Chapter 3.

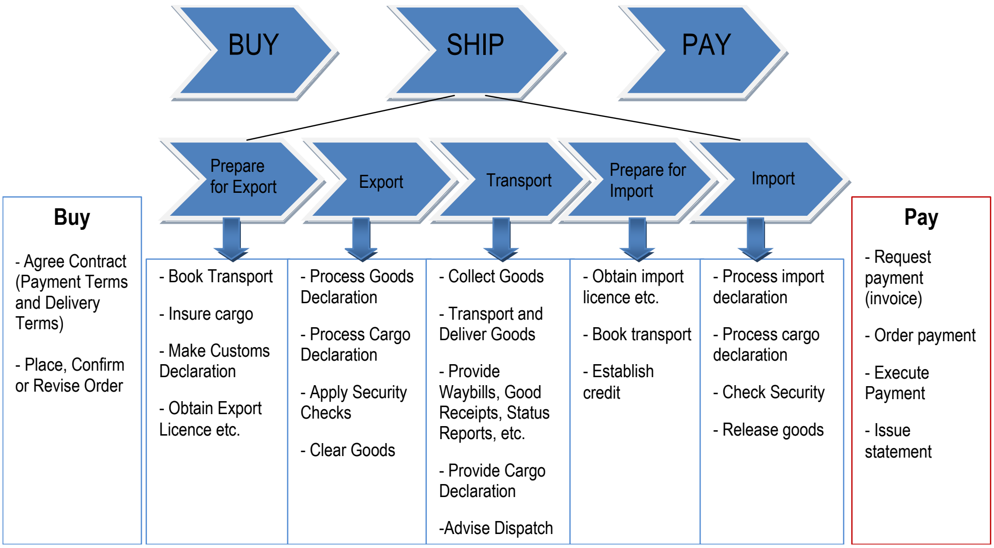
Mapping integrity risks in the global supply chain

The inherent complexity of global supply chains creates vulnerabilities that may encourage some businesses and individuals to engage in corrupt transactions and as such, these complexities must be ironed out as much as possible to remove any incentive to engage into corrupt behaviour, while preserving effective integrity checks and balances.

The complexity of global supply chains

International trade differs from domestic trade in the sense that there are additional actors involved in supply chains, creating additional vulnerabilities to corruption for both the public and private sectors. The important number of actors involved in global supply chains increases the opportunity to derive illicit rents from the international flow of goods and services. Figure 3.1 below shows a simplified version of the global supply chain, as well as of different actors involved.

Figure 3.1. Simplified global supply chain



Source: UNECE, Business processes and business transactions in international trade, http://tfig.unece.org/contents/buy-ship-pay-model.htm

Actors most vulnerable to integrity risks

Thus, it is imperative that public and private sector entities conduct comprehensive corruption risk assessments to define their exposure to integrity risks, which will allow them to prioritise appropriate anti-corruption controls. The following selection of actors who are closely associated with common trade-related integrity risks is based on OECD priorities related to the main drivers of corruption, customs fraud and corruption, and the risk of policy capture through the funding of political parties and election campaigns (OECD, 2012; OECD, 1998; OECD, 2001; OECD, 2016a). This section also addresses integrity risks present in both the public and private sectors, as well as a mix of administrative and petty corruption practices.

Third parties

The main purpose of third parties, defined as agents and other intermediaries, consultants, representatives, distributors, contractors and suppliers, consortia, and joint venture partners by OECD's Good Practice Guidance on Internal Controls, Ethics and Compliance, is to facilitate international trade by supporting business processes, transactions or exchange of information. They assist firms in complying with trade regulations and responding to market requirements, connect buyers and producers, and provide access to their network of contacts. Third parties can deliver knowledge about foreign markets, experience with import and export processes and with local marketing strategies. Their services may lower negotiation costs such as direct travel and personal expenses, and the ex-ante costs of potential hazards when dealing with unfamiliar foreign customers (Lambsdorff, 2011).

However, third parties constitute an additional corruption risk as they can easily be used to dissimulate bribe payments (Lambsdorff, 2011), and because they create an additional opportunity for seeking rents from global supply chains. Local firms, due to their knowledge of local customs and officials, may be inclined to play the role of intermediaries for foreign firms in corrupt transactions. Similarly, customs brokers may be tempted to use illegal means to avoid certain controls as they face considerable pressure from both the customer and the administration to clear goods as fast as possible (Le Rolland, 2014).

The 2014 OECD Foreign Bribery Report shows that between 1999 and mid-2014, 75% of concluded cases of the bribery of foreign public officials involved intermediaries, 41% of which were local agents, 35% corporate vehicles, 6% lawyers, 3% family members, 2% associates and 1% accountants. Intermediaries are also explicitly mentioned in the OECD Due Diligence Guidance for Responsible Minerals Supply Chains as a potential source of risk. Under the OECD Due Diligence Guidance, companies are expected to put in place enhanced "know your counterparty" measures for intermediaries in their mineral supply chains based in, or sourcing from, high-risk jurisdictions to ensure these economic actors are not contributing to conflict financing as well as illicit and counterfeit trade.

Customs agencies

Significant corruption opportunities can also be found in relation to the work of customs and other border agencies, because of their control authority over the flow of persons and goods, which frequently, though not necessarily, combines discretionary power, weak accountability and difficult supervision. The 2014 OECD Foreign Bribery Report shows that between 1999 and mid-2014, 11% of the officials who took bribes were customs officials (the highest risk category), and the total amount of bribes paid to this category of officials during the relevant period was 1.14% of bribes promised, offered or given. The Report also shows that the purpose of 12% of bribes paid was to obtain customs clearance. This may be explained by the fact that complex and opaque tariff schemes and red tape make collusion all the more tempting for importers and exporters, who can collude with officials so as to evade duties or inspection of goods (OECD, 1998; OECD, 2001; World Bank, 2011; Transparency International, 2014).

Corruption involving public agents, such as those working in airports, ports and other customs agencies is well-documented and can take many forms. For instance, the OECD reported on allegations of corruption of foreign officials to facilitate the smuggling of gold out of the Democratic Republic of Congo into Uganda (OECD, 2015d).

Corruption in customs administrations may involve numerous public agents acting together to systematically support tariff evasion (World Bank, 2011). These corruption schemes are generally driven by senior staff within the public service, and can even involve highest state officials and lead to policy capture by private interests (Box 1). However, corruption in the public service may also involve one or few individuals, where customs staff either have ‘clients’ whose wrongdoing they facilitate or where they simply exploit their positions for personal gain (Child, 2008).

Box 1. ‘La Linea’ Corruption Case

In Guatemala, the so-called ‘La Linea’ case led to the resignation of more than 40 public officials and, most notably, to the resignation and imprisonment of the Guatemalan former president Otto Molina Pérez. It was a straightforward scheme: importers would bribe customs officials to create fake documents granting importers a steep discount on the import duties for their goods. Allegedly, millions of dollars of customs revenue were siphoned away from the state into the private bank accounts of corrupt importers and custom officials.

Source: *Guatemala’s Big Corruption Scandal Explained*, InSight Crime, www.insightcrime.org/news-analysis/guatemala-la-linea-customs-scandal-explained

Public agents may also be involved in extortion. Bribes are extorted from importers and exporters in a variety of ways, mainly taking advantage of bureaucratic red tape and customs officials’ ability to detain shipments of goods from entering or leaving a country (World Bank, 2011). Corrupt officials may arbitrarily detain shipments until firms “grease the wheels” with bribes. Detention of goods affects the competitiveness of firms, especially those who ship perishable products or valuable products that require secure storage. Corrupt officials may also threaten firms with misclassification of goods into more heavily taxed categories unless a bribe is paid (Transparency International, 2014).

Moreover, suppliers who bypass health and safety requirements, avoid necessary licensing, or otherwise evade legitimate law enforcement by paying bribes, create significant additional liability risks related to product quality. Recent years have seen numerous examples of widespread corruption-related health and safety scares from imported products. In addition, suppliers engaged to assist customers with government agencies create acute risks if they pay bribes on the customer's behalf to customs officials or licensing authorities (UN Global Compact, 2010).

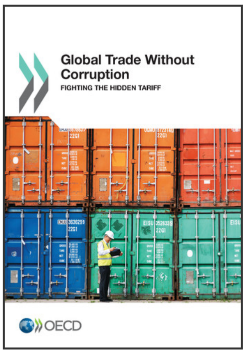
Transportation and freight

The transport sector can also be subject to corrupt practices (West Africa Trade Hub, 2014; World Bank, 2011; OECD, 2014b). Considering its central role in the global supply chain, lack of integrity in transport and freight is likely to affect a large range of industries. According to the 2014 OECD Foreign Bribery Report, between 1999 and mid-2014, 15% of the cases of bribing foreign public officials during the same period occurred in the transport and storage sector.

A number of studies highlight the integrity challenges that may be associated with the transport industry in some particular areas. For instance, USAID work on road governance along trade routes in West Africa suggests that the high density of checkpoints increases the opportunity to extort bribes, which can go as high as USD 11.91 per 100 kilometres in Mali and USD 11.88 per 100 kilometres in Côte d'Ivoire. Moreover, checkpoints cause delays in the transportation of goods by as much as 28 minutes per 100 kilometres in Mali and 25 minutes per 100 kilometres in Ghana, which may seriously affect perishable goods (West Africa Trade Hub, 2014; Federal Ministry for Economic Cooperation and Development, no date).

Moreover, a study by Transparency International India observes that "truckers are required to pay bribes at every stage of their operations, which starts with getting registration and fitness certificates, and for issuance and renewal of interstate and national permits". While on the road, truck drivers may have incentives to pay bribes instead of fines or other sanctions because of overloaded trucks, traffic violations, parking at no-parking places or entering in 'no-entry zones', and to deal with the payment of toll and other taxes more efficiently. Moreover, truck drivers sometimes pay bribes for the lack of proper documents or use of alcohol (Transparency International, 2007).

Finally, there have been a number of prosecutions of freight forwarders, brokers and agents in the shipping and express delivery arena under the Foreign Corrupt Practices Act (FCPA). For instance, global freight forwarding company Panalpina, Inc. and six other oil services industry companies were found to have violated the FCPA "by paying millions of dollars in bribes to foreign officials to receive preferential treatment and improper benefits during the customs process" (SEC, 2010).



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