



# The Economic Cost of Somali Piracy 2011

## TOTAL COST OF PIRACY IN 2011: \$7 BILLION

### Distribution of Costs of Somali Piracy, 2011

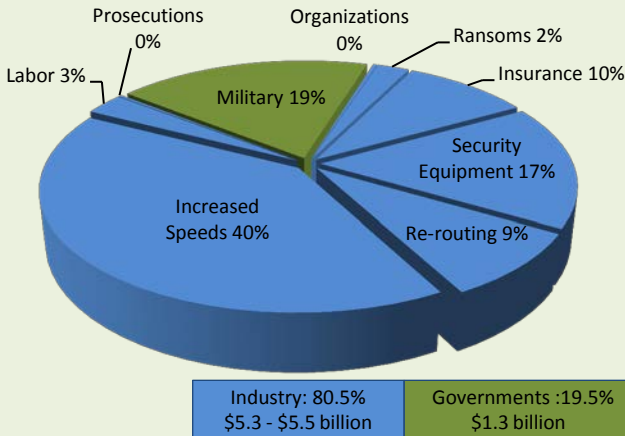


Photo Sources: MarSec Review and BMP4

### About the 'Economic Cost of Somali Piracy' Report

This project has identified nine key economic costs of piracy, and was produced in collaboration with multiple key stakeholders from industry, government, and civil society. The report builds on dialogue and feedback from One Earth Future's previous assessment of the cost of piracy in 2010.

### KEY DEVELOPMENTS AFFECTING THE COST OF PIRACY IN 2011:

**Hijacking success rate:** The success rate of piracy attacks declined, particularly in the second half of the year. This was primarily due to a significant increase in the use of private armed guards and effective naval operations.

**Ransoms:** In 2011, the average ransom price increased, as did the duration ships were held hostage. In spite of this, ransoms represented only 2% of the total cost of piracy in 2011.

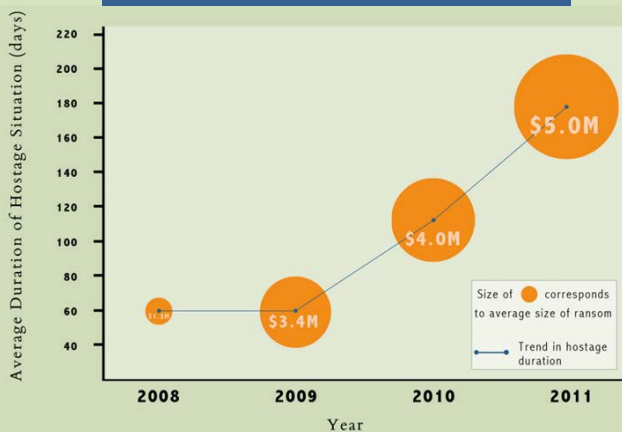
**Geographic expansion:** Pirates expanded their reach eastwards towards India, and northeast towards the Gulf of Oman and Strait of Hormuz.

**Shipping behavior:** Shippers increased payments to harden vessels, hire private security, and increase speed in the high risk area. Significant numbers continued to re-route close to the Indian coastline.

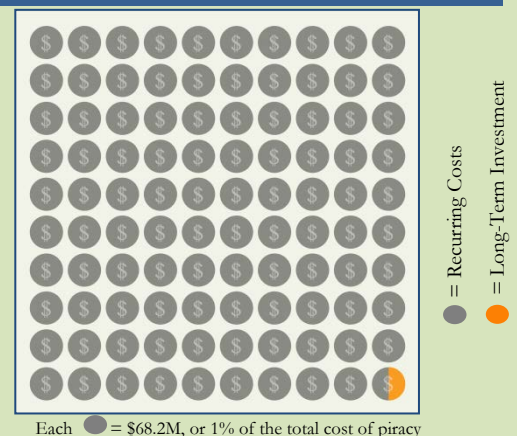
**Recurring costs vs. investment:** Approximately 99% of the total costs were spent on the recurring costs of ship protection. This figure is in stark contrast to money invested in prosecutions and building regional and Somali capacity to reduce piracy, which was estimated at around \$38 million.

**Human cost of piracy:** While this project calculates the economic cost of piracy, the most tragic impact of piracy is the human cost. 2011 saw an increase in seafarer deaths, as well as new developments where piracy gangs were accused of kidnapping tourists and humanitarian workers on land in Somalia and Kenya.

### RANSOMS COST & HOSTAGE DURATION



### RECURRING COSTS vs. LONG-TERM INVESTMENT



## SUMMARY OF COSTS

1. INCREASED SPEEDS	\$2,710 million
2. MILITARY COSTS	\$1,270 million
3. SECURITY GUARDS & EQUIPMENT	\$1,064 - \$1,160 million
4. RE-ROUTING	\$486 million - \$681 million
5. INSURANCE	\$635 million
6. LABOR	\$195 million
7. RANSOMS	\$160 million
8. PROSECUTIONS & IMPRISONMENT	\$16.4 million
9. COUNTER-PIRACY ORGANIZATIONS	\$21.3 million
<b>TOTAL ECONOMIC COST OF SOMALI PIRACY IN 2011</b>	<b>\$6.6 billion - \$6.9 billion</b>

### 1. INCREASED SPEEDS: \$2.7 billion

- Many vessels will increase their speed while they transit the high risk area, since no recorded vessels have been hijacked while traveling at 18 knots or faster. This increased speed generates significant costs to ships by substantially increasing their fuel consumption. This project assesses the excess costs of increased speeds for containerships.

### 2. MILITARY OPERATIONS: \$1.27 billion

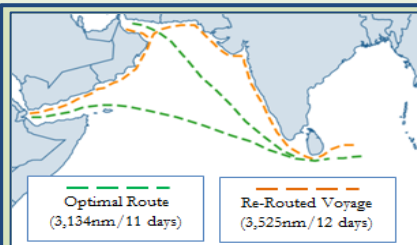
- 30+ countries contributed military vessels, forces, and equipment to counter-piracy operations in 2011.
- This project calculates the incremental cost of vessels, unmanned aerial vehicles, and administrative budgets of EUNAVFOR Operation Atalanta, NATO Operation Ocean Shield, CTF 151, and independent deployers.



Photo Source: U.S. Navy

### 3. SECURITY: \$1.06 billion - \$1.16 billion

- There was a rapid escalation in the use of private armed security onboard vessels in 2011. This project estimates that 25% of ships carried armed guards in 2011. In total, private armed security cost ship owners approximately \$530 million.
- Shipowners also invest in 'ship hardening' equipment to protect against pirate attacks. The total cost of this security equipment in 2011 was \$534 - \$629 million.



### 4. RE-ROUTING: \$486 million - \$680 million

- In 2011, ships re-routed by hugging the Indian coastline, and transiting to the east of the piracy high risk area.
- This report assesses the excess costs of re-routing to bulk carriers and tankers, given their lower speeds, and greater susceptibility to pirate attack.

### 5. INSURANCE: \$635 million

- The two major forms of piracy-related insurance are war risk and kidnap and ransom (K&R).
- Over 2011, the war risk region was expanded to the larger Indian Ocean, and an increasing number of ships received premium reductions for having armed guards onboard.

### 6. LABOR: \$195 million

Some seafarers are entitled to double compensation in wages as they transit the high risk area and/or if they are held hostage by pirates.

### 7. RANSOMS: \$160 million

- 31 ransoms were paid to Somali pirates in 2011.
- Average ransom in 2011 was \$5 million, up from \$4 million in 2010.
- 2011 saw a lower success rate in pirate attacks, but increased ransom prices, so that pirates received greater revenues for fewer hijackings.

### 8. COUNTER-PIRACY ORGANIZATIONS: \$21.3 million

More than 11 organizations were working on counter-piracy initiatives in 2011.

### 9. PROSECUTIONS AND IMPRISONMENT: \$16.4 million

- 20 countries have arrested, detained, or tried pirate suspects in recent years.
- The Economic Cost of Somali Piracy report estimates the cost of trials and imprisonment in four different regions: Africa, Europe, North America, and Asia.