

Captains of industry

NINETEEN YEARS OF LAWLESSNESS IN SOMALIA IS PAYING OFF FOR PIRATES OF THE HIGH SEAS. WITH ABOUT 20 VESSELS CURRENTLY BEING HELD FOR RANSOM, THE MULTIMILLION DOLLAR INDUSTRY IS BOOMING AND IT SEEMS AS IF THE SHIPPING INDUSTRY'S POWERLESS TO STOP IT. BY PAUL McNALLY

HIJACKING THE HIGH SEAS

It's become a classic conundrum for modern shipping magnates whose vessels frequent the African coastline: Whether to send their ships down the east coast of Africa, and risk being captured (and held ransom) by Somali pirates, or to pay considerable extras to take the alternative – longer – route along the west coast.

It's a mostly vacant scooter dealership in Cape Town and a technician is explaining to a customer that they're holding thumbs on the delivery of his new chrome panels. 'If the container can weave its way through the pirates, we'll fix your scooter,' the technician says. Somali pirates have become ubiquitous enough in South African business for salesmen in cheap golf shirts to use them as an excuse for slow delivery – or none at all.

How big is the Somalia problem? Take a quick look at what happens offshore. The Congo is one of the richest agricultural resources in Africa and yet it imports 98 percent of its required nutrition. On top of this, SA exports minerals and raw materials to create jobs and maintain cash flow. If spares for clunky Asian bikes can be stopped, then so can anything else.

The impact of piracy is broad; starvation for some parts of Africa or a daily trauma if you own a boat or shipping company. Even if you're a businessman with your feet firmly on land, you're at the mercy of sea lane traffic hold-ups. It's a problem that is going to slide down the coast and land like a creamy seafood platter right in our laps.

WHO ARE THESE PIRATES?

Generally, Somali pirates are young (late teens to early 30s) and can be any of the country's poorly educated, unemployed and disaffected men. Raymond Gilpin, an Associate Vice

President at the United States Institute of Peace, reckons that if you're a Somali pirate, then you must fit into one of three broad categories: you're a clan-based soldier, a youth looking for quick money to finance your plans (like marriage or emigration) or a fisherman who has been forcibly recruited for your navigational skills. The origins of this mess are in the early 1990s when Somalia's encroaching independence brought with it bursts of civil war.

The US stepped in with strategic aims for the region, but warlords took control of the country and fought off the US with RPG rocket launchers. Since then, competing factions have kept it difficult for Somalia to sustain a functioning civilian government. Over time, this political bent has developed into an economic disaster.

The World Bank estimates that more than 40 percent of Somalis live in extreme poverty (less than a dollar a day), two thirds of its youth are unemployed and almost 75 percent of households subsist on less than \$2 a day. 'The piracy reflects decades of political unrest and severe economic decline,' Gilpin says.

'The mixture of inter-clan rivalry, corruption and access to arms escalated crime and this activity eventually moved from land in to the sea.' In place of wilding gangs combing the city streets to sustain them, they go where the pickings are less lean. Much like savvy capitalists, they invest off shore.

WHAT HAVE THEY GOT TO GAIN?

What are your overheads as a pirate? What does the Jolly Roger's spreadsheet look like? 'They're usually armed with automatic rifles, rocket-propelled grenades and an assortment of light weapons,' Gilpin says. Pirates typically operate in relatively organised gangs. A handful of bosses provide the boats, weapons and supplies. Assuming that one operation embodies one financier, four boats and 12 pirates, in a year, they're likely to make nine attempts at hijacking, three of which are successful but only two result in a payment. This is consistent with the 2008 IMB piracy data. These two payments will reap a ransom of \$600 000. The amount is usually paid in American currency. Your financier will cover your accessories, ammunition, GPS, grappling hooks and ladders for \$21 200. Your operational costs are going to include food and supplies \$72 800, calculated on 208 working days in a year. Equipment maintenance is \$31 200. Care of your victims will set you back \$15 750. This is for three hijackings, 15 crew members per boat over 25 days. So your profit less investment by financier and operating costs is going to be \$300 250. According to reports from captured and active pirates, the tallied amounts are divided up along a percentage of the original ransom. In this case, your bribes to officials will be \$180 000. Financier's additional share is \$120 250. Your pirates' share is \$180 000 and spread across 12 'shareholders' makes it \$15 000 each. This is a lot better than the \$2 pittance a day.

WHO DO THEY TARGET?

The modern-day pirate is relatively low tech, and uses small motorised fishing boats, which are fast and too small to be detected by a cargo ship's radar system. They use hooked ropes or ladders, made out of wood and bamboo, to scale the side of the ship. Usually, the attack will be near the shoreline. If it's far off, they'll use a bigger mother ship and anchor it along the sea route.

They target crafts journeying along one of the world's three main trade routes – they're sitting ducks. Ships go straight at the Suez Canal, connecting the Mediterranean Sea to Asia, duck through the Red Sea and then turn left at The Gulf of Aden. This is in the Arabian Sea at the Horn of Africa and 21 000 ships, despite pirate activity, cross the gulf every year.

Two cargos heading this way towards South Africa have been hijacked. One was insured locally and the other in London. One contained



a liquid chemical and the other granular urea. 'There's no doubt that the problem is escalating. There is going to be a point where a local cruise ship is boarded,' says Andrew Robinson, Director of Deneys Reitz Inc, a leading South African law firm.

As for the pirates, the danger of being caught is questionable. Warships helmed by the UN and the USA patrol the gulf, but pirates have been known to attack them. In 2009, more than 340 suspected Somali pirates were captured and then released as they were not in the act of piracy at the time. This is compared to 212, who were sent for prosecution. The escapees return, recruit and gear up to fight another day.

WHAT'S THE IMPACT?

'When a ship is possessed by pirates, there's a general lag of three months,' says Robinson. This is partly for negotiation, but what can slow the bureaucracy down further is that the ship owner will want a 'general average claim'. This is a legal principle of maritime law. It's where any loss from surrendering part of the ship or cargo to save the whole, is proportionally shared. In other words – the merchants whose cargo landed safely would be asked to contribute a portion to those who lost out, based upon a share or percentage. It's in the joyful spirit of being a sea lover, but the paperwork can linger. People who have ordered their cargo with a 'just in time' assumption aren't going to have the resulting economic loss caused by tardiness covered by insurance.

'The second important factor is the type of cargo: If it won't suffer degradation, then the person won't squawk as much,' says Robinson. The indecision rests in how fragile the cargo is in the face of time and the elements. Granulated urea won't get hysterical if captured and is destined to last forever. 'Reefer cargo' means it requires controlled refrigeration, like fruit. Certain chemicals have a limited shelf life. On these the underwriters will reimburse you, no question, but if it's a grey area and the cargo is left partly tarnished then you could incur a loss.

The other option is to simply avoid the whole area. The standard expense to bring a luxury yacht down to Cape Town from Europe is R200 000. Most crews rounded up in North Africa are willing to take the risk for money, but if you're the captain of a luxury yacht, is it worth going down with your ship? Gerry Northwood, the head of operations for the



FRENCH NAVY FORCES
INTERCEPT SUSPECTED PIRATES
OFF THE COAST OF SOMALIA

IN THE SAME WAY YOU DRIVE THROUGH A TIK-DEN INFESTED SUBURB, THE DANGERS ARE POTENTIALLY ROUGH ENOUGH TO DESTABILISE TRADE WITH INCREASED EXPENSES

European Union's anti-piracy task force told the BBC that the percentage of ships going through the gulf and being hijacked is .001. 'Avoidance (namely, the alternate route around the Cape of Good Hope) puts roughly 3 500 miles on the journey,' says Gilpin. 'The cost of this diversion is particularly worrisome during spikes in oil prices.' Before Cape Town's hospitality industry rubs its hands in glee at hosting hoards of unexpected guests, Captain Nikola Hristov, Chair of the Bulgarian Association of Ship Brokers and Agents, stated it might be cheaper to face the risk of having your ship seized in the Gulf of Aden and even to pay the ransom demanded by the Somali pirates.

'People are playing the numbers,' says Robinson. In the same way you drive your car through a tik-den infested suburb, the dangers on a grand scale are potentially rough enough to destabilise trade with increased expenses, but at this stage, it's still a risk worth taking for a number of businesses. Hold your breath and jet through rather than navigate around The Cape. The humanitarian argument is that

you have a whole crew that will suffer if there is an incident and mostly, the person saying left or right isn't riding on the ship. But from a business perspective, as the industry becomes more skittish, the ones left taking the risk will have a chance to undercut their competitors. The question is: If you're left playing it safe will you be able to justify the inflated overheads? Perhaps it will get to a stage where the insurance premiums are a greater cost than the extra petrol.

Don is a booming South African farmer who has been sailing for 60 years. Last year, he went up to Turkey to fetch his yacht in anticipation of kitting it out with a crew of six. On arrival, he was told this was impossible. The British couple, Paul and Rachel Chandler, had just been tragically captured and the media frenzy was on the rise. The farmer was watching his lifelong passion become a terrible challenge, beyond the usual weather-related troubles.

To avoid personal risk, he opted to double his expenses and bring his yacht around the other way. He didn't just circumnavigate the pirates, but a whole burgeoning industry as well.



AN ARMED SOMALI PIRATE
AT HOBYO IN NORTHEASTERN
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CAN BE SEEN



**A RECENT HISTORY
OF THE SOMALI PIRATES**

October 5, 2008: The United Nations Security Council adopted resolution 1838 which called on nations with vessels in the area to stop acts of piracy by applying military force.

February 23, 2009: The South African Navy vows to take on pirates. The South African Navy became involved in patrolling and escorting hundreds of vessels off the coast of Somalia and the rest of the continent's eastern coastline.

April 2009: Better, easier fishing conditions abound. CNN reported that the Somali coastline was having their most prosperous year because huge foreign trawling ships were too afraid to approach. This meant tiny boats could actually fish without competition.

April 2009: A Maersk cargo ship, the MV Maersk Alabama, is hijacked. It's the first US registered freighter to be hijacked by pirates during this conflict.

October 2009: A British couple is kidnapped. Mostly pirates are well informed, but they misjudged this couple as representing a potential slush fund. The price was originally \$7 million dollars, but this has slowly whittled down to basic expenses. The British government refuses to settle.

March 01, 2010: A NATO warship sinks a pirate ship off Somalia. NATO reported that one of its destroyers sunk a pirate mother ship in the Indian Ocean off the Somali coast.

WHO ELSE RIDES THE PIRACY WAVE?

For those who don't opt for avoidance, there's an entire industry for sailors to engage with and plenty of toys for them to spend their money on. In March, the first Somali pirate was killed by a private security guard. It was a Panamanian-flagged cargo ship and the guard was on the captain's payroll when he shot one of several attackers who were trying to seize the vessel. Success by these aggressive methods is affirming a rollicking arms race.

Terry Hutson, editor of the website Ports and Ships, says generally, Somali pirates don't harm the people they capture. 'It's different to West Africa where there's a war with oil companies and they don't seem to fret over killing a few civilians,' he says. But the Somali pirates are still armed and respond to brutality. Active deterrents like long-range weapons can set you back \$30 000 each, and permanent onboard security guards as much as \$1 000 per day.

In lieu of confrontation, your ransom can be covered by insurance. According to Aon Risk Services, the cost of kidnap and ransom insurance today is 10 times higher than in October 2008 for ships

transiting the Gulf. A shipper can now pay up to \$30 000 in premiums for \$3 million in coverage for one trip. Most ransoms are delivered directly to the hijacked ships either by boats hired by private security companies or, more recently, light aircraft. Sometimes the money is dropped in packets from a parachute. 'The crew can be asked to help and count the money, even being paid a small fee for their trouble,' Hutson says. It smacks of Robin Hoodlumism.

DYING BY THE SWORD

Piracy looks like a growth industry. Maritime insurance, personal security and avoidance costs can only escalate. South Africa can deploy more of its navy, but the developed world can't fight a country of armed starving men with force. The unrest on the land, particularly in Mogadishu, Somalia's capital, needs to be sorted before any of this calms down. A portion of the pirates' slush fund enters the Somali economy (vehicles and real estate) so there are beneficial activities, but basic infrastructure is lacking.

Meanwhile, the justice is getting rougher. On May 11, a group of Somali pirates were captured after seizing a Russian oil tanker. The Russian navy in the Gulf of Aden 'set them free' because there was an 'insufficient legal basis to keep them in detention'. They were set adrift in a lifeboat with navigational equipment and no provisions 550 km offshore. The pirates apparently never made it back. Twenty four hours later, pirates hijacked a Greek-owned ship in the Indian Ocean off the coast of Oman.

It seems that it's business as usual with barely a nod to the collateral damage done by the Russians. The lure of booty outweighs the collateral damage. 🔦

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