

# Arrrgh! The Supply Cost of Pirates

If one were to believe Jack Sparrow and the Pirates of the Caribbean, piracy is one sexy enterprise. But for the shipping industry, it's not sexy--it's just expensive.

Search Google using the term "ocean piracy" (to factor out software piracy) and you'll yield over 29,000 hits. There has been a lot of press concerning piracy throughout the world; most notably off the coast of Somalia but piracy is actually taking place throughout the world. Want to win a bet at the water cooler? Most people are unaware of the high number of attacks each year throughout the world. Consider the International Chamber of Commerce International Maritime Bureau (IMB) map of 2010 incidents.



<http://www.icc-ccs.org/piracy-reporting-centre/imb-live-piracy-map/piracy-map-2010>

The International Chamber of Commerce-Commercial Crimes Services ([www.icc-ccs.org](http://www.icc-ccs.org)) reports the number of piracy incidents is rising

<b>Year</b>	<b>Attacks</b>
2010	445
2009	406
2008	293
2007	263
2006	239
2005	276

Pirate attacks should increase again this year. As of May 23, ICC-CCS has logged 211 pirate attacks worldwide with 26 vessels and 522 hostages currently in pirate hands. The numbers change daily. You can check the latest figures at <http://www.icc-ccs.org/piracy-reporting-centre/piracynewsfigures>. For shippers, the cost of piracy is a tradeoff issue.

## **Insurance**

Shippers can pay the increased insurance policies to operate in high risk areas.

- 1) **Marine (or Hull) insurance** primarily covers physical damage to vessels (hull) and the machinery and equipment. The insurance also covers collision liability associated with damage to other vessels and that vessel's cargo.
- 2) **Protection and Indemnity insurance** covers crew issues
- 3) **War Risk insurance** which covers acts of war, insurgency, and terrorism. Insurers often charge extra for ships that venture into high risk areas. Aon Corp. and London's International Security Solutions Ltd. offer plans tailored for piracy losses such as ransoms and cargo delays.

### **Re-Routing**

Avoiding costs money too. Ships from Saudi Arabia to the United States rerouting around the Cape of Good Hope face higher costs:

- increased annual fuel costs \$3.5 million
- reduced delivery capacity by 26% (five round trips per year instead of six)
- spread fix costs over fewer trips
- refueling increases. As more ships round the cape from the east, they need to refuel in West Africa.

### **Deterrence**

Pirates look for vessels that ride low in the water. They're easier to board. Vessels with a minimum freeboard greater than 25 feet, such as container ships, have better chance of escaping piracy. Shippers may invest in water cannons, high frequency air horns, and trained and armed crews. Arming crews is problematical with some cargos such as petroleum products.

The IMB offers a Best Management Practice report (at <http://www.icc-ccs.org/images/stories/pdfs/bmp3.pdf>) which recommends a full risk assessment considering the crew's safety and the vessel's freeboard. Shippers should institute a high risk area policy to run at full sea speed and stand additional watches with night vision capability. Shippers can also use mannequins to simulate a larger crew and install razor wire barriers.

### **Ending #1:**

Pirates are no Hollywood fantasy, they affect supply chain costs. However, forewarned is forearmed.

### **Alternative Ending #2:**

Piracy does have quantifiable costs which figure into the supply chain cost and is more than a Hollywood fantasy. But if you need more fodder for the water cooler discussion, point out on the piracy map that most pirates tend to like warmer climates. This begs the question: "What kind of sweaters do pirates prefer?" Answer: "Arrgyle...of course!"

### **Authors:**

*Robert O. Fabrizze is presently a doctoral candidate in the Department of Marketing and Logistics at the University of North Texas and can be reached at [bob.fabrizze@unt.edu](mailto:bob.fabrizze@unt.edu) . In his earlier life he was communications director for a veterinary pharmaceutical consulting firm.*

*Dr. Martin Theodore (Ted) Farris II, Ph.D., CTL is a Professor at the University of North Texas in Logistics and Supply Chain Management. He is a Charn Uswachoke International Scholar and a Fulbright Scholar. Ted is also the First Vice Chair of ISM's Logistics & Transportation Group and can be reached at [ted.farris@unt.edu](mailto:ted.farris@unt.edu) . Membership in the Group is open to all ISM members who are responsible for or have an interest in the Logistics & Transportation fields.*