

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?