by the 1990s, and smuggling of weapons and ammunition into the country via sea routes had become a national security danger. To stop such movements in the impacted areas, localised low-intensity actions were conducted. Following the 1999 Kargil War and the 2008 Mumbai attacks, India made significant adjustments to its coastal and marine security, with a focus on preventing terrorist infiltration and arms and ammunition smuggling through the sea route. Smuggling continues to be a huge hoax, according to some estimates.

The Rustam-ji Committee discovered that fraud patterns were dynamic in 1974, and that finding has remained true, with a few exceptions. Multiple factors influence changes, including supply and demand, economic policies, internal concerns, geographical proximity, security measures, law enforcement, and so on. From a maritime standpoint, studies over the last few years have pointed to the following key contraband routes. Smuggling of cigarettes and gold, primarily from the Middle East, into India via ports; smuggling of red sanders from India, primarily to Southeast Asia and East Asia via ports; smuggling of textiles across the Bangladesh-India maritime boundaries; and smuggling of domestic products (turmeric, tendu leaves), wildlife (sea cucumbers), and gold across the India-Sri Lanka maritime boundaries via small craft. Sea cucumbers are also illegally imported into Southeast Asia and East Asia.

According to current trends, stopping fraud especially smuggling via sea routes requires an emphasis on customs enforcement in ports, maritime border surveillance, and coastal security, particularly in coastal nations next to maritime borders. Multiple authorities are involved in combating smuggling through maritime routes. All agencies must combine their skills in order to establish powerful responses to smuggling via maritime channels, and dedicated maritime capabilities must be developed in agencies that are not exclusively

maritime. International cooperation and intelligence/information sharing, as well as international operational coordination, are the foundations for effectively combating transnational organised crime in any form, and further consolidation of international links is also necessary.

Maritime frauds have no longer figures prominently in the discourse on maritime security in India, despite its negative impact on the economy, and possible impact on national security. However, history has shown that frauds, especially smuggling can take sinister forms in insidious ways. Therefore, despite the progressive strengthening of national efforts to counter smuggling and to strengthen maritime security, there is a need to remain watchful. At the end of the day, combating supply chain fraud is a never-ending job. It is always vital to keep an eye out, and perfect security can never be guaranteed. Nonetheless, fraud will be identified promptly when it occurs if adequate preventative measures are in place.

## 5.2 Suggestions

However, most companies underestimate how deeply their processes are scrutinized, despite the harsh consequences of supply chain fraud. To help minimize fraud, many companies have fraud detection practices in place. Even though fraud can never be eliminated, you are able to reduce the risk by being proactive and preventative significantly:

- **Communication:** The organisation can take pleasure in its integrity by conveying that it is a non-negotiable value through a mission statement, handbook, and other communication channels.
- **Internal fraud should be avoided:** we have professionals inside companies are so focused on increasing profits that they overlook profit leakage from internal fraud and the influence of their supplier connections on their reputation, brand, and financial results.
- **Recruit the Right People:** Accounting and procurement operations can be automated, but they still require human intervention. It's critical to divide responsibilities into discrete tasks so that no single person is in charge of the entire transaction. This will ensure that no single person is in charge of the entire process. Employees who change divisions or move to a different section of the organisation should deactivate their prior permissions and powers. This prohibits employees from accessing company information incorrectly.
- **Quality Control:** When a supplier is based in a country such as China and is responsible for supplying finished items to a company located outside of the country, the supplier may not require much monitoring. As a result, they are free to take advantage of numerous schemes that are incompatible with the interests of the customer.
- **Don't jump to conclusions:** The discovery of duplicate invoices through your analytics process could be explained in several different ways. There are times

when honest mistakes are made, so make sure you ask questions before pointing fingers.

- **Take control of your stockroom and assets:** Using asset tracking software and barcodes can reduce employee theft. You can track your purchases and inventory by using tools such as asset tracking, which allows you to see where each item is, how it got there, and who had access to it last. As a result, it is more difficult for employees to steal inventory items without being noticed. It is not only possible to monitor employees with barcode technology and effective policies, but it is also possible to save time when entering data, tracking inventory, and preparing forecasts.
- **Blockchain:** A survey with a sample of 40 people was done. Because this technology is new in the logistics field, the results revealed that just 42.5 percent of respondents had enough knowledge of it. Only 17.5 percent of organisations adopt blockchain technology, despite 87.5 percent agreeing that it would solve numerous logistics problems. Only 27.5 percent of respondents said their employers invest in technology training for the new digital era, according to the report.

# **APPENDIX**

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## GLOSSARY

**Maritime fraud:** Maritime fraud occurs when there is a deliberate misrepresentation of a truth or event in connection with maritime activity, allowing for the unjust acquisition of money or goods.

**Shipping Agency:** On behalf of ship owners, managers, and charterers, a shipping agency is the appointed person or agency responsible for handling shipments and cargo, as well as the general interests of its customers, at ports and harbours around the world.

**Cyber fraud:** Cyber fraud is the most widespread and dangerous type of fraud that occurs around the world. Throughout the twenty-first century, the cyber world has expanded and grown, allowing fraudsters to hack victims' personal and financial information in a variety of methods.

**Bunkering frauds:** Several bunkering scams exist in the industry. Manipulation of the Fuel Density and Weight Relationship / Manipulation of the Fuel Temperature and Volume Relationship / Cappuccino Bunkers / Fuel Delivered with High Water Content / Mixing Slops into Bunkers / Tampering with Gauging Equipment are some examples.

**Blockchain:** A blockchain is a decentralised database that is shared among computer network nodes. A blockchain acts as a database, storing information in electronic form. Blockchains are well known for their critical function in keeping a secure and decentralised record of transactions in cryptocurrency systems like Bitcoin.

**Containerization:** Containerization is an intermodal freight transportation system that uses intermodal containers (also called shipping containers and ISO containers).

**Cross-docking:** Cross docking is a logistics process in which products from a supplier or manufacturing plant are delivered straight to a consumer

or retail chain with little or no processing or storage time. Cross docking takes occur in a distribution docking terminal, which usually has trucks and dock doors on two sides (inbound and outgoing) and little storage space. The procedure of accepting products through an inbound dock and then transferring them across the dock to an outbound transportation pier is known as 'cross docking.'

**Just-in-time (JIT):** It is a system of inventory management in which commodities are only acquired from suppliers when needed.

**Supply Chain (s):** A supply chain is a network that connects a firm with its suppliers in order to manufacture and deliver a certain product to the final consumer.

**Trade:** the action purchasing and selling of goods and services

**Vessel:** A ship or boat crafted for traveling on water, now usually one larger than an ordinary rowboat.