

Gordon Housworth  
Intellectual Capital Group LLC  
phone: +1 248.626.1310  
email: [ghidra@icgpartners.com](mailto:ghidra@icgpartners.com)  
10 February, 2011

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## **MEXICO:**

### **Border Wars: Are Your Company and Human Capital Safe?**

#### **ICG's 2007 forecast still on point**

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- ☐ 2006: Private client forecast commenced.
- ☐ 2007: Public forecast, "How will you deal with the assassination of Calderón?"
- ☐ Forecast based upon Calderón's assault on cartels in the Mexican national context.
- ☐ Seen as dire by some, it remains on point and is accelerating.
- ☐ No realistic governors to acceleration exist save for cartel retrenchment or external intervention.

## Piece part/commercial focus fails to include key Mexican factors: [2007]

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- ☐ Mexico's \$30+ billion USD black market.
  - ☐ \$20+ billion from drug smuggling. Balance from kidnapping, protection, bank/casino robbery, prostitution, fake merchandise, arms and gems smuggling and human trafficking.
  - ☐ Felipe Calderón's massive military crack down on Mexico's drug cartels.
  - ☐ Cartel counterattacks.
  - ☐ Resurgence of Marxist EPR, Ejercito Popular Revolucionario (Popular Revolutionary Army).
  - ☐ Restive López Obrador supporters.
  - ☐ Weakness of PEMEX and Mexican oil production.
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## Cartel counterattacks [2007]

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- ☐ Hyperviolence at the low end.
  - ☐ Bribery and threats at the high end.
  - ☐ Expand control of local state police assets.
  - ☐ Cow and co-opt up the judicial chain.
  - ☐ Attack the military intelligence community.
  - ☐ Attack incorruptible senior judiciary.
  - ☐ Co-opt fractious political opponents.
  - ☐ Selective state disruption, damaging businesses.
  - ☐ Isolate, emasculate Calderón.
  - ☐ Failing that, assassinate him.
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## Sinaloa and Gulf Cartels battle over Nuevo Laredo-Laredo corridor [2007]

- ❑ Mexico's top national security threat is clearly organized crime.
- ❑ Mexican organized crime continues to take advantage of the largest inland trade zone to smuggle hundreds of tons of cocaine north and thousands of automatic rifles south.
- ❑ Gulf Cartel and Sinaloa Cartels contest the Nuevo Laredo-Laredo smuggling routes, referred to as "plazas."
- ❑ Some 10,000 cargo trucks pass through Nuevo Laredo daily on their way to Interstate 35 and cities throughout the US.
- ❑ Another 10,000 vehicles cross the border daily, totaling over 20,000 vehicle-crossings a day.
- ❑ Hyperviolent security organs, "Los Negros" and "Los Zetas," run riot.
- ❑ Corruption pollutes well-intentioned policemen and soldiers.
- ❑ Law of "plata o plomo," accepting a job on criminal payroll or a bullet in the head, perennially compromises members of Mexican security forces at all levels.

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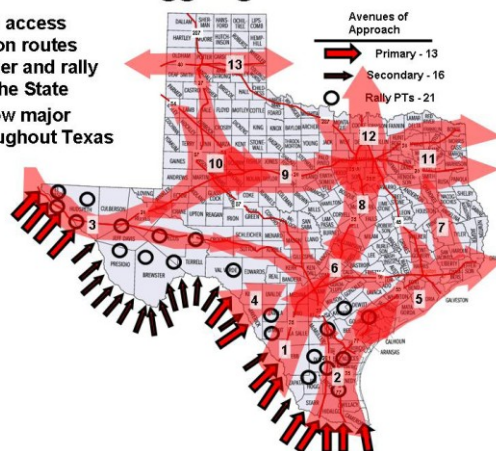
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## Forty percent of all Mexican exports cross into Laredo, Texas [2007]

### Cartel Smuggling Routes

- Criminals gain access using infiltration routes along the border and rally points within the State
- Criminals follow major corridors throughout Texas



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## Los Zetas, model for a modern criminal Praetorian Guard [2007]

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- ❑ Rising presence in Tamaulipas along Texas border, as well as the states of Nuevo Leon, Chiapas, Quintana Roo, Tabasco, Guerrero, Veracruz, Michoacán and Jalisco.
  - ❑ No longer take orders from their erstwhile funders, the Gulf Cartel.
  - ❑ Invest “about 50 percent of their earnings in training, recruiting, intelligence-gathering and computer software.”
  - ❑ Recruit former Guatemalan special forces military personnel (Kaibiles), gangs known as Maras and Mexican army deserters.
  - ❑ In late 2006, some 200 Zetas operated in Nuevo Laredo with a support system of about 300, including lookout guides (halcones), plus municipal police.
  - ❑ “Practically control the movement of people through an intricate web of spies, checkpoints and skillful use of technology.”
  - ❑ Number of halcones has increased, penetrating deep inside Nuevo Laredo society; tap into driver's license records and hotel check-in lists.
  - ❑ Set up nighttime checkpoints inside Nuevo Laredo to search motorists, looking for rival Sinaloa cartel members.
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## Cartels' ability to sever national critical infrastructures [2007]

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- ❑ Sector specific critical infrastructure:
    - Energy
    - Transportation
    - Communication
    - Oil and Gas
    - Water
    - Chemical
    - Telecommunication
    - Electricity
  - ❑ Domains:
    - Physical and Network security
    - Transportation security (Air, Ground and Rail)
    - Personnel Security
    - Disaster recovery, contingency planning and incident response.
    - Security Policy and management
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## Temporary autonomous zone (TAZ) creation [2007]

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- Areas beyond global nation state control:
    - Failed/collapsed states.
    - Chaotic areas.
    - Internet (virtual sanctuaries).
  - Staging grounds for operations against “controlled” areas.
  - Sanctuaries created in areas without global/state order:
    - Fluid, rapidly shifting locations.
    - Locations resistant to interdiction.
    - Diverse (primarily political), fuzzy tools needed to eliminate.
  - Military operations can inadvertently create a TAZ where none existed.
  - Long-term issue for nation states, aggravated by cooperative criminal, corrupt actors.
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## Trigger agents for lawless areas are politics and economics

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- *“Political insurgents” generally morph into “Commercial insurgencies” that “engage in for-profit organized crime without a predominant political agenda... To maximize income from illegal activities, these groups tend to interact with the public sector. At first, they corrupt select officers or bureaucrats; then they gradually undermine the entire system...”*

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## Trigger agents for lawless areas are politics and economics

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- *Both political and commercial insurgencies require lawless areas in which to operate... “Narco-guerillas” carve out the enclaves from which terrorists and organized crime syndicates can operate... lawless areas spring from organized crime and venal officers and bureaucrats...*
- *In marked contrast to the political insurgent, the economic insurgent does not seek to destroy the political power, but merely to bend it to his needs. Nevertheless, the corruption lever inexorably weakens and crumbles the host state from within...*

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## Something is different [2007]

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### **Tunable Just-in-time Disruption:**

- ❑ EPR’s “prolonged people’s war” has been rejuvenated, able to operate outside their regular southern sphere of influence.
- ❑ Perps, EPR or other, have sophistication to plan, coordinate and execute simultaneous attacks.
- ❑ Blasts occurred at valve stations where different pipelines intersect.
- ❑ Targets to date: PEMEX, Volkswagen (Puebla), Chrysler (Toluca), Honda, Kellogg, Hershey, MX steel production.
- ❑ Technical capability for broad industrial sabotage.

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## History lessons in regional Latin drug connections [2007]

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- ❑ As US and Colombian authorities closed Caribbean smuggling routes in the late 1980s and 1990s, Colombian groups shifted to Central American isthmus and Pacific routes.
- ❑ Both routes converged in Mexico.
- ❑ Colombians began relying on Mexican skills in the 1990s as Colombia's larger criminal factions dissolved into smaller groups.
- ❑ Revolutionary Armed Forces of Colombia (FARC) leftists and Self-Defense Forces of Colombia (AUC) paramilitaries became more involved, assuming control over various parts of the procurement chain, notably links between Colombia and Brazil, Venezuela, Central America, and Mexico.
- ❑ Anyone who wants to smuggle something into the US knows they can count on their Mexican counterparts.
- ❑ Mexicans can smuggle just about anything into the US for the right price. The US-Mexican border has become known as a "soft-underbelly."

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## Missing systemic resilience [2007]

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- ❑ Virtually all commercial systems (any type, any scale) are designed for commercial efficiency, not security.
- ❑ Building systemic resilience will (must) become both a national and international priority.
- ❑ Resilience to systemic attacks requires redundancies, "circuit breakers," increased adaptive capacity and automated reactivation.
- ❑ Critical infrastructure industries are increasingly private-sector institutions (who will pay, how?).
- ❑ Resilience will be expensive and disruptive, so we won't do it until it is too late.

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## Your advisers are likely vulnerable [2008]

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- Management consultancies, banks, investment houses and law firms tend to share three characteristics:
    - Actionable protection guidelines are absent; in their place are ineffectual guidelines conferring false sense of security among clients.
    - Risks often missing among key characteristics that offshoring clients are urged to address.
    - Fear of reprisal by host government refusing them business restrains level of advice offered to clients.
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## Key for expat firms with no viable options for relocation [2008]

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- Conduct a rigorous vulnerability assessment, then implement the appropriate risk mediation interventions for personnel, facilities, data and IP.
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## Mexico is a failing state, not yet a failed state

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### ☐ Typical *failing state* characteristics:

- Central government weak or ineffective so that it has little practical control over much of its territory.
- Non-provision of public services.
- Widespread corruption and criminality.
- Refugees and involuntary movement of populations.
- Sharp economic decline.

## Mexico is a failing state, not yet a failed state

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### ☐ Typical *failed state* characteristics:

- ☐ Loss of control of its territory, or the monopoly on the use of legitimate physical force.
- ☐ Erosion of legitimate authority to make collective decisions.
- ☐ Inability to provide public services.
- ☐ Inability to interact with other states as a full member of the international community.
- ☐ Social, political, and economic failure.

## No party wants to publicly recognize Mexico's failing stature

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- ❑ Commercial firms fear loss of business, investment and supply chain interruption.
- ❑ Advisors fear loss of consulting revenue and client backlash.
- ❑ Mexican authorities fear crisis of confidence.
- ❑ US cannot tolerate a failed state on its border.
- ❑ Criminal elements fear overt US intervention.

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## Undersecretary of the Army Westphal pierces the veil, 7 February 2011

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- ❑ In response to question on strategic blind spots in US foreign policy, "insurgency" is used:
  - *"One of them in particular for me is Latin America and in particular Mexico... As all of you know, there is a form of insurgency in Mexico with the drug cartels that's right on our border."*
  - *"This isn't just about drugs and about illegal immigrants... This is about, potentially, a takeover of a government by individuals who are corrupt."*

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## Retraction was predictable within the day

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- ❑ Only surprise was that the statement was made publicly.
  - ❑ Westphal stated his opinion was personal but “shared” within the Whitehouse.
  - ❑ We know this opinion has held currency in defense circles for some time, to the point of cross-border discussions.
  - ❑ Can only conclude that Westphal felt he had clearance to speak frankly.
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## Greater risk than Colombia two decades earlier

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- ❑ SecState Clinton, September 2010:
    - “[W]e face an increasing threat from a well-organized network, drug-trafficking threat that is, in some cases, morphing into or making common cause with what we would consider an insurgency, in Mexico and in Central America...It’s looking more and more like Colombia looked 20 years ago.”
  - ❑ Worse because authorities at all levels are significantly more corrupt, compromised.
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## Variances in Mexican risk reporting

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- ❑ AmCham is in perfect company with ample evidence of the positive:
- ❑ OECD, “Latin American Economic Outlook 2011.”
- ❑ Boston Consulting Group (BCG).
- ❑ AlixPartners.
- ❑ Top tier OEMs, GM, Volkswagen, others.

## So who disagrees?

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- ❑ Mexicans, among themselves.
- ❑ Deloitte México’s [quarterly Business Barometer](#) (Barometro de empresas).
- ❑ US Naval War College, “Latin American Security Challenges.”
- ❑ [2009 National Drug Threat Assessment](#).
- ❑ [2010 National Drug Threat Assessment](#).
- ❑ UNODC’s [World Drug Report 2010](#).

## As late as January 2010, security was seen as secondary threat

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- ❑ Oct 2009/Jan 2010, Business Barometer 11 &12: Political discord followed by US economic downturn.
- ❑ Change comes by April 2010 and spikes in July 2010:
- ❑ April 2010, Barometer 13: Failing security emerges as greater threat than lapsed US economy.
- ❑ July 2010, Barometer 14: Spiking increase in failing security fear over the previous quarter.
- ❑ Criminal co-optation will accelerate as groups jockey for product, plaza control, security and supremacy.
- ❑ Negatives paralleling Mexico's 'China Price'; may hit legitimate revenue and infrastructure build-out.

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## Who distorts?

### Who has no voice?

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- ❑ Mexican federal statistics simply unbelievable, yet are often picked up by US sources.
- ❑ Mexican newspapers and reporters self-censor, quit reporting or move away for safety:
  - Regional dominate cartel has onsite staff or "contacts" to "guide" reporting.
  - Reporters erring or offending are killed; opposing cartels kill in revenge.
  - Reporters regularly seek asylum in the US.
  - Most dangerous state for news media in Western Hemisphere.

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## NAFTA effects and benefits not uniformly distributed

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- ❑ NAFTA is good for investors/businesses outside Mexico, and Mexicans able to buy protection.
  - ❑ NAFTA is disastrous to ordinary Mexicans:
    - Crushed local agriculture, depopulating rural areas.
    - Depressed wages, extremely critical to maquiladoras.
    - Predation on workers: extortion, robbery, rape, impressment into criminal acts.
    - High churn/turnover of low wage maquila workers.
    - Created mass migrations within Mexico – job seekers looking for work, dispossessed fleeing crime.
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## As yet no advocacy for maquila labor

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- ❑ Vastly more workers have been killed, abused, and dispossessed than with Apple/Foxconn, Nike and Adidas combined.
  - ❑ Yet virtually no outcry from major US constituencies beyond the frontera:
    - Investors/businesses focus solely on labor rates.
    - No broad end-user constituencies (smartphones, shoes) prone to activism.
    - No NAFTA renegotiation on the horizon.
  - ❑ Expect continued labor/societal churn.
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## Highest violence overlaps greatest commercial footprint

### States with highest cartel-related violence:

- Tamaulipas, Nuevo Leon, Coahuila, Chihuahua, Sonora, Baja California Norte, Sinaloa, Durango, Guerrero, Michoacán, Jalisco.

### Cities under threat:

- Monterrey, Guadalajara, Ciudad Juarez , Mexico City (DF).

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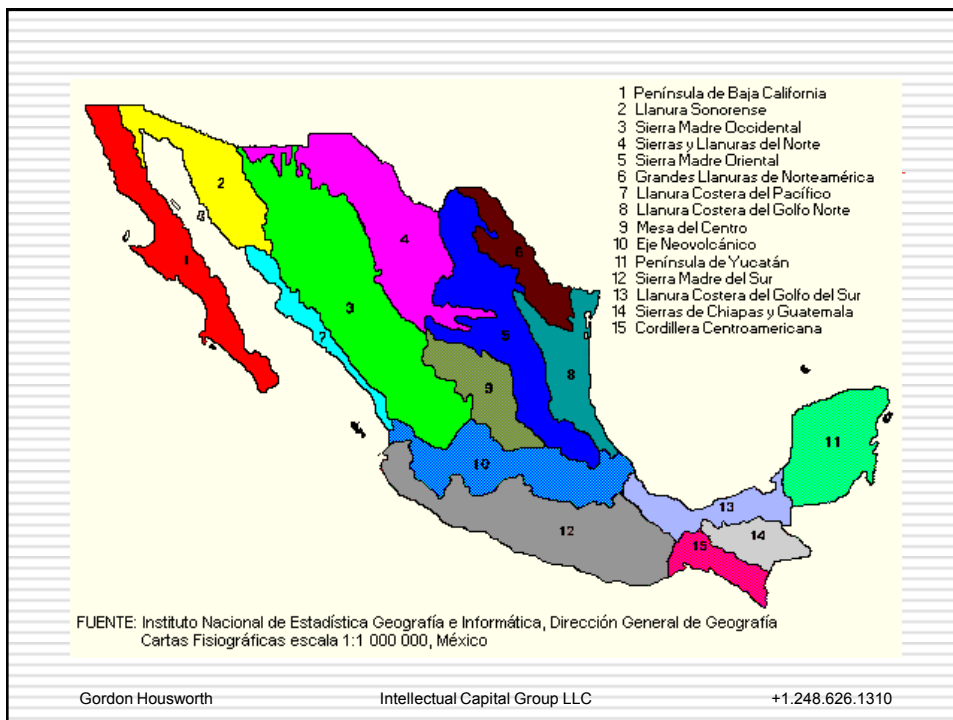
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## Extortion and insider threats

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- ❑ Extortion demand can be financial or insider facilitation of facility or supply chain penetration.
- ❑ Any point of packing and transport is at risk, either inside the company, supplier or transporter, either internal or contract.
- ❑ Narcotics and other contraband are prime; interdiction has forced cartels to seek alternate transport mechanisms.

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## Extortion and insider threats

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- ❑ Custom-Trade Partnership Against Terrorism (C-TPAT) certified suppliers targeted by both Mexican and Asian criminal groups.
- ❑ Any procedure conducive to money laundering at any level is at risk.
- ❑ Any money handling or card processing is at risk in retail theft.
- ❑ Low wages and high threat credibility make cooperation likely.

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## Assume surveillance; learn and maintain situational awareness

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- ❑ Cartels create a web of informants and observers that often start on the US side.
- ❑ Assume any entry into Mexico via vehicle, aircraft, train, bus or ship is being surveilled.
- ❑ Hotel records are readily available; assume your location and room number are known.
- ❑ Common attacks are armed robbery, carjacking and kidnapping.
- ❑ Bogus checkpoints with stolen uniforms/vehicles common.
- ❑ Three vehicle “boxing” used to capture moving vehicles.

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## Violence in Mexico will continue to increase in foreseeable future

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- ❑ Federal narcotics interdiction has forced cartels into related criminal activities:
  - Extortion, kidnapping, armed robbery, paid assassination, counterfeiting and cargo theft.
  - Profits now rival those of drugs.
  - Activities increase likelihood of impacting US commercial interests.
  - Increasingly brazen and indiscriminant tactics increase risk of “wrong-place, wrong-time” violence to personnel, facilities and operations.

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## Key supply chain vulnerability areas

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- Three key vulnerability areas in any country:
    - **Pricing model compromise** (tier chain event, supplier outsourcing, subcontracting, etc.).
    - **Citadel attack** (Corporate/research, R&D hives, manufacturing, warehousing).
    - **Human resources** (HR).
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## All-source vs. piece part risk

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- All-source: Geopolitical, Operational, Financial, Technology and Reputational.
  - Supply chain specific:
    - Commercial
    - Environmental
    - Intellectual Property (IP)
    - IT
    - Criminal
    - Terrorist
    - Cyberterrorist
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## We also start with commercial; We just go further

- ❑ Understanding supply chain structure is important precursor to managing the chain:
  - Streamline supply base.
  - Supplier selection process improvement.
  - Make/buy decision support.
  - Align purchasing strategies.
  - More responsive and flexible supply chains.
  - Understand cost buildup.
- ❑ Sample views from our *SUPPLYtrac* “pack & go” toolset follow:

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**SUPPLYtrac** project tools: [home](#) | [documents](#) | [calendar](#) | [tasks](#) | [meeting manager](#) | [my profile](#) | [help](#)

**Freight View** explore my chains | search | create a chain

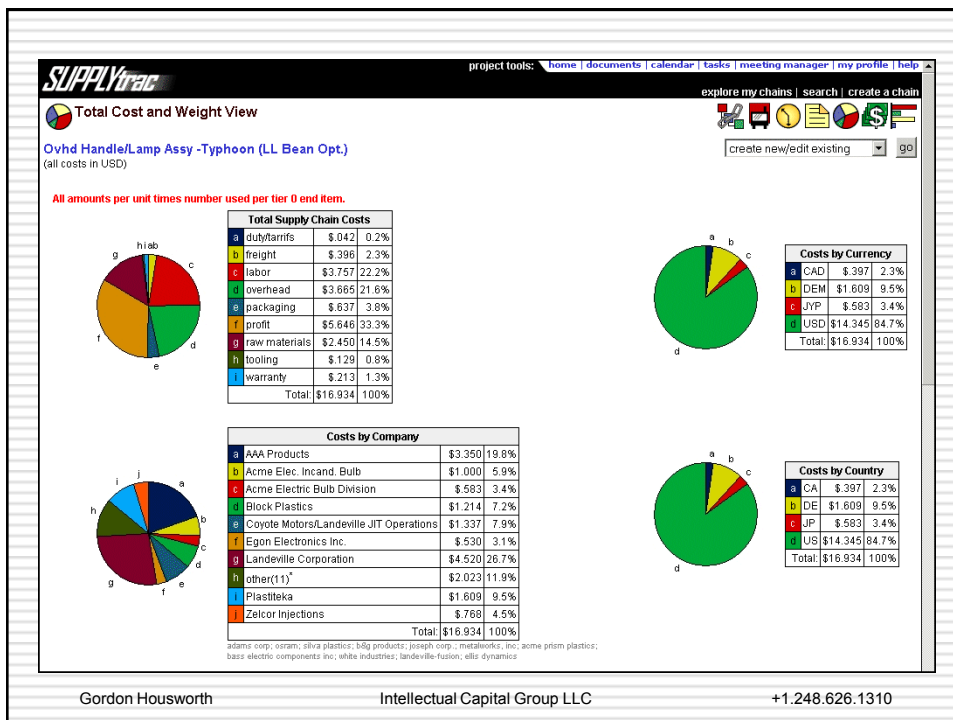
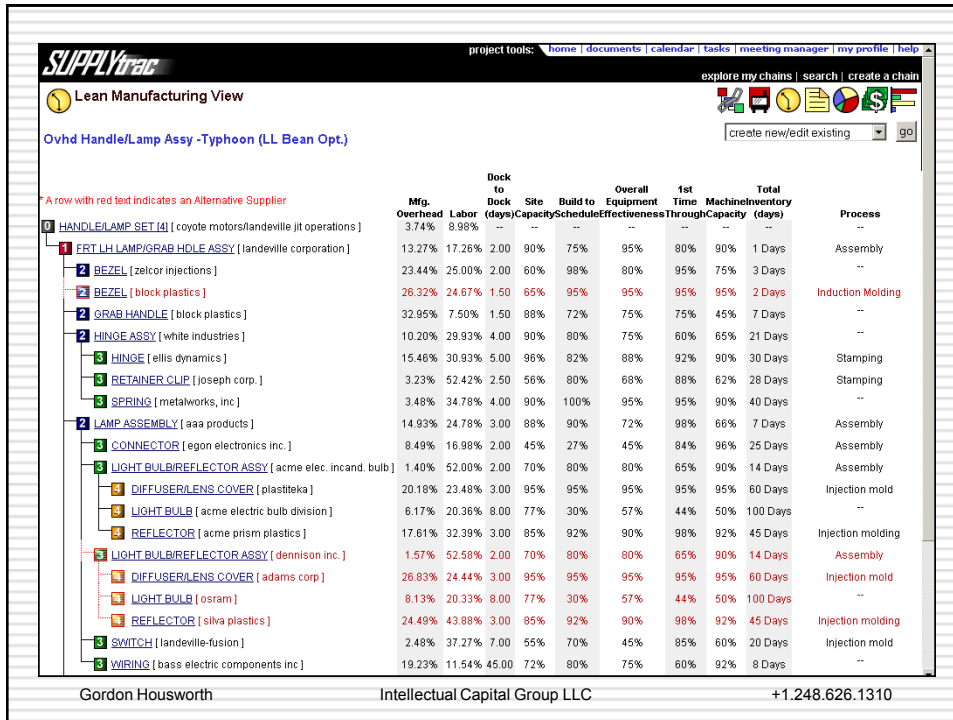
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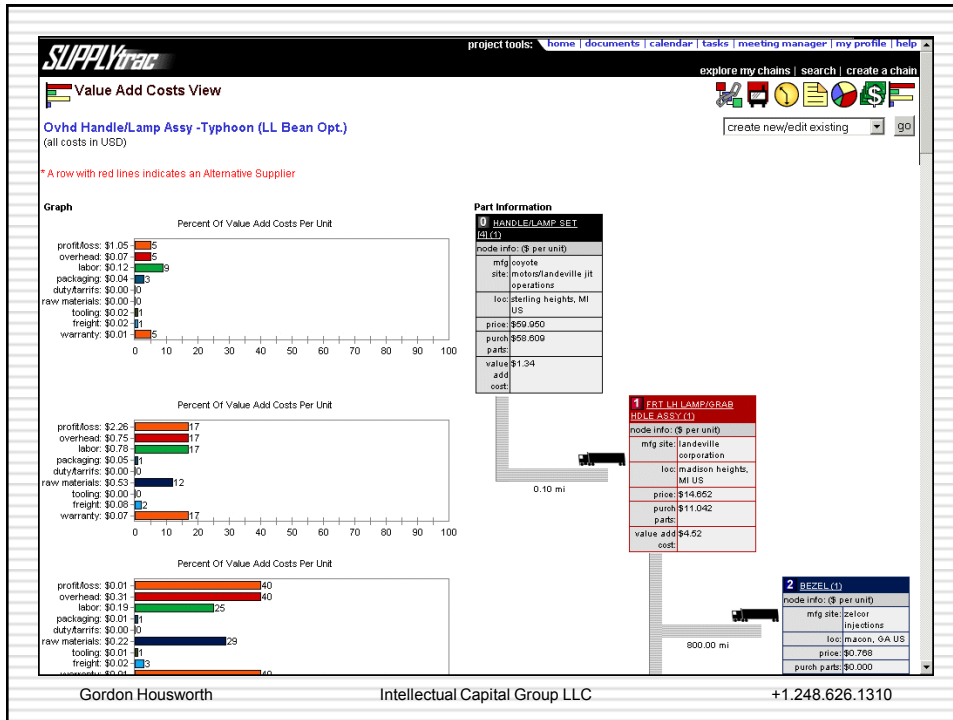
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\* A row with red text indicates an Alternative Supplier

	Currencies Converted From	Time to Tier 0 (days)	Trans Cost (%)	Distance Shipped	Modes	Dock to Dock (days)	Outbound Ship Time (days)	Borders Crossed	Duty/ Tariffs (Per Unit)
0 HANDLE/LAMP SET (4) [sterling heights, mi us]	USD	--	1.1%	--	--	--	--	--	--
1 FRT LH LAMPIGRAB HOLE ASSY [madison heights, mi us]	USD	2.00	4.2%	0.1 mi	truck	2.00	0.00	--	--
2 BEZEL [macon, ga us]	USD	6.50	1.1%	800 mi	truck	2.00	2.50	--	--
2 BEZEL [inkster, mi us]	USD	3.80	1.1%	25 mi	truck	1.50	0.30	0	--
2 GRAB HANDLE [inkster, mi us]	USD	3.80	1.1%	25 mi	truck	1.50	0.30	--	--
2 HINGE ASSY [gary, in us]	USD	7.00	1.6%	255 mi	truck	4.00	1.00	--	--
3 HINGE [plymouth, mi us]	USD	12.20	0.2%	23 mi	truck	5.00	0.20	0	--
3 RETAINER CLIP [burlington, on ca]	CAD	10.50	--	588 mi	truck	2.50	1.00	1	--
3 SPRING [michigan city, in us]	USD	12.00	0.3%	230 mi	truck	4.00	1.00	0	--
2 LAMP ASSEMBLY [quincy, ma us]	USD	6.00	4.2%	720 mi	truck	3.00	1.00	0	--
3 CONNECTOR [bass, ky us]	USD	10.00	1.6%	950 mi	truck	2.00	2.00	0	--
3 LIGHT BULB/REFLECTOR ASSY [sundance beach, fl us]	USD	10.00	4.2%	855 mi	truck	2.00	2.00	0	--
4 DIFFUSER/LENS COVER [cologne, m de]	DEM	21.00	--	2460 mi	truck ship	3.00	8.00	2	\$0.011
4 LIGHT BULB [yokohama, 0 jp]	JYP	20.00	0.1%	12600 mi	truck airline	8.00	2.00	1	\$0.000
4 REFLECTOR [kilchener, on ca]	CAD	15.00	--	500 mi	truck	3.00	2.00	1	--
3 LIGHT BULB/REFLECTOR ASSY [ithaca, ny us]	USD	10.00	3.8%	855 mi	truck	2.00	2.00	0	--
4 DIFFUSER/LENS COVER [syracuse, ny us]	USD	21.00	--	2460 mi	truck ship	3.00	8.00	2	--
4 LIGHT BULB [greenville, ny us]	USD	20.00	--	12600 mi	truck airline	8.00	2.00	1	--
4 REFLECTOR [buffalo, ny us]	USD	15.00	--	500 mi	truck	3.00	2.00	1	--
3 SWITCH [greenpark, mi us]	USD	14.00	1.1%	735 mi	airline	7.00	1.00	0	--

Gordon Housworth Intellectual Capital Group LLC +1.248.626.1310





## Necessary, but not sufficient

- ☐ Commercial calculations are essential first step in risk selection.
- ☐ In a vacuum, solely commercial decisions led to vulnerabilities.
- ☐ Witness IP hemorrhages in Asia, Pacific logistics bottlenecks, et al.
- ☐ Intellectual Property (IP) theft, criminal action, terrorism, cyberterrorism, IT and environmental issues must be addressed for risk sufficiency.

## Legitimate vulnerability assessment: Design Basis Threat

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- ❑ Design Basis Threat (DBT) works regardless of whether the threat is counterterrorism (CT) or Intellectual Property (IP) theft:
    - Asset Value Assessment.
    - Threat/Hazard Assessment.
    - Vulnerability Assessment.
    - Risk Assessment.
    - Risk Management.
  - ❑ Defines a coherent view of risk tolerance, and a response strategy that interdicts the adversary's preparation, surveillance and collection.
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Intellectual Capital Group LLC

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## MEXICO: Border Wars: Are Your Company and Human Capital Safe?

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website: <http://www.icgpartners.com>  
weblog: <http://spaces.icgpartners.com>