# THE CONSEQUENCES OF SOMALI PIRACY ON INTERNATIONAL TRADE



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### HISTORY OF PIRACY

- Piracy dates back to as early as 75 B.C.
- Golden Age of Piracy (1570 - 1730)
  - Countries would hire privateers
  - Privateers transitioned to pirates
- Onshore military surveillance brought Golden Age to an end



## RISE OF PIRACY IN SOMALIA



#### CIVIL WAR

There has been no national government in Somalia for nearly two decades. Local authorities are only present in Puntland and Somaliland.



### ABSENCE OF CENTRAL GOVERNMENT

A small gang of fugitive, Somalia-based al-Qaeda operatives has expanded into an army.



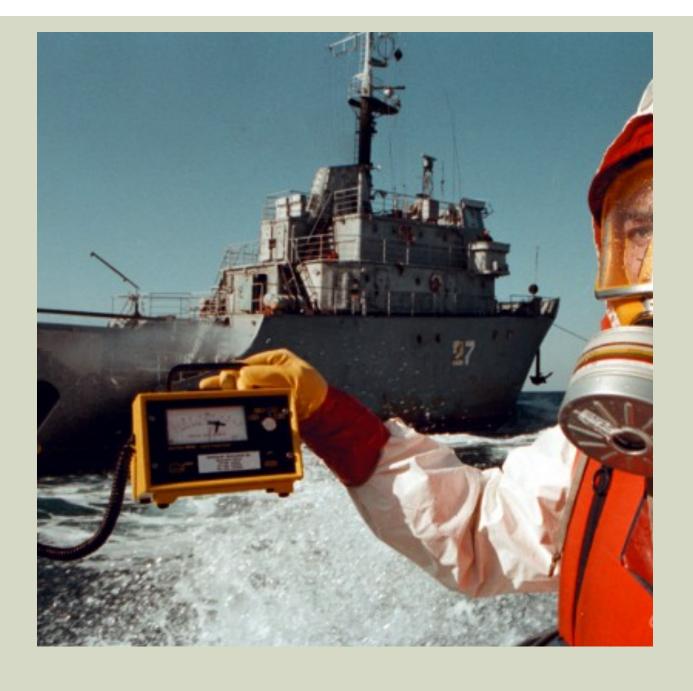
### LACK OF NATURAL RESOURCES

For almost 20 years, Somalia has been the world's most attractive illegal hazardous waste dumping site. The sea has also been overfished by Yemeni fisherman.

### **HOW DID SOMALI PIRACY START?**

- Started to counter illegal fishing in Somali waters
  - Rich with shrimp, lobster, tuna, and other sea products
- After the collapse of the government, the 2,000 miles of Somali coastline was open for intruders
  - Somali coastguard vanished
  - Somali waters became international "free-for-all"





### TOXIC WASTE

Greenpeace documenting Russia ship TNT27 dumping nuclear waste on October 18, 1993

## INTERNATIONAL IMPLICATIONS OF THE ATTACKS

#### DISRUPTING INTERNATIONAL TRADE

#### **Trade Route**



- The Far-East Europe route is the most active
  - Receives nearly 20% of global trading activities
  - More than 80% of trade moves through Gulf of Aden
- The important barrier is in the Puntland area
  - Governed by self-ruling clans, warlords, and al-Qaeda
- Companies change their shipping route

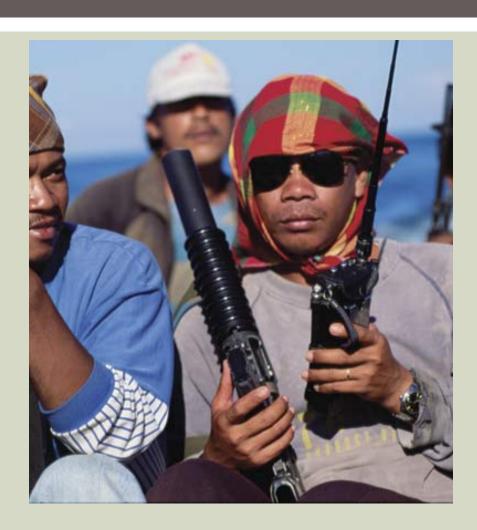
### FINANCIAL IMPLICATIONS OF PIRACY

- These changes cause:
  - Extra costs for fuel
  - Higher insurance premiums
  - Additional burden on consumers, with higher prices for goods
- Estimates show if one-third of Far-East European cargo routes were diverted, it would trigger \$7.5 billion extra in expenses worldwide
- Timeliness of shipments and delayed delivery
  - Deters companies from shipping, and decreases trade opportunities
- Affects the Gross Domestic Product (GDP) of countries whose trade it disrupts
  - Studies found high jacked vessels can decrease a country's exports by 1.1%
  - Trade losses due to piracy attacks between Europe and Asia total \$24.5 billion in 2008

## DOMESTIC IMPLICATIONS OF PIRACY

### PIRACY AS A REVERED JOB

- High demand for low-level pirates
  - Sent to see with crewmembers and locate valuable vessels to seize
  - After boat is hijacked, a negotiator assess value of assets aboard
    - The World Bank reports they are paid \$10,000 to \$30,000USD
  - The "foot soldiers" receive \$30,000 to \$75,000 per raid, but no more than 2.5% of the total ransom payment
  - An additional \$5,000 is given to the first man that boards the ship
- The World Bank reports money goes to:
  - Sex workers or slaves
  - Alcohol
  - Expensive cars
  - Khat



### BENEFICIARIES OF PIRACY IN SOMALIA

- As "foot soldiers" strive to live an ostentatious life, they provide jobs for:
  - Sales people
  - Mechanics
  - Carpenters
  - Electricians
  - Gardeners
  - Suppliers
  - Bookkeepers
- Venture capitalists fund these piracy missions
  - Invest in boats, supplies, and low-level pirates
  - Collect 30-70% of the ransom payments, depending on initial investment
  - Receive as much as 50% due to financial risk



QUESTIONS?