

YO HO YO HO, IT'S THE RISK MANAGEMENT LIFE FOR THEE



Image by isiria/Melange

Pirates! Arrrrr, they're teh new sharks matey. Scary! And we should rightly be worried about this pirate problem, because CNN, MSNBC and the print have been relentlessly telling us so. First it was the seizure of the quasi American flagged cargo ship Maersk Alabama, and now the pesky pirates have snared an Italian tugboat too.

Sara related some fascinating background on Maersk and its business:

... part of Public Law 480 requires that food relief from US Agricultural surpluses, be carried in "American Bottoms" – and US Flagged and owned ships, all have union crews. This ship is owned by Moller/Maersk, which is a vast international Danish Company, but which bought an American Shipping Company, and thus is a bi-national corporation. When it carries American Humanitarian Relief Supplies, they must use a ship chartered in the US, US Flagged, and American Crew. Moller/Maersk is perfectly capable of changing the charter, flag, and crew if it is hired to deliver a non-restricted cargo. For instance, this is the Danish Shipping Company that "sold" Ollie North his ship for shipping the anti-tank weapons to Iran back in the middle of Iran Contra – the ship he took back to Denmark and parked once the story broke, and left the crew without paying their wages. Not covered in the US Press at all – the Danes had a nice little trial in a public court on the Island of Fyn,

and took public testimony of all the seamen (all Danes) who were unpaid, and out spilled all the cargo's they had hauled, and all their ports of Call. Not sure whether North ever paid his fines and got right with the Danish Seaman's court. Moller/Maersk also was the primary contractor hauling arms to Central America back in the Reagan Days. They've done covert stuff for CIA for years.

Shipping, even through troubled waters like those near Somalia, is big business. Isn't everything these days? Which brings me to the knee jerk question, one I am sure many have asked, of why these big global business ships do not simply arm themselves sufficiently to repel the rag tag Somali pirates? Seriously, the Maersk Alabama is 508 feet long and staffed by a trained and unionized crew, why can't they fight off these pirates with AK-47s in rinky dink junks and skiffs? Insurance and regulatory liability concerns; and, it turns out, that appears to be a pretty valid explanation.

The Maersk Alabama is, as previously described, a 508 foot vessel, yet it is manned by a crew of only twenty. Between standing watch, operating the ship, and rotating downtime, there is not much capacity for defensive prowess. Even if the crew members were trained for armed confrontation, which they are not, there are not enough of them. Above and beyond that, however, are a broad range of issues militating against allowing a ship's crew to fight back with arms:

...most companies fear crew arguments that turn heated would end in gunshot deaths. Furthermore, captured ships would yield more arms and ammunition for the pirates. Most crews would realize that deaths suffered by the pirates as they took a ship would cause retribution once the merchant ship was boarded. Moreover, port authorities do not want weapons aboard while in their territorial

waters. If weapons are permitted on board (and that is extremely rare) then not just ammunition but also the firing pins have to be kept in three separate and locked locations. Thus reassembling and loading such weapons at sea would take so much time, the pirates might well have already taken the ship anyway.

All good points, but you know the international shipping business isn't really worried about the health of its seamen. It is a risk management decision. When you take a look at the numbers, that is pretty defensible actually. Such was the basis of my use of the "sharks" analogy at the top of the post. It all sounds so alarming, and it is nice and shiny for news networks, Larry King and the like; but, all told, there is not that much "there" there. As an article from the US Naval Institute, discussing both piracy and terrorism, cogently states:

It is a nasty headache where it occurs, but its real effects on world trade and the movement of people are negligible.

That strikes me as about right. Of course, the flip side of that coin is that the insurance industry, which as we know is tethered to the Master Of The Universe financial industry, is likely getting rich off this. Of course they are:

Munich Reinsurance Co. expects insurance premiums against high sea piracy to rise, as well as the risk of piracy spreading in the world, the German company's head of marine insurance Dieter Berg said.

...

At the moment the need from shipping companies for hijacking insurance is mainly because of the exposure to Somalia and Nigeria, he said.

Redirecting ships to pass by the Cape of

Good Hope could cost a big container ship about \$1 million more in costs compared with going through the Suez Canal, he said. The additional premium for every voyage through the Gulf of Aden is worth a couple of hundred thousand dollars, he said.

A U.N. source, speaking to Reuters before the conference, said the increase in the costs of ship insurance could reach 0.5% of ship values, which are typically between \$10 million and \$100 million.

Insurance has yet to show any sign of falling despite January's easing in hijacking numbers, Mr. Mukandan said.

No. I don't suspect the insurance is going down. It never does. Hmmm, pirates or the bottom scraping scavengers that run the insurance and international risk conglomerates? Man, that is a tough call. Almost makes you want to sympathize with the pirates.