

THE IMPACT OF TERRORISM AND EXTORTION ON ENGINEERING, CONSTRUCTION AND DEVELOPMENT

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Abstract

The Engineering and Construction Industry in Jamaica is hampered both by politicians trying to enforce politically-motivated employment conditions on engineering managers working in their constituency, and criminal elements ostensibly providing 'security' for works. Failure to accept this patronage, corruption and extortion often leads to death, injury or severe damage to engineering and construction works. The paper serves to investigate and analyse the problems and costs of this system within the context of a dangerous global environment. The paper considers extortion as a form of terrorism and discusses the vulnerabilities of engineering and construction works in general to terrorist activities. Policy options are suggested in an effort to address this untenable situation, globally and in Jamaica specifically. (Key Words: Corruption, Extortion, Construction, Productivity, Bid Prices Cost, Economic Implications)

Introduction

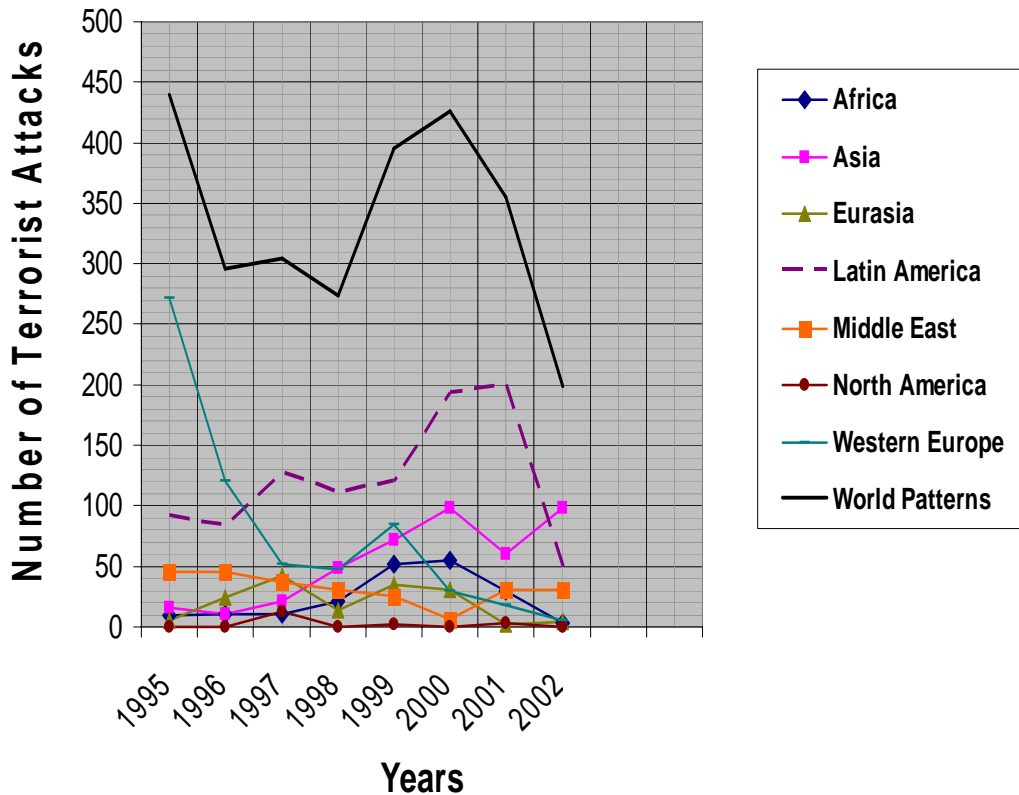
The global stability that was expected after the dismantling of the "Eastern Block" is yet to materialize and the environment for engineering and construction operations internationally has not become more benign or secure. According to Braddon (2000), if anything, the converse is true; the collapse of the Soviet Union and the end of the cold war has, paradoxically, created a new array of geopolitical problems. This is because the cold war environment was defined by the symmetrical threat of mutually assured destruction; a situation that remained stable for half a century and allowed the unprecedented post-war expansion of the West. The modern environment is far more fluid and unstable, with a new nexus of interlocking and apparently intractable problems. These problems include asymmetrical conflicts fueled by religious fundamentalism, terrorism, international crime (money-laundering, people-trafficking, gun and drug-smuggling in particular), the rapid international transmission of communicable diseases and environmental degradation, with many of these

problems coinciding in rogue or failed states. Wilkinson (1995) adds another reason why the end of the Cold War caused a major increase in political violence; the removal of communist one-party rule unleashed numerous long-suppressed, bitter ethnic conflicts. This means, as Matthews (2001) points out, that the current era is more uncertain and unpredictable than that of the cold war. The present strategic environment is also qualitatively different, in that it is characterized predominately by small, relatively localized conflicts, civil, ethnic and sectarian tensions and terrorist activities rather than by international wars, and by an increased willingness to target 'soft' (i.e. non-military) targets in pursuit of political, religious or criminal goals. This in turn means that the environment for any long-term venture, such as large scale engineering and construction operations, has become, in some parts of the world, less predictable, stable and secure.

Attention has focused recently on countries such as Iraq, Afghanistan, North Korea, Iran, the Sudan and so on. It is therefore important to note that there is some disparity between perception and reality, as the Latin American and Caribbean (LAC) region accounted for 997 terrorist attacks over the period 1995 to 2002, compared to a world total of 2,689 for the period, which means that the LAC region accounted for more than a third of all terrorist attacks (see Figure 1). This disparity is partly because the LAC conflicts are not generally related to current 'hot issues', such as al-Qaeda, but rather to the long-standing 'war on drugs', narco-terrorism, ethnic, inter-sectoral and ideological conflicts and guerilla wars. These conflicts are typically less salient but very long-running, in some cases for decades (which is partly why they are less salient). However, all of them have deterred investment and encouraged human and capital flight, and thereby imposed a heavy price in terms of years of lost development.

Exhibit 1. Trend Analysis of Terrorism by Region.

Trend Analysis of Terrorism by Region



SOURCE: US Department of State, Patterns of Global Terrorism 2002.

The Impact of Terrorism on Engineering and Construction

World Bank's Implementation Completion Report for the Power Market Development project in Colombia (2002) noted that it was now necessary to introduce an analysis of the risk of politically-motivated terrorism into the appraisal process for large infrastructure projects. Their particular concern was with the possibility of terrorist attacks on the transmission infrastructure with a view to causing maximum disruption to the power supply. More generally, a number of countries have found it necessary to prepare for the possibility of terrorist attacks on engineering and construction targets. For example, a UK

Government report recently noted that "increasing dependency on imported gas as a major energy source has raised questions about the security of gas supply. Clearly if there were, for example, a terrorist attack on either of the two existing terminals at St Fergus in Scotland and Bacton in Norfolk, then this could produce a national emergency".

Part of the unpredictability results from the fact that so many diverse groups with such varied causes are now prepared to use violence in pursuit of their goals. So attacks could be for such diverse purposes or causes as:

- Environmental – Preventing construction in an area where environmental groups believe that there will be ecological damage.
- Economic – Politically or ideologically-inspired disruption of transport links, energy supplies and so on
- Extortion – The extraction of protection money (possibly disguised as contributions to the community; via the ‘community leader’) to permit construction activities in certain areas.
- Publicising causes – Assaults on high-profile targets in order to promote a cause, advertise the attacker’s ability to strike at will, or intimidate a particular community or government. Such attacks differ from the first three, in that they are usually aimed at influencing a target group other than the immediate victims.

As Payne (2003) notes with regard to the last category, any target is acceptable to terrorists, but the destruction of significant landmarks and structures is preferred, as the more valuable the property the greater the attraction to the terrorist, as the publicity will be correspondingly higher.

Terrorism is usually defined as the premeditated use, or threat of use, of extra-normal violence or brutality to gain a political objective through intimidation or fear and the disruption of a way of life. However, the Terrorism Prevention Act 2003 of Jamaica, which is derived from the 1997 UN Resolution for the Suppression of Terrorism and Terrorist Financing and Security Council Resolution number 1373 states that a terrorist offence or act also includes discharging or detonating an explosive or other lethal device in or against any public place, state, or government facility, public transportation or infrastructure facility with the intention of causing death, serious injury, extreme destruction of facility or systems where such destruction results or is likely to result in major economic loss. The act therefore considers the use or threat of such force as *de facto* terrorism.

As this suggests, it is primarily the willingness to use violence on a significant scale against people or property in the pursuit of some goal that defines terrorism, rather than whether that goal is primarily political or primarily economic. In practice, of course, these two goals can overlap; groups such as FARC in Colombia or the Provisional IRA in Ireland both engage in extortion and racketeering. This was done originally to raise money to buy arms, but sometimes the racketeering becomes the main

function of these groups as the political goals of the 1960’s are gradually abandoned and forgotten (except when they are used as a threadbare excuse for some particularly horrible atrocity). Sometimes the original goals are so far forgotten that groups that were first established to fight each other start to cooperate in order to increase their criminal income. CDI (2002) notes, for example, that the warring Loyalist and Republican terrorist groups in Northern Ireland have been known to put aside differences to carve up regions in Belfast for racketeering purposes.

This paper therefore agrees with the view of the civil and military authorities in Jamaica that the extortion racket against engineering and construction works and facilities is a *de facto* variant of terrorism, albeit mainly for economic rather than political goals, which suggests that it could be dealt with under the Terrorism Act 2003.

Engineering and construction works can be prime targets for terrorists, mainly because they provide utilities such as electrical supply, potable water and transportation. Even minor disruption can therefore cause serious inconvenience, while major disruption can have immediate and widespread economic consequences (as evidenced by, for example, recent attacks on oil installations in Iraq). They also tend to be relatively soft targets, compared to military installations. Engineering and other technical staff are even softer targets, as evidenced by recent attacks on construction workers in Saudi Arabia.

Construction works are also good targets for extortionists, mainly because of the same intrinsic vulnerabilities. Construction activities often involve a large and diverse work force that commute to site, a concentration of expensive plant and equipment, and stores of valuable materials (including explosives, which can themselves be a target for terrorists that need to replenish their supplies). The costs and risks are commensurately high; contractors are faced with liquidated damages for delays in delivery of the project, subcontractors are faced with high overdraft charges while waiting on interim payments, and strong and dependable security for the works is expensive and very difficult to maintain. Thus building site extortion has, at various times, been a core source of income for groups such as the Ulster Defence Association, a Protestant paramilitary group in Northern Ireland (Bruce, 1993). Attacks to encourage compliance with extortion demands have included destruction of works and plant and equipment (as evidenced by the problems experienced by Shell in their land-

based operations in Nigeria), and the execution of workers and owners.

As Kaufmann (2004) notes, the extent and nature of the problem varies greatly between countries. In stable countries such as Portugal, for example, less than 5% of firms report that their costs of operation are raised as a result of terrorism or crime. In Colombia, by contrast, about 90% of all firms report that their costs of operation are significantly higher as a result of both terrorism and crime, while the problem in the Philippines relates more to terrorism, with over 80% of firms affected, than crime, which affects about half of all firms.

In the Caribbean region, a number of the small states are now highly vulnerable to narco-terrorism, as the governments (following the lead of the United States) are currently trying to clamp down on drug trafficking. Some of these countries, such as Jamaica, are important transit routes for narcotics from countries such as Colombia, with the result that some sectors of their domestic economies (including construction) are probably also being used as a means of money laundering.

The Jamaican Situation and Economic Impact

In Jamaica, to date, any terrorist attacks on engineering and construction works have been on a relatively small scale, and limited to extortion and criminal activities with some possible cases of narco-terrorism. According to Lawson (2004), however, the major stakeholders in the construction industry such as the Joint Consultative Committee, the Incorporated Master Builders Association and the National Works Agency (a parastatal) have defined the problem as severe, and called for immediate governmental intervention. An important part of the underlying problem is Jamaica's long-running economic underperformance, which has encouraged the growth of drug trafficking on the island. There have been a number of cases where non-compliance to the demands of the extortionists (for money, or for people to turn a blind eye to illegal activities) has resulted in murder or the destruction of property.

The extortion mechanisms used against the construction industry are:

- Initial and periodic payments to allow the commencement and execution of works.
- Contracts for site 'security'.
- Sub-contracts for work of dubious value.
- Pressure to pad the payroll with unskilled, absent or non-existent workers.
- Subscriptions to support 'community events'

- Rates of pay in excess of industry levels

The increases in contract sums to meet these demands has been estimated in some cases to be as high as 100 percent for the smaller contracts and approximately 50 percent of contractor's profit. These estimates include both direct and indirect costs. Direct costs include the actual payments to the extortionists; indirect costs include the various costs associated with the forced use of unskilled workers, and the attendant consequences of lost time, rework and guarantee payments.

Extortion in engineering and construction in Jamaica mainly affects but is not limited to locally owned entities. For example, Shell has been approached in the past for support for dubious 'business ventures'; more recently two international investors (Bougues Travaux Publics, who are the lead contractor on a Design Finance Build Own Operate and Transfer (DF BOOT) project to construct a major highway system, and DIGICEL Telephone Company, a cellular system provider) have been approached by extortionists.(Charles,2003) This led to the Prime Minister, P.J. Patterson, in response to threats to the DFBOOT project, to make the following statement: "the construction industry has to make a major contribution to economic growth and the development of the country (and) if we are undertaking a project of this magnitude, it is very important (that it is) clear to anybody who has extortion or violence in mind that they had better forget it" (Daily Gleaner, 2003).

This pervasive problem, highlighted by the very visible high murder rate, intimidation and threats by extortionists, is clearly retarding economic development, partly because capital is being diverted into unproductive routes, and partly because potential investors are being deterred. There is anecdotal evidence, for example, that Norsk Hydro was sufficiently concerned about the security of its staff to make Jamaica seem like a relatively unattractive locus for investment and development. This conclusion is also supported by Charles (2003), who reported that some 90 percent of business managers now see crime as the major obstacle to investment in Jamaica. This has multiple impacts. As Robotham (2003) has pointed out, this level of concern about crime can deter both domestic and foreign investment, retard business development and erode social capital. It also increases the cost of doing business (because of the need, for example, to employ both real and notional security, so that higher production costs result from larger payments to cover protective measures and reduced working hours to facilitate

both the safe commuting of employees and to make attacks on a site less attractive after working hours), and diverts investments away from business expansion and productivity.

According to McDonald (2003), between 75 percent to 80 percent of contractors operating in the Kingston Metropolitan area have had some contact with extortionists. In a survey only 25 percent admitted to paying protection money; but of those paying only 25 percent made any profits. The profit level without extortion in Jamaica should, under normal circumstances, range between 15 percent to 18 percent. The current trend in the industry, however, establishes profit margins as on average being below 10 percent. McDonald (2003) has disaggregated extortion into (a) plain extortion where he estimates profits to be between 1 percent to 4 percent and (b) 'community protection' in areas such as West Kingston, where profits average around 9 percent to 10 percent for contractors. For comparison, in the rural areas where there is little or no protection racketeering, contractors' profits generally range between 20 percent to 25 percent. One of the consequences of this parasitical process of extortion and appropriation of profits is that it has driven construction prices upwards, with consequently higher costs for clients in areas prone to these problems.

The most worrying conclusion is that these impacts, in combination, will tend to undermine growth rates, thus perpetuating the underlying cycle of poverty and desperation. As this suggests, crime of this nature becomes self-perpetuating, making it increasingly difficult to break the pattern.

The Impact on Engineering and Construction

The extortion racketeering/terrorism affecting the engineering and construction sector in Jamaica not only has a negative effect on the investment climate, it also impacts on public sector works and infrastructural development, as government policy and the policy supported by the multi-lateral lending agencies such as the World Bank is that economic infrastructure development and the capital borrowing requirements of power and water utilities must now rely primarily on Direct Finance Investment (DFI). The Highway 2000 project is a current example of a privately promoted infrastructure project, with Bouygues Travaux Public of France as the investor/owning company. Thus any action that impacts negatively on the construction sector now also impacts directly on the supply of core public infrastructure, with widespread social and economic

consequences. It is, in effect, the nation that is now held to ransom, rather than just the firm that is the immediate target for extortion.

The World Bank (2004) agrees that Jamaica has a strong democracy, a high calibre bureaucracy and a good regulatory framework. One of the reasons why these strengths have not converted to comparable economic outcomes is, therefore, the pervasive effect of extortion/terrorism and crime in general.

Policy Options

Tackling terrorism. It was argued earlier that extortion with this scale of impact can be defined as a form of terrorism. It is clearly imperative that the state should regain control of the situation, given the serious social and economic consequences if this extortion-terrorism is allowed to go unabated. The government has already passed the necessary legislation, in the form of the Terrorism Act 2003, to take all actions necessary to deal with the threat of extortion in the engineering and construction industries, particularly when essential services are being threatened. The government could augment these efforts by conducting frequent general and specialized victimization surveys to ascertain the dimensions and impact of extortion on the construction and engineering sectors, and use these to inform policy, improve policy methods, and create more transparency and accountability.

Tackling the causes of terrorism. The British Ministry of Defence (2002) notes that 'the counter terrorist strategy that is most likely to prove successful over the long term is one that addresses the symptoms and causes of terrorism in a holistic way, using political, diplomatic, humanitarian, economic, financial, intelligence and law enforcement, as well as military, measures'. As this suggests, it is important to counter the *threat* from terrorism but also to simultaneously address the underlying *causes* of terrorism, extortion and violence, which can form the basis for a programme of corporate social responsibility (see below).

Corporate social responsibility. On a more long-term basis, engineering and construction companies should, as responsible corporate citizens, partner with the government and NGOs to address the material deprivation and high unemployment in the troubled areas that provide the breeding grounds and safe havens for the extortionists.

Business ethics. It is very important that engineering and construction companies should not acquiesce to the demands of the extortionists. Cooperation with criminals and terrorists serves to support and reward them, and thereby encourages their activities and places those engineering managers that refuse to cooperate under even greater pressure and danger. The Mafia, for example, has been known to target brave individuals, such as honest magistrates, to 'encourage the others' to cooperate. Thus acquiescence is not only supporting an illegal activity, it is also doubly unethical. Individuals cannot be left to face the consequences unaided, however, so both the private and public sectors must be willing to rally around individuals who take a stand against extortion.

Target hardening. On an immediate, practical basis; engineering and construction firms can take a number of measures to improve site security. This can include special fencing, electronic alarm systems, and hiring of security guards from respectable, established companies. Firms can also negotiate for the cost of target hardening to be reimbursable items in construction contracts. If this were adopted as a joint approach by the industry, then there is a better chance that this could become an accepted practice, and the cost is likely to be less than the current cost of extortion. Project delays that result specifically from the need to invest more heavily in site or employee security could also be made exemptible as excusable and compensatable items in project contracts. Working hours can also be changed and staggered to increase the safety of workers.

Subcontracting. The use of sub-contractors can help to spread the risk for engineering and construction firms, provided that they are reputable, reliable firms. One option, for example, is to make more use of local sub-contractors who are part of the environment in which the project is being executed, on the basis that they might be less likely to be targets of extortion, but then there is always the risk that they might prove to be fronts for local criminals. Thus it is important to build an approved list of 'clean' local firms that are willing to participate in a common accord to resist and report all attempts at extortion.

Political risk management. Political Risk Insurance (PRI) in the current, fluid environment has to deal increasingly with privatization and decentralization, which have blurred the line between commercial and non-commercial risks. In

addition, terrorism and sabotage -long included in standard property coverage- are no longer routinely carried by property insurance providers; leading investors now have to either self-insure for those risks or to seek coverage with PRI providers. This is a particularly important issue for Jamaica, as many of the economic and social infrastructure works are now developed with Foreign Direct Investment (FDI) flows, some on a 'finance, build and transfer' basis. Engineering firms therefore now have to be ready to utilize both public and private risk insurers. James (2004) points out that one of the advantages of public provision over private insurance is that policy holders can depend on their respective governments to resolve specific problems with the host government, thus ensuring minimum disruption of business. In today's market, of course, stand-alone terrorism coverage is also available. This generally accommodates both the direct physical damage and also any business interruptions or other extra expenses directly caused by acts of terrorism. Legislation is generally limited to national jurisdictions; in the United States, for example, the Terrorism Risk Insurance Act of 2002 does not yet include coverage for engineering and construction firms operating in Jamaica and other countries (the influence of the act is limited to foreign terrorist damage in the United States of America).

Bid pricing. One option here would be to develop a standard procedure for pricing risks on construction and engineering projects in Jamaica and similar countries, as this would help to offset any advantage particular firms may have based on their associations. Insurance and target hardening could also be considered as reimbursable expenses, and government guarantees used to provide 'last resort' cover for damage to property and liabilities that may arise from deaths and injuries.

Conclusion

Terrorism is an increasingly complex phenomenon. It is no longer limited to acts driven by political or religious fundamentalists, but now has to include narco-terrorism, extortion, eco-terrorism and other ideological and sectarian forms. Engineering and construction works and facilities remain prime targets in many countries, as their disruption affects the lives of many and thereby highlights the cause. Small developing states in the Caribbean face various potential threats in this regard; extortion is a pervasive problem, while narco-terrorism may become more of an issue as various governments clamp down on

drug trafficking. Power stations, road networks, water supply and fuel and natural gas pipelines could conceivably become targets. As one reggae song suggests, if you burn down the marijuana fields there will be reprisals on the sugar cane plantation. This and similar sentiments in the popular culture hint at the possibility that utilities, services and production might be disrupted in a situation of civil unrest that could seriously affect several regional economies.

The situation in Jamaica today is far less extreme, but there is no room for complacency. Extortion is already causing significant social and economic damage. In order to eradicate it – or at least reduce the problem to manageable proportions – managers in Jamaica must take all possible steps to conduct their business ethically, take all reasonable security precautions, and support each other in resisting any attempts at extortion..

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