Economic Impact of Piracy in the Gulf of Aden on Global Trade

Over 80 percent of international maritime trade moving through the Gulf of Aden is with Europe. Although those economies are currently more directly affected by the attacks, piracy poses significant burdens on governments and the maritime industry as they take steps to protect themselves from being attacked or hijacked. These actions may include a larger military presence in high-risk areas, rerouting ships to bypass the Gulf of Aden, paying higher insurance premiums, hiring private security guards, and installing non-lethal deterrent equipment. Ultimately, the costs of these actions are passed along to the tax payer and the consumer.

The carrier has basically two courses of action against piracy in the Gulf of Aden: Avoiding the area by rerouting vessels via the Cape of Good Hope, or accepting the risk of operating ships through the area by enhancing vessel security. Rerouting may be a viable option for lower value cargoes, such as some bulk commodities. However, for high value consumer goods or items needed for just-in-time manufacturing, the added delay may be unacceptable to the shipper.

For example, routing a tanker from Saudi Arabia to the United States via the Cape of Good Hope adds approximately 2,700 miles to the voyage. This longer distance will increase the annual operating cost of the vessel by reducing the delivery capacity for the ship from about six round-trip voyages to five voyages, or a drop of about 26 percent. The additional fuel cost of traveling via the Cape of Good Hope is about $3.5 million annually.

The cost of avoiding risk becomes more complex in the liner trades. A long route change would result in the need for an additional vessel in order to maintain the scheduled service and capacity commitments of the liner operation. For example, a routing from Europe to the Far East via the Cape of Good Hope, rather than through the Suez Canal, would incur an estimated additional $89 million annually, which includes $74.4 million in fuel and $14.6 million in charter expenses. In addition, the rerouting would increase transit times by about 5.7 days per ship. This would result in the need for an additional vessel to maintain the service frequency. However, these costs do not consider the disruption in the logistics chains.

The cost of the war risk binder for ships transiting the Gulf of Aden is estimated at $20,000 per ship per voyage, excluding injury, liability, and ransom coverage. A year ago, the cost of the additional insurance premium was only $500.[1] It is estimated that the increased cost of war risk insurance premiums for the 20,000 ships passing through the Gulf of Aden could reach as much as $400 million.[2] Clearly, this estimate represents an upper bound on the additional insurance cost as not all vessels will seek the additional coverage, and the estimate excludes rebates given when no claim is exercised on the policy.

The following table summarizes the major cost differences between avoiding risk via a Cape of Good Hope routing, and incurring the risk through enhanced protective measures:

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[1] **"The Long Way Around,"** Lloyd's List, November 26, 2008.

[2] **"Piracy Could Add $400m to Owners'** Insurance Cover Costs," Lloyd's List, November 21, 2008.

Additional Cost Estimates Summary		
Category	Via Suez	Via Good Hope
War Risk Insurance	$20,000	NA
Suez Canal Toll	$200,000	NA
Crew Cost (while in Maritime Security Patrol Area only)	2x basic rate	NA
5,000 TEU Containership Charter Hire (per day)	0	$40,000
5,000 TEU Containership Fuel (per day)	0	$125,000
300,000 DWT VLCC Charter Hire (per day)	0	$48,000
300,000 DWT VLCC Fuel (per day)	0	$47,500
Licensed Security Guard for voyage through the Gulf of Aden	$60,000	
Sonic deterrent equipment and operators (per trip)	$20,000 to $30,000	