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The Business of Piracy in Somalia

Weekly Report

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Weekly Report

The Business of Piracy in Somalia

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Piracy off the Horn of Africa has grown substantially in recent years: 217 ships reported being attacked by Somali pirates during 2009. Although less than one percent of ships transiting the Gulf of Aden in 2009 suffered attacks, Somali piracy creates considerable economic costs and distortions. Some ships now routinely avoid the region and the estimated additional costs of specialty marine risk insurance for ships using the Gulf of Aden trade route were estimated to be in the region of US$ 400mn for 2009. International naval forces (including missions from the EU and NATO) are present in the Gulf of Aden to ensure the delivery of food aid to displaced people in Somalia, to protect shipping in the Gulf of Aden and to deter pirates from operating in the region.

In our research we show that the naval presence has prevented an explosion of piracy in the Gulf of Aden, but does not appear to have had a significant deterrent effect on pirates. Some ship owners gamble that they will not be attacked and do not co-operate with the navy, thereby providing easy targets for pirates. In the meantime pirates' risk of injury, detention and trial in encounters with the navies remains relatively low.

In any case sea-based naval operations will have limited success as long as Somalia remains a failed state. However, we show that partial improvements in local stability and governance are likely to increase pirate attacks. Therefore the most promising solution of the piracy problem would be to establish and fund a Somali coastguard. This would enforce both anti-piracy laws and stop illegal fishing off the coast of Somalia, providing new opportunities for economic for Somalia's coastal communities.

Our research examines the success of the counter-piracy operations off the coast of Somalia.[1] The analysis is based on a statistical model of pirate attacks from January 2002-June 2009 as well as interviews with naval officers and experts. We also examine the effect of the lack of effective government in Somalia on piracy, to explore the potential of proposed land-based approaches for resolving the piracy problem.

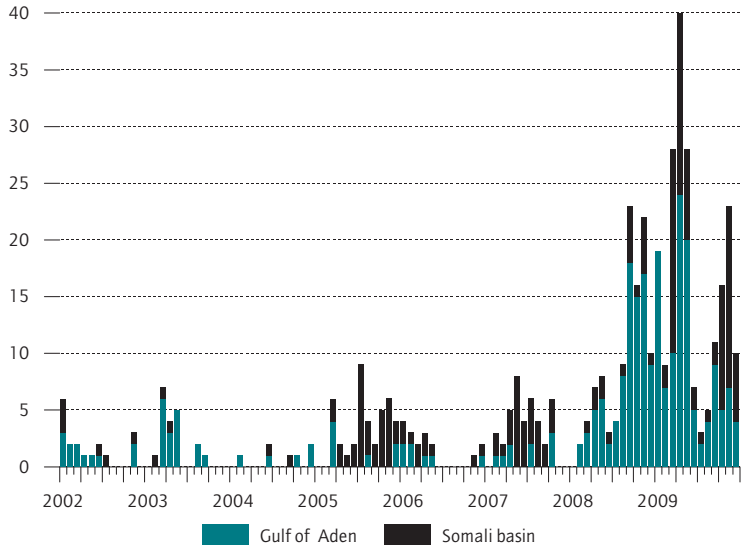
JEL Classification:
K42, 018, H76

Keywords:
Piracy, Underdevelopment, State infrastructure

1 Percy, S., Shortland, A. (2010): The Business of Piracy in Somalia, DIW Discussion Paper 1033.

Figure 1

Piracy off Somalia



Source: International Maritime Bureau. **DIW** Berlin 2010

The number of attacks has doubled since 2008. There were 40 attacks in April 2009.

A long tradition of piracy

A low level of opportunistic and small scale pirate activity has taken place in the Gulf of Aden and the Somali Basin for many years. Initially the attacks were mostly acts of theft or extortion and mainly targeted foreign trawlers fishing illegally off the Somali coast and depriving coastal communities of their livelihoods. Pirates used small open boats (skiffs) and basic weaponry and were restricted in their operations. The collapse of political and civil order in Somalia and the absence of central law enforcement in the coastal regions meant that pirates could vastly increase the profitability of their activities by hijacking and holding ships for ransom. Attacks increased in frequency and audacity. Data from the International Maritime Bureau attribute 47 pirate attacks to Somali pirates in 2005, rising to 119 in 2008 and 217 in 2009. The types of incidents range from hijacking of yachts and fishing vessels to attacks on valuable cargo ships and tankers. In a country where per capita incomes are less than $300 a year, piracy is an attractive business for unemployed young men: the estimated premium for a successful pirate is in the region of $10-15,000 per hijack. Profits from piracy have funded technological improvements such as fast outboard motors, better telecommunications, automatic weapons and rocket propelled grenades. Another innovation has been the use of "motherships" from which the small skiffs (which are still being used for attacks) are launched. Motherships are mostly hijacked fishing vessels and diving-boats, which are used until their stores run out, the crew is ransomed or the vessel's use as a mothership is suspected. The use of motherships has extended the radius of Somali pirates' well beyond coastal waters and has reduced seasonality in the pattern of piracy.

Because of a lack of infrastructure, Somali pirates are unable to steal cargo or ships outright: most hijacked vessels remain anchored several miles off the coast of Somalia. Bargaining over ransoms is mostly conducted as a hostage negotiation i.e. focused on the safe return of the crew. Ransoms have been rising inexorably: through repeated bargaining Somali pirates find out about the value of a human life to a ship owner. While early ransoms were in the region of hundreds of thousands of dollars, recent figures suggest ransoms have risen to 3-7mn US$. Still this remains a fraction of the value of the cargo, hull and crew.[2] Because the negotiations focus on the well-being of the crew, pirates tend to treat compliant hostages as well as possible in the challenging conditions of Somalia.

Cautious naval intervention

Naval security patrols have been formally operating in the Gulf of Aden and off the coast of Somalia since August 2008. These include ships from the European Union's operation Atalanta, NATO's Operation Allied Protector and Operation Allied Provider and the US-led Combined Task Force 150 as well as support from other nations. Efforts are specifically focused on securing the shipping route through the Gulf of Aden, which is used by around 30,000 ships a year. The naval forces provide a number of services to commercial shipping. The first is advice about security measures to minimise the risk of attacks such as speed and route of travel, evasive actions and securing decks, based on detailed analysis of past attacks. Secondly, ships are advised to register their transit though the Gulf of Aden with the naval forces and travel in a specified transit corridor where naval vessels operate an area protection system. Finally, ships that come under attack can request assistance from naval vessels. However, there is no guarantee that assistance will be rendered in time to prevent pirates from boarding as naval vessels are spaced far apart to cover a large area with limited resources. Once pirates

2 For example the value of the cargo of the oil tanker Sirius Star hijacked in November 2009 was estimated to be in the region of US$100mn, while the ransom was 3mn.

have successfully boarded a ship naval forces only intervene if the crew is hiding in a safe "citadel" on board and the ship does not have volatile cargo.[3] In addition naval patrols investigate suspicious vessels, confiscate pirates' equipment and boats and detain those caught in the act of piracy. However, the burden of proof required for a successful conviction is high and most suspected pirates are released immediately.[4]

Despite a number of UN Security Council resolution legitimising the use of greater force against pirates, there is little appetite for a more violent solution to piracy.[5] Firstly, it is generally not in anyone's interest to risk ships' crews and (potentially volatile) cargo in gun battles with pirates. Ransoms are usually a fraction of the value of the cargo and crew members are generally not deliberately harmed by pirates. Secondly, there are serious concerns about violating human rights, given that Somali and Yemeni fishing vessels operate legitimately in the Gulf of Aden. As tuna tends to congregate in the pressure wave of big tankers, the presence of a skiff in the shipping lane is not necessarily evidence of intent to hijack. European navies are therefore justifiably cautious about the treatment of suspected pirate vessels and can use few sanctions against crews which have dropped their weapons overboard and claim to be fishing or trading.

A Statistical Model of Piracy in Somalia

The long-term success of the naval intervention is therefore debatable, given the potentially limited deterrent effect of the naval presence and the extremely lucrative nature of successful piracy. On the one hand the IMB reports 50 attacks abandoned at the arrival of naval ships and helicopters from January 2008 to June 2009. On the other hand deterrence was not perfect because there were 252 attacks during this period (144 of these in January to June 2009). 72 of the 252 attempts resulted in a successful hijacking.

Our statistical model of the monthly number of pirate attacks in the Gulf of Aden between January 2002 and June 2009 shows that the main determinants of the number of pirate attacks in a month are the number of attacks in the previous period as well as past successes. Piracy thus operates like a successful business, where resources suitable for piracy continue to be employed in the business and profits are reinvested for expansion.

Effectiveness of naval measures in the Gulf of Aden

The success rate of pirates in the Gulf of Aden has dropped significantly as naval vessels chase pirates off their targets. By denying pirates resources for re-investing and destroying existing equipment, the navies have avoided the continued explosion of piracy in the Gulf of Aden through 2009. However, the model did not show an additional reduction in the number of attacks after the introduction of the transit corridor, meaning there is no evidence of a "deterrent effect". Keen Somali pirates continue to attack ships in the Gulf of Aden.[6]

Naval commanders stress that most of the ships which were successfully hijacked had ignored the advice of the international naval missions. Therefore it seems likely that navies could further reduce or even eliminate successful piracy in the Gulf of Aden with the active co-operation of the private sector. The first key priority is for shipping to comply with the guidelines concerning transit routes and times. The second is for crews to resist boarding to give the naval assistance time to arrive on the scene. Thirdly, if boarding is successful, the crew needs to retreat to a safe room to await rescue.

However, there are a number of issues with such demands on the private sector. Firstly, given the small probability of being attacked, some ship-owners will continue to disregard the security advice for example for reasons of time savings and fuel efficiency. Secondly, captains and crews tend to prefer de-escalation over provocation – it is clear that in the event of a successful hijack co-operative crews generally have a better experience than those who resisted. Especially crews who are cheaply hired on short contracts are unlikely to feel sufficiently committed to risk their lives in defence of the ship. Thirdly, the insurance industry has an interest in the continuation of piracy, which is an important revenue source. Insurers are therefore unlikely to make demands on shipping to comply with guidelines which would eventually serve to cut off this important income stream.

3 Post-boarding operations are rare.

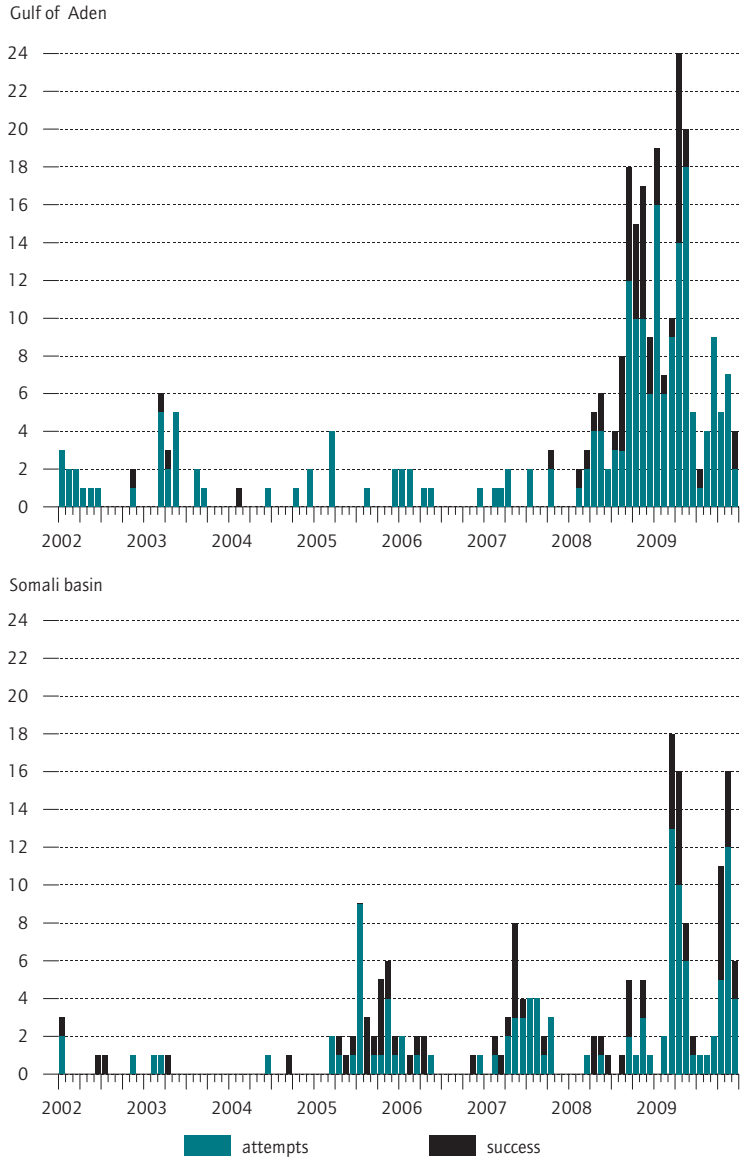
4 As a short prison spell followed by asylum in a Western country was perceived to be additional attraction rather than a deterrent to pirates, the navies have handed pirates over to Kenya for trial. However, Kenya withdrew from the agreement on 1 April 2010.

5 Treves, T (2009): Piracy, Laws of the Sea and Use of Force: Development off the Coast of Somalia The European Journal of International Law Vol. 20 no. 2 pp 399 – 414.

6 To the extent that there is a deterrent effect of the transit corridor, it seems to have been offset by an efficiency gain for pirates. Crews no longer have to search for suitable targets in the whole of the Gulf of Aden, but simply station themselves near the transit corridor and wait until a lightly guarded ship appears.

Figure 2

Somali Pirates



Source: International Maritime Bureau. **DIW** Berlin 2010

Only one in three atatcks is successful. We see a clear substitution from Piracy in the Gulf of Aden to the Somali Basin.

Substitution effects

Even if the Gulf of Aden was successfully secured, this would be likely to result in increased substitution to open seas piracy. The statistical model of the incidence of the number of pirate attacks in the Somali Basin shows a large increase in piracy in the open seas after the introduction of the transit corridor. This mirrors classic results from research on counter-terrorism where the securing of specific facilities diverts terrorists to soft targets.

At the same time the radius of attacks is increasing: while in 2008 ships were thought to be safe as long as they stayed 500nm off the Somali coast, recent attacks have occurred up to 1100 nm away from Somalia. There are simply not enough resources available to secure the vast areas of open sea where Somali pirates can potentially operate. Therefore, quite apart from the cost of operating the naval shield, there is a clear limit to what a sea-based solution to the piracy problem can hope to achieve.

Land-based approaches

The root cause of piracy is ultimately on the land: only in countries where the state is unwilling or unable to intervene in the piracy business is it possible to hold ships and crews for a period of several months until negotiations are concluded and ransoms paid. A strong central government upholding the rule of law in Somalia would therefore be the best solution to the issue of piracy. However, establishing any stable government in Mogadishu has proved beyond the capability of the international community since the civil war of the 1990s. Negotiated solutions over the composition of interim governments invariably ended in stalemates over power allocations between the various clans or disadvantaged clans immediately contested the legitimacy of power-sharing agreements.[7] In the West there is little appetite for any land-based military initiatives, after the abandoned US and UN missions of 1994 and 1995 respectively. What are therefore the options regarding strengthening stability and governance in the regions?

It is clear that regional elites (based on alliances of expatriate-funded businesses, mosques and clan elders) benefit financially from piracy and are likely to resist an end to this lucrative business. Interestingly our statistical model also shows that pirates benefit from improvements in local political stability and contract security. Piracy is after all a business, and the ability of pirates to keep their hostages guarded from rival groups and in good physical condition improves with security in the country. Therefore, while a strong state could result in the desired outcome of an end to piracy, a less ambitious policy of partial stabilisation may in fact result in an improved business environment for pirates. In any case, the most likely alliance which could form a stable government in Somalia would be radical Islamist. While a previous short-lived Islamist

7 Menkhaus, K (2007b): The Crisis in Somalia: Tragedy in five Acts, African Affairs 106/204 pp 357-390.

administration (the UIC in 2006) did ban piracy under sharia law, recent evidence suggests that Mosques are accepting funds from pirates and it is at least possible that even a government of Islamist hue would tolerate if not sponsor piracy.

The most promising and realistic route for approaching the problem from the land-side is therefore to agree the establishment of an effective Somali coastguard with local elites. Firstly, this would provide an income stream for young men from the coastal communities where other forms of well-paid employment are scarce. Secondly, it would protect Somali fishing rights vis-à-vis the international fishing fleets (thereby reducing the legitimacy of piracy in the eyes of the Somali population). Thirdly, Somalis have better information and additionally could pursue pirates and their prey in territorial waters and on land, raising the risks for would-be pirates. There are two issues that would need to be resolved before such an approach is taken. Firstly, the international community would need to fund this coastguard to ensure its continued loyalty. Simply providing fast ships and weapons to Somalis and training them in their use could ultimately prove counterproductive. Secondly, the issue of local corruption needs to be addressed to ensure that the coastguards' salaries are actually paid and that arrested pirates are properly detained and tried.

Conclusions

Navies have succeeded in containing piracy in the Gulf of Aden at a level where it is a nuisance rather than a significant threat to commercial shipping. Restrained use of force has resulted in an equilibrium where piracy is conducted with minimal damage to cargo and human life. It is not in anyone's interest to deviate from these rules of the game and escalate the violence.

However, the naval intervention has not resolved the underlying problem that successful piracy is a hugely lucrative business in a country where there are few opportunities for young men to find gainful employment. Under current rules of engagement many pirates are not deterred from trying their luck despite the naval presence, while those who fear detention and trial simply avoid the well secured area of the Gulf of Aden and hunt further afield.

As long as there is no stable government to enforce the rule of law in Somalia, establishing and funding Somali coastguards would appear to be the most cost-effective and promising solution to the piracy problem in Somalia. Not only would it directly offer gainful employment to former pirates, but it would also provide new opportunities for Somali fishermen: the years of piracy threats have resulted in a near miraculous recovery of tuna stocks off the coast of Somalia.

(First published as "Piraterie in Somalia: Ein gutes Geschäft für Viele", in: Wochenbericht des DIW Berlin Nr. 29/2010.)

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