

The Cost of Piracy: Moving from Mitigation to Investment

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Introduction

Both the human and economic costs of piracy off the coast of Somalia have been reduced, at high expense, through the use of armed guards and continued adherence to Best Management Practices (BMP) by industry, more aggressive actions by navies, and positive developments on land in Somalia which have made it difficult for pirates to operate from traditional havens. While these expenditures have proven effective at mitigating the risk of piracy at sea, they do not represent a sustainable or desirable solution to piracy because of the pressures of cost, fatigue, and risk. Instead, this system of counter-measures should be replaced with efforts to bring stability ashore – which is where the *long-term* solution is found. There are three factors necessary to find a sustainable solution to piracy and solidify counter-piracy gains at sea:

- There must be a consistent set of agreed objectives, based on the Somali Maritime Resource and Security strategy, to guide international efforts;
- The solution must maximize the advantages of the unique contributions of four groups: Somali representatives, the international community (made up of governments and international organizations), industry, and civil society (including NGOs, advocacy groups and academia); and
- The solution must focus on an intrepid mix of security, development, and investment.

These three functions must be closely coordinated, rather than implemented separately.

The Economic Cost of Piracy

In April 2013, Oceans Beyond Piracy (OBP) released its third annual report on the “Economic Cost of Piracy,” which calculated the direct costs of combatting piracy on the high seas to be around \$6 billion for 2012. This number represents a gradual decrease in direct costs spent on

counter-piracy efforts over the last three years, matching the decrease in the perceived threat. The primary costs stem from increased ship speed in select danger areas, the use of private security guards, and maintaining a naval presence for escort and patrol of high risk areas. On the other hand, the investment in a longer term and sustainable solution has consistently remained below one percent of total cost. While OBP estimated the direct costs, these may not take in the full effect of piracy on the region. In a report released this year by the World Bank¹, secondary costs of piracy, especially related to regional trade, were estimated to be as high as \$12-24 billion.

The Human Cost of Piracy

In addition to, and probably more important than, the economic cost of piracy OBP has attempted to capture the human cost of piracy. This includes the terror faced by seafarers during attacks, the violence they face in captivity, and the longer-term impacts faced by seafarers and their families after their release. The human cost has been difficult to quantify due to the nature of commerce on the high seas, the multi-national nature of crews and interests in each vessel, and the lack of a central reporting point. However, the number of human victims of crime off the coast of Somalia decreased precipitously in 2012, including those attacked with firearms, those coming in close contact with pirates on board ships, and those actually killed by pirates.

The primary findings were that 851 seafarers were attacked with weapons while transiting near the Horn of Africa and in the Indian Ocean in 2012. Of these, 381 seafarers came in close contact with pirates on board vessels and a total of 349 were taken hostage. These numbers, while still far too high, showed a marked decline from 2011. Significantly, between 50 and 100 hostages are still being held in Somalia – often on shore and often under deplorable conditions.

Is the Current System Sustainable?

While effective, there is concern that the current system of largely sea-based counter piracy measures cannot last in its current form. There are clear points of vulnerability for the major stakeholders in this process as discussed below.

Cost

The stakeholders most at risk, in terms of ability to bear the current costs of operations are the international navies – particularly the NATO and EU-led operations. As estimated in the

economic cost of piracy report, these operations are costing around \$1 billion even by conservative estimates. In addition to the extra cost of deploying vessels for out of area operations, there are opportunity costs where nations may become hesitant to continue to commit sophisticated and scarce platforms to counter-piracy operations. Currently, these operations are planned to continue through the end of 2014, and their continuation must be confirmed by a political mandate to continue.

Participation Fatigue

In discussions with industry, we are led to understand the costs of counter-piracy measures (to include re-routing, increased speed, ship hardening, etc.) are palatable so long as they are implemented by all players. In other words, when the additional costs are borne by all, and a level playing field is maintained where responsible operators are not penalized for adherence to BMP. However, it has become clear by data assessed from Automatic Identification System observations and reporting agencies that the percentage of vessels following agreed measures is declining. There is also anecdotal evidence that some vessels carrying Privately Contracted Armed Security Personnel (PCASP) are not following through on other, more expensive BMP practices. This has the effect of allowing some shipping lines to gain competitive advantage and endangers continued support for BMP. Additionally, laxity in adherence to BMP could result in a successful pirate attack, potentially leading to resurgence in piracy.

Risks

In addition to the high cost, there are a number of risks associated with the current set of counter-piracy measures – mostly based on the plethora of armed guards and support facilities required to protect vessels in the Red Sea, Gulf of Aden and the Indian Ocean. First and foremost, should intent be misinterpreted then there is a risk to innocent life. This risk is further increased by the alteration of shipping lanes to reduce the risk of attack, which brings armed vessels close to the shores of India, Egypt, and other Indian Ocean nations. Employers of armed guards risk facing political or reputational damage in the event of an altercation between embarked guards and innocents. In the worst case, an incident akin to the infamous Blackwater shooting in Nisour Square, Baghdad (September 16, 2007), could bring intense scrutiny to the oversight of armed teams, or the tragic incident where two Italian marines killed two Indian fishermen (February 15, 2012) could be repeated, causing intense political discord.

The Need for a Consistent Framework

For all these reasons, industry is anxious to return to a secure maritime environment where armed guards are not necessary, and this can only be accomplished by breaking the piracy business model ashore. There are a myriad of coordination mechanisms for counter-piracy efforts but no agreed plan under which to develop a long-term solution to Somali piracy. Part of this is due to the nature of the challenge, where multiple stakeholders are attempting to cooperate to solve a complex issue with no clear lines of jurisdiction and responsibility. Cooperation within certain stakeholder groups has allowed success in mitigating risk at sea, but the lack of coordination across stakeholder groups has limited progress toward a longer-term solution.

For example, navies have successfully coordinated operational efforts through the SHADE mechanism, but the narrow scope of political mandates has limited their ability to respond to opportunities made possible by their success at sea. Industry has shown remarkable cooperation in developing the Best Management Practices, but they have not always been invited to coordinate with other stakeholders. Somali authorities have had local successes in stopping piracy, but until recently, had not been effectively engaged in developing a long-term response to piracy due to a lack of cooperation across regions. Governments and international organizations have seen success through cooperation within the Contact Group on Piracy off the Coast of Somalia, but because of the informal nature of the group, have been left to react to political initiatives.

In spite of all these challenges, success has been achieved through the sheer amount of resources contributed by nations and industry when trade routes were threatened. This commitment of resources, which cost nearly \$6 billion, allowed for success even where initiatives were sometimes uncoordinated and conflicting. Going forward, this may not be the case. A single unified strategy may never satisfy the diverse policy imperatives of all concerned nations and international organizations. Additionally, stakeholders cannot be expected to continue to contribute resources at the same level in coming years with the number of reported attacks at current levels. Therefore, and even if a strategic plan is never agreed, these efforts must be more effectively coordinated to avoid duplication and destructive interference.

It is expected that the Somali Maritime Resource and Security Strategy currently being developed by Somali representatives with international support can serve as the framework for

cooperation and coordination of capacity-building in the future. To ensure its success, compromises must be made and priorities agreed and honored. Accordingly, this locally developed strategy must be emphasized as a key input for future development and capacity building efforts. Otherwise, each new program or summit will give hope to “spoilers” to reject cooperation and compromise.

Moving Towards Multi-Stakeholder Investment

While there may be little hope for agreement on a comprehensive plan, there is a realistic aspiration that major donors and international organizations, in consultation with Somali authorities, may agree on basic objectives. These objectives should support a gradual realignment of resources from security, to development, to eventual investment in Somalia. Each of these phases must occur simultaneously, have input from a wide variety of stakeholders, and be coordinated in order to provide mutual support and to reinforce success. In the Maritime Resource and Security Strategy, Somali authorities have identified priority areas for development, including their maritime economy. Recommendations that could be used to maximize multi-stakeholder support for each of these areas are briefly described below.

Security

The significant gains in security at sea have largely been achieved by international naval forces. However, building a regional capacity to take on this mission, and extending this security ashore will be far more challenging.

- Capabilities development for maritime security should be based on Somali-agreed priorities as described in the Somali Maritime Resource and Security Strategy;
- The international side must understand that Somali priorities are in line with those of most sovereign nations. Consequently, Somali authorities place a high priority on ensuring sovereignty over territorial waters and Exclusive Economic Zone, protection from illegal, unreported and unregulated (IUU) fishing, and the prevention of other maritime crimes such as smuggling and human trafficking. Since the Somali coast is in close proximity to major transit lanes for merchant vessels, the maritime industry should be considered a full partner in determining the requirements to normalize maritime commerce in this area.

Development

Development efforts by governments, international organizations and NGOs should be coordinated with security, to ensure that the efforts of these groups are mutually supporting.

- The international community should assist Somali authorities to identify and avoid exploitive contracts involving extractive industry and non-renewable resources. Private sector involvement should be carefully considered to ensure that it does not infringe upon Somali government functions and long-term prosperity;
- Development and security could be targeted on specific geographic areas identified by the Somalis for their potential to support the flow of trade and encourage regional investments. The ports identified by Somali authorities include: Berbera, Bosasso, Mogadishu, Kismayo, and Hobyo;
- The “inland strategy” being developed by regional organizations should be aligned with port and maritime development to ensure that needed infrastructure (roads, utilities, services) is in place to support access to markets for port development areas;
- Industry should be encouraged to assist with “in kind” donations and expertise required to improve ports and infrastructure in line with Somali goals for port development.

Investment

While security remains the most challenging obstacle for investors, there are a number of other issues that need to be addressed to help normalize the climate for investment.

- Governments need to work with emerging government and regional ministries and oversight agencies to ensure that proper laws and market regulation is in place;
- The international community, along with the private sector, should continue to work for increased transparency and governance of money transfer systems to assure that investments and remittances can continue to flow into Somalia;
- Navies and other agencies working on port security and infrastructure should ensure that improvements are focused on reducing War Risk status for Somali ports and eliminating heavy surcharges on cargo entering Somali ports.

In conclusion, Somali piracy has exacted a multi-billion dollar ‘tax’ on the international economy over the last few years. So far, the majority of costs have been spent on suppressing

pirate activity at sea through expensive, but effective, mitigation measures. However, with the recent positive political developments in Somalia and more than one year of successfully avoiding a hijacking of merchant vessels, there is a window of opportunity to invest in a sustainable long-term solution that supports Somali authorities to build maritime security capacity and foster economic development in their country. Only when that is achieved will the human and economic costs of piracy have been largely eliminated.

Endnotes

¹ Do, Quy-Toan and others. “The Pirates of Somalia: Ending the Threat, Rebuilding a Nation.” *The World Bank*. April 2013.

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