

The Economic Cost of Somali Piracy 2012



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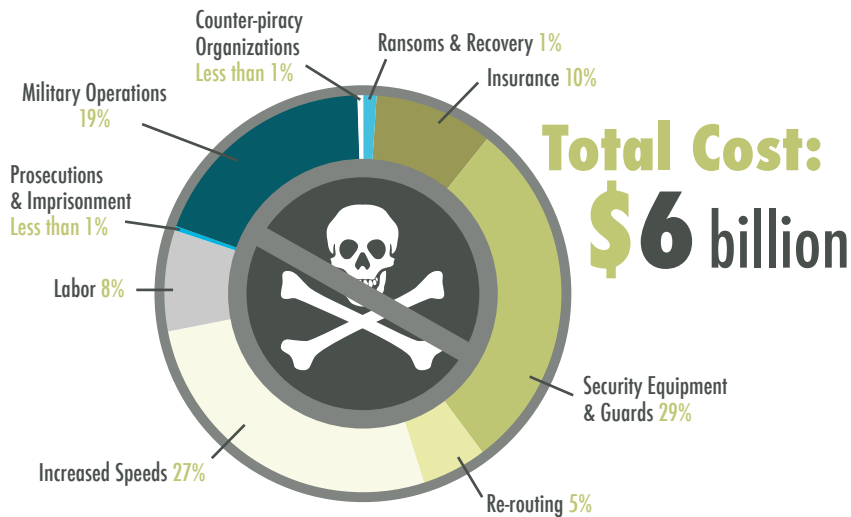
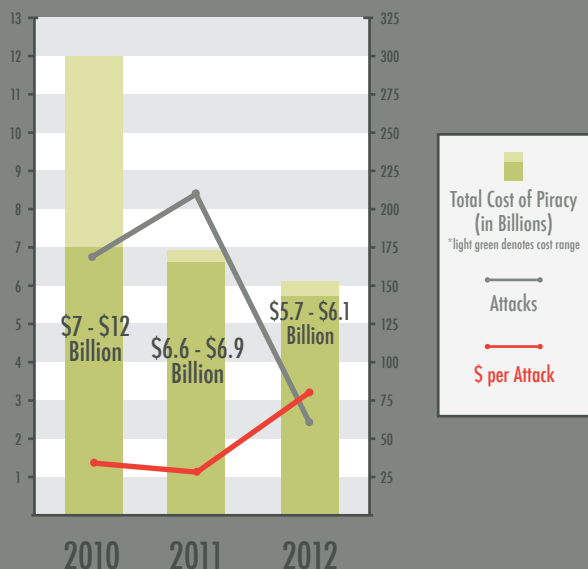
www.oceansbeyondpiracy.org

The cost of maritime piracy to the global economy fell by 12.6% from around \$7 billion in 2011 to between **\$5.7 and \$6.1 billion** in 2012. The largest cost decrease was that associated with fast steaming in the High Risk Area, which fell 43.3% to \$1.53 billion in 2012. The largest cost increase was due to the increased use of armed guards, up 79.7% from 2011 to between \$1.15 and \$1.53 billion in 2012. Though the reduction in the cost of piracy is a welcome development, it comes alongside an even sharper decline in incidents of piracy, which results in a much higher “per incident” cost in 2012 than 2011.

Major Trends in 2012

- 70% drop in Somali Piracy
- Increased “per incident” cost
- No change in proportion of cost spent on long-term solutions

Attacks, Hijackings & Cost 2010 - 2012



1. Ransoms & Recovery: \$63.5 million

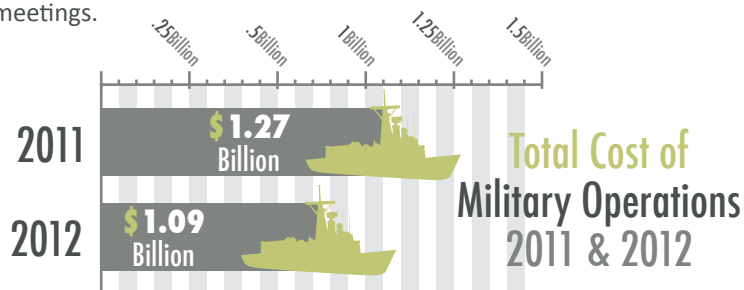
Ransom payments declined by approximately 80% from 2011 to **\$31.75 million**, attributable to the smaller number of ships taken and released in 2012. Also included in the total ransom costs is \$31.75 million in logistical costs associated with ransom payment, including cost of ransom delivery, vessel damage from time in captivity, negotiators’ costs, and consultant and attorneys’ fees totaling **\$63.5 million**.



- Average Hostage Duration: **316 Days**
- Average Ransom Paid: **\$3.96 million**

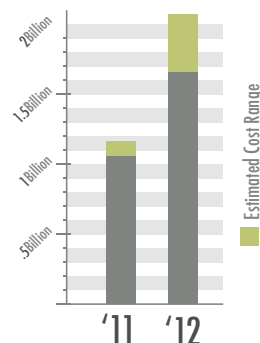
2. Military Operations: \$1.09 billion

The **\$1.09 billion** cost of military operations reflects the use of reconnaissance aircraft and unmanned aerial vehicles (UAVs), vessel protection detachments (VPDs), the administrative budgets of naval operations, and Shared Awareness and Deconfliction (SHADE) meetings.



3. Security Equipment & Guards: \$1.65 - \$2.06 billion

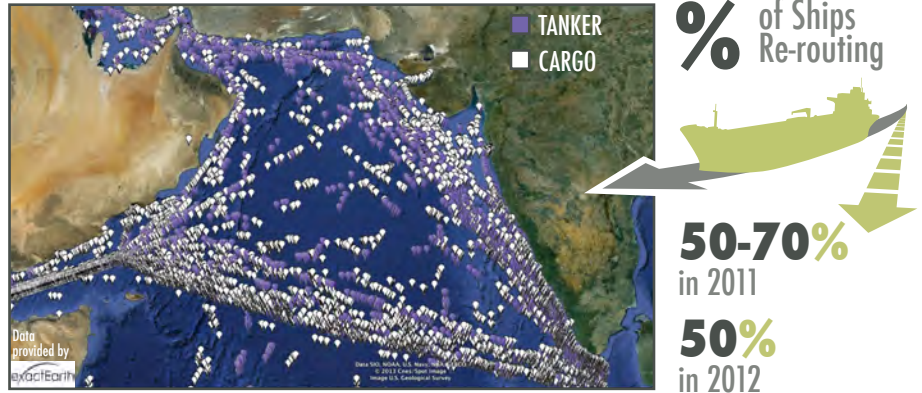
Where the cost of security equipment fell 11% from 2011, the cost of private armed guards rose dramatically to between \$1.15 and \$1.53 billion. This is in large part due to greater acceptance of the use of private armed guards, both by Flag States and shipping companies. Total cost of Security Equipment & Guards for 2012 is estimated between **\$1.65 - \$2.06 billion**.



Total Cost of Somali Piracy in 2012: \$6 billion

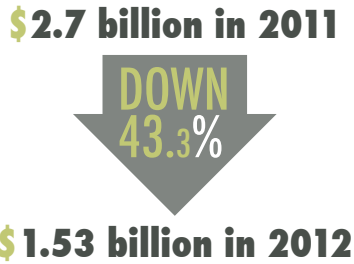
4. Re-routing: \$290.5 million

In order to avoid the High Risk Area, vessels re-routed along the Arabian Peninsula and Indian coast, costing shipping companies **\$290.5 million** in 2012. While the sum spent on re-routing declined by 50.17% from the 2011 estimate, only a 10% reduction in the number of ships re-routing was observed. Only tankers and bulk carriers passing through the Suez Canal were considered candidates for re-routing. Access to new AIS data informed this year's calculation.



5. Increased Speeds: \$1.53 billion

In 2012, shipping companies spent **\$1.53 billion** on fuel costs associated with steaming at faster speeds in order to prevent pirate attacks. While there was no change in the industry's recommendations for increased speed through the High Risk Area, reduced observance lowered the estimated cost of this practice 43.3% from 2011.



6. Labor: \$471.6 million

Agreements between labor and industry groups mandate that seafarers are entitled to hazard pay as their vessels transit the High Risk Area. If a ship is captured, most shipping companies are obligated to pay seafarers' wages while they are held hostage. This additional hazard pay and captivity-related compensation amounted to **\$471.6 million** in 2012.



7. Prosecutions and Imprisonment: \$14.89 million

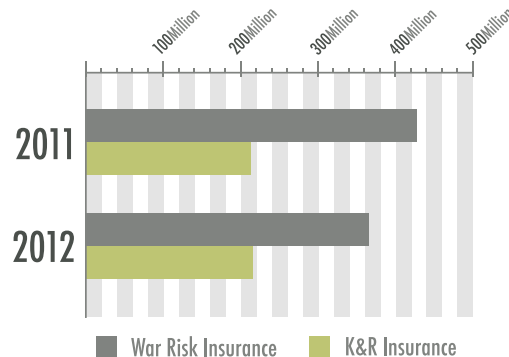
The total costs of prosecutions and imprisonment in 2012 was **\$14.89 million**, a decrease of approximately 9% from the figure estimated in 2011. Costs for prosecutions declined, attributable to the overall drop in the number of suspects prosecuted; while the cost of imprisonment grew, reflecting the long-term sentences dealt to convicted pirates.

COST OF PROSECUTION & IMPRISONMENT BY REGION

AFRICA.....	\$471,259.86
ASIA.....	\$56,505.77
EUROPE.....	\$12,952,960.40
N. AMERICA.....	\$1,406,662.00

8. Insurance: \$550.7 million

Insurance costs related to piracy fell approximately 13% from \$635 Million in 2011 to **\$550.7 million** in 2012. This is a result of decreased premiums associated with the increased presence of private armed guards onboard commercial vessels.



- War risk Insurance: **\$365.5 million**
- K&R Insurance: **\$217.0 million**
- Ransoms Paid: **\$31.75 million**

9. Counter-piracy Organizations: \$24.08 million

Nine organizations were included in the 2012 figure, which range from UN agencies to independent non-governmental organizations. Combined, it is estimated that counter-piracy organizations spent **\$24.08 million** in 2012.