

# PIRACY PAGE 1



We've been hearing a lot about piracy in the news recently. What do you know about the pirates and their operations? Discuss these questions with your teacher:

- 1 What is the average ransom for a captured boat?
- 2 How much did piracy contribute to Somalia's economy last year?
- 3 Who are the biggest beneficiaries of piracy?
- 4 How much do the pirates themselves make in terms of an average Somali salary?
- 5 Which industries thrive off the pirate economy?
- 6 How are insurance companies profiting from piracy?
- 7 What is the net affect of paying the pirates' ransom?
- 8 What is the unemployment rate in Somalia?
- 9 Who are ship owners under pressure from?

**Listen to the report and check your ideas.**

**Read Peter Pham's article and circle all the points that were also covered in the interview you just heard.**

## The Foreign Policy

April 2009

### The Pirate Economy

According to the International Maritime Bureau, 111 of the 293 incidents of piracy or armed robbery at sea in 2008 took place off the coast of Somalia - double the number from the preceding year. And 2009 is hardly off to an auspicious start. In spite of poor meteorological conditions - hardly favorable for maritime forays - there

have already been more than a dozen seizures so far this year.

The pirates aren't just getting lucky. Indeed, Somali piracy is quite the opposite of the helter-skelter often portrayed in the media; it is a highly structured enterprise built around a number of syndicates. The syndicates operate "mother ships" far offshore that serve as long-range platforms for the speedboats that attack commercial vessels; they own depots along the coast where

the pirates resupply before bringing captured boats to their main bases; and they coordinate the networks to support pirate operations on land. A report to the U.N. Security Council last month by Secretary-General Ban Ki-moon plaintively conceded that "these groups now rival established Somali authorities in terms of their military capabilities and resource bases."

In Somalia all sorts of individuals have become stakeholders in

## PIRACY PAGE 2



the political economy of piracy. In exchange for a share in the eventual ransoms, wealthy Somali businessmen finance the purchase and outfit of mother ships and skiffs as well as the recruitment and arming of their crews. In various ports, paid informants send information about vessels' defences, crews, cargos, and itineraries, enabling pirate gangs to select their targets and plot courses for interception.

Once a vessel is seized and brought to a pirate base, negotiations begin between the pirates and representatives of the ship's owner and its insurer. Eventually, the ransom, which is nowadays typically about \$1 million - although \$3.2 million and \$3 million, respectively, were paid to the captors of the Ukrainian-owned weapons freighter *Faina* and the Saudi-owned supertanker *Sirius Star* earlier this year - must be delivered directly to the hijacked vessel by agreed-upon intermediaries, usually rather specialized security consultants.

Although many people are involved in the process - from the dealers who supply the pirates with the fuel to sail out, to the prostitutes who entertain them on their return - some are more susceptible

than others to pressure from the international community. Certainly, pirate financiers in the Somali diaspora are targets for legal proceedings if evidence can be found of their role. Ship owners and insurers also bear a measure of responsibility because their ransom payments are incentivizing more and more Somalis to embark on careers in piracy.

Other profiteers to target include the regional Puntland government and al-Shabab, the al Qaeda-linked Islamist militant group that was formally designated a "foreign terrorist organization" last year by the U.S. State Department. Both entities receive a portion of the proceeds in exchange for allowing the pirates to operate in areas they control.

A case could be made that the payment or handling of ransom is prohibited under international treaties (such as the U.N. Convention Against Corruption), U.S. domestic legislation (such as the Foreign Corrupt Practices Act), or other laws covering the finance and material support of terrorism.

Still, Somalis are going to have to step up. Because piracy plays a huge economic role in communities where the marauders are based, attacking the enterprise requires building up local political and security capabilities so as to reduce the extent of the areas of "lawlessness" that the pirates have exploited up to now. Such a strategy includes developing

a coast guard, perhaps initially under African Union or subregional auspices, that would constantly patrol the region along the shore. Over time, this coast guard might acquire the wherewithal to collect and process information useful in taking down the pirate networks altogether. Even if it was never as sophisticated as that, a local coastal patrol has better prospects for sustainability than the continued massive presence of warships from the blue-water navies of the world.

Undoubtedly, a robust military response like that delivered by the U.S. Navy to the captors of Captain Phillips (and the French Navy to the pirates holding the yacht *Tanit* and its French civilian passengers) will be needed again to deal with pirate actions underway and to deter other potential maritime hijackings. Of course, as Bjoern Seibert convincingly argued two weeks ago, the various naval efforts need to be better coordinated, if not integrated.

Ultimately, however, piracy is far more complex than any naval patrol; it will require more than just the application of force to uproot piracy from the soil of Somalia.



# PIRACY PAGE 3

## Teacher's notes

Total pages 3 / student pages 2 / week of 11.05.09 / CD track 3 / advanced (C1)

## Transcript

SCOTT SIMON, host: This week, a Somali teenager charged in the pirate hijacking of an American cargo ship last week was brought to New York for trial. Abdiwali Abdiqadir Muse was the only surviving pirate of a Navy Seal raid that rescued the ship's captain. Law enforcement officials say he's 18 years old and was the ringleader of the hijacking. Mr. Muse's lawyers and his parents say he's only 15 and was coerced by other pirates. Whatever the truth, piracy is a lucrative business, makes up a large part of Somalia's economy and benefits others outside of that country. Peter Pham explores the intricacies of the pirate economy in an article posted this month on the website of Foreign Policy magazine. Dr. Pham is director of the Nelson Institute for International and Public Affairs at James Madison University in Harrisonburg, Virginia. He joins us from member station WMRA there. Thanks so much for being with us.

Dr. PETER PHAM (Director, Nelson Institute for International and Public Affairs, James Madison University): A pleasure to be with you.

SIMON: And how rich and intricate are some of these operations?

Dr. PHAM: Well, the average ransom for a captured boat these days is averaging slightly over a million dollars. So, we're talking a major industry that contributed well over \$100 million last year, perhaps Somalia's largest foreign exchange earner, you could say.

SIMON: And are there a lot of Somali families and not just Somali families, that have a stake in it?

Dr. PHAM: Certainly. The biggest beneficiaries of piracy are the financiers who put up the seed capital to mount the operations, to acquire the speedboats, the so-called mother ships, to arm the pirates. But the pirates themselves make fabulous sums. Typical attackers make somewhere between \$10,000 to 20,000 for a successful hijacking. To put this in some frame of reference, the average Somali family is living off \$500 to 600 a year. So, these guys are set almost for life after a successful hijacking. But then the economy extends to ordinary people in Somalia as well: watchmen, who guard the boats once they're being held and negotiations are going on, the intermediaries that get a commission off the ransoms, corrupt government officials, the suppliers - you have everything from caterers to prostitutes, all of whom thrive off this pirate economy.

SIMON: I'm going to leave the prostitute part alone, but caterers?

Dr. PHAM: Yes. During the months in which a ship is held captive, the pirates feed the crew. We actually know from several instances that I was involved with that the catering bill ran into the hundreds of thousands of dollars when the hijacking endured several months.

SIMON: Do insurance companies have a stake in piracy?

Dr. PHAM: Very much so, in two ways. One: typical ransoms, as I mentioned, are a little over a million dollars for a boat. To replace that boat will cost anywhere from 20 to 30 million plus the value of the cargo. So, certainly, from the insurance company's point of view, paying off the pirates is certainly the economically rational decision to do. They also have been making a nice profit. This is the little dark secret of piracy. The insurers of maritime shipping in this area have been, in the last 18 months, been slapping a surcharge of about a 20 to 30, 40 thousand per vessel, per transit through the danger zone. If you think that 20,000 ships sail through this area every year, you're talking about a minimum surcharge of 400 million, possibly as high as six, seven hundred million. Now, we know the insurance companies have paid only about a hundred million in ransoms. So, they've actually had a windfall profit off the pirates of at least 300 million.

SIMON: And what's the net affect of paying the ransom, do you think?

Dr. PHAM: Well, unfortunately, what it does is it does drive up the incentives for piracy. This is a very impoverished country, unemployment in Somalia is in excess of 90 percent, so there are a lot of people willing to get involved and the million-dollar rewards for a few weeks of work certainly are profitable. Unfortunately, the shippers, the ship owners are caught in the middle of this. On one hand, once a ship is taken, they're under pressure from government officials, from families of seamen, to settle this matter and make it go away. On the other hand, they all realize that as they pay, they put themselves and their competitors at risk for more piracy.

SIMON: Peter Pham of James Madison University. Thanks very much for being with us.

Dr. PHAM: Pleasure to be with you.