



MORAN
SECURITY
GROUP

On Piracy Threats in the World`s oceans

10.09.2013



PIRACY ACTIVITY IN THE INDIAN OCEAN

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Moran Security Group Ltd. conducts rigorous and complex monitoring and analysis of piracy-related challenges and threats to the shipping industry throughout the world's oceans, based on current/real-time data from online resources.

Despite a significant decrease in the efficiency of piracy attacks during an eight-month period in 2013, compared to similar periods in 2010, 2011 and 2012, incoming data indicate sustained levels of Somalia-based piracy threats within the Indian Ocean region: During 2010, 159 incidents were reported, 25 of which were hijackings; during 2011, 241 incidents were reported, with 17 hijackings; and during 2012, 72 incidents were reported, with 7 hijackings. In 2013, 155 incidents were reported, including 2 hijackings of Dhow-type vessels, and 3 intrusions of armed robbers onboard vessels at anchorage in Egyptian ports.

In comparison with the statistical data of 2012, one can observe a greater than doubling of the number of attacks, and a constantly expanding geographical radius, with piracy attacks reaching into areas previously considered relatively safe. Specifically, a mobilization of pirates' attacks is recorded and confirmed by statistical data near the entry to the Strait of Hormuz, outside Iran's territorial waters. Ten piracy-related incidents were immediately recorded in August of 2013, alone, in this region.

In addition, Islamic extremists using large-caliber machine guns and RPG-7s have recently attacked a Chinese container ship, the "Cosco Asia", sailing under the Panama flag and passing through the Suez Canal. According to our experts, such an attack could be committed by terrorists trained in fighter camps in the northern part of the Sinai Peninsula. Given an unstable political situation in Egypt, an escalation of terrorist threats in the Suez Canal is expected in the near future. The Joint War Committee (Lloyd) responded to this incident by pledging to devote significant attention to the crisis emerging in these water areas, stressing that «currently Egypt/Suez are not on the listed high risk areas, so only renewals and new business could be affected».

Simultaneously, the character of piracy attacks has markedly shifted to the so-called "soft approach", consisting of thorough reconnaissance conducted by pirates before the "operation." In particular, the pirates carefully research the presence of armed guards onboard commercial vessels by collecting information received from sources operating within the region (fishermen, port agents and recruited crew members, for example), and by so-called offensive reconnaissance such as swarming - the systematic approaching of the target on all sides by numerous vessels to provoke a security response. Pirates typically avoid engaging in crossfire with guards, and stop approaching just after the appearance of private military company personnel on deck, the demonstration of weapons and/or warning shots.

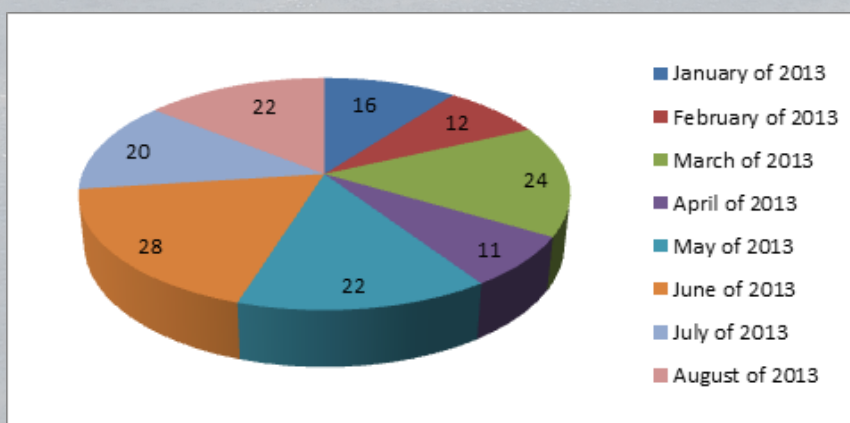
PIRACY ACTIVITY IN THE INDIAN OCEAN

According to our information, more and more ship owners hire private security for the defense of their vessels in the High Risk Area of the Indian Ocean, which explains the nearly complete absence of vessel hijackings, despite the simultaneous increase in the number of incidents. According to Internet data originating from the Indian Ocean region, within the period from January to August of 2013, private military company personnel have prevented and deterred, by use of equipment, 78 attacks on commercial vessels, comprising approximately half of the total number of incidents. It is necessary to realize that this statistical data do not include incidents when pirates abandoned their criminal intents upon detecting the armed security personnel onboard.

Furthermore, it is worth noting the underreported statistical data for 2013 concerning piracy-related actions, published by such organizations as the International Maritime Organization (IMO) (10 incidents in total, including 2 hijackings), the NATO Shipping Centre (9 incidents) and the EU Naval Force (EU NAVFOR) (21 incidents). We suppose that such level of reporting is related to the limited channels of online information within the Indian Ocean region available to these organizations.

By our estimations, coalition forces within the waters of the Gulf of Aden are able to prevent merely a fraction of the aggressive actions against commercial vessels. For example, in 2013, only four piracy skiffs and mother ships were arrested, and measures were taken to prevent the sailing of merely two Piracy Action Groups. 98 incidents took place within the Internationally Recommended Transit Corridor (IRTC) and southern part of the Red Sea; 38 incidents were recorded in the Gulf of Oman/Arabian Sea (the majority of incidents were close to the Oman shoreline and within the Exclusive Economic Zone (EEZ) of Iran, at the entry to the Strait of Hormuz; and 15 incidents were recorded within the Indian Ocean, including the waters of East Africa, the central region of the ocean, and the western coast of India.

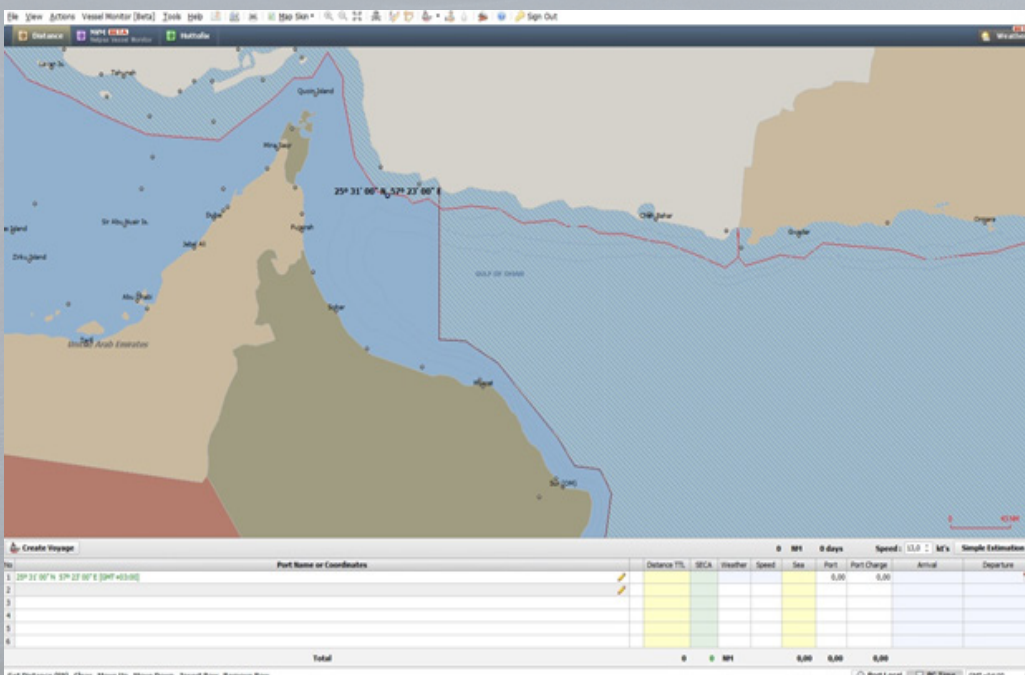
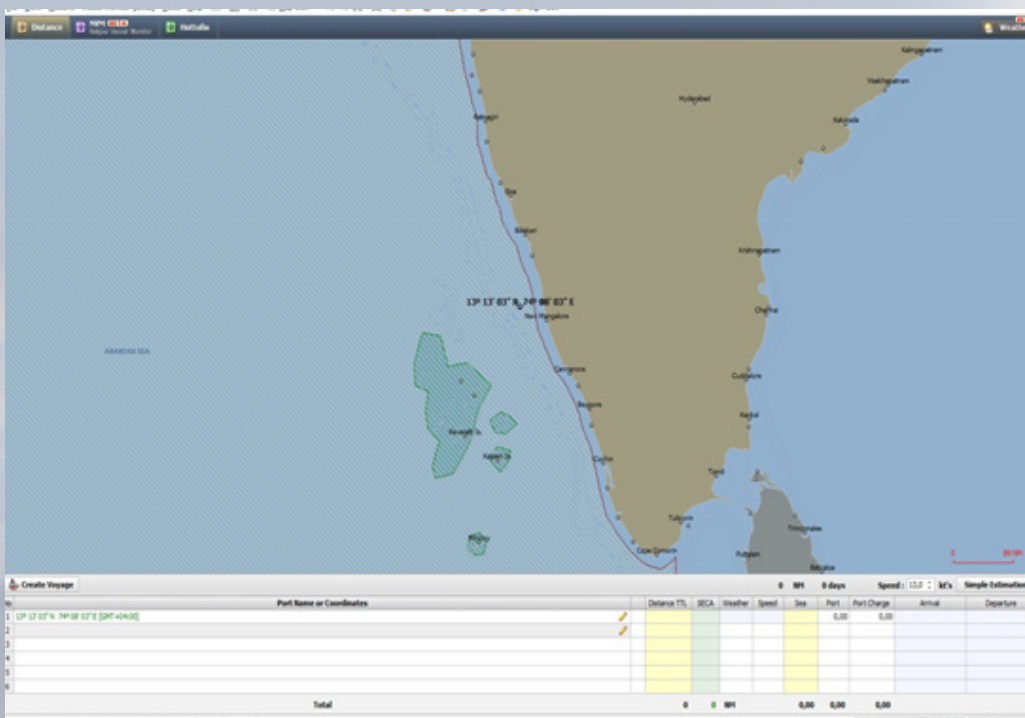
Total number of piracy related incidents in 2013 in the Indian ocean.



PIRACY ACTIVITY IN THE INDIAN OCEAN

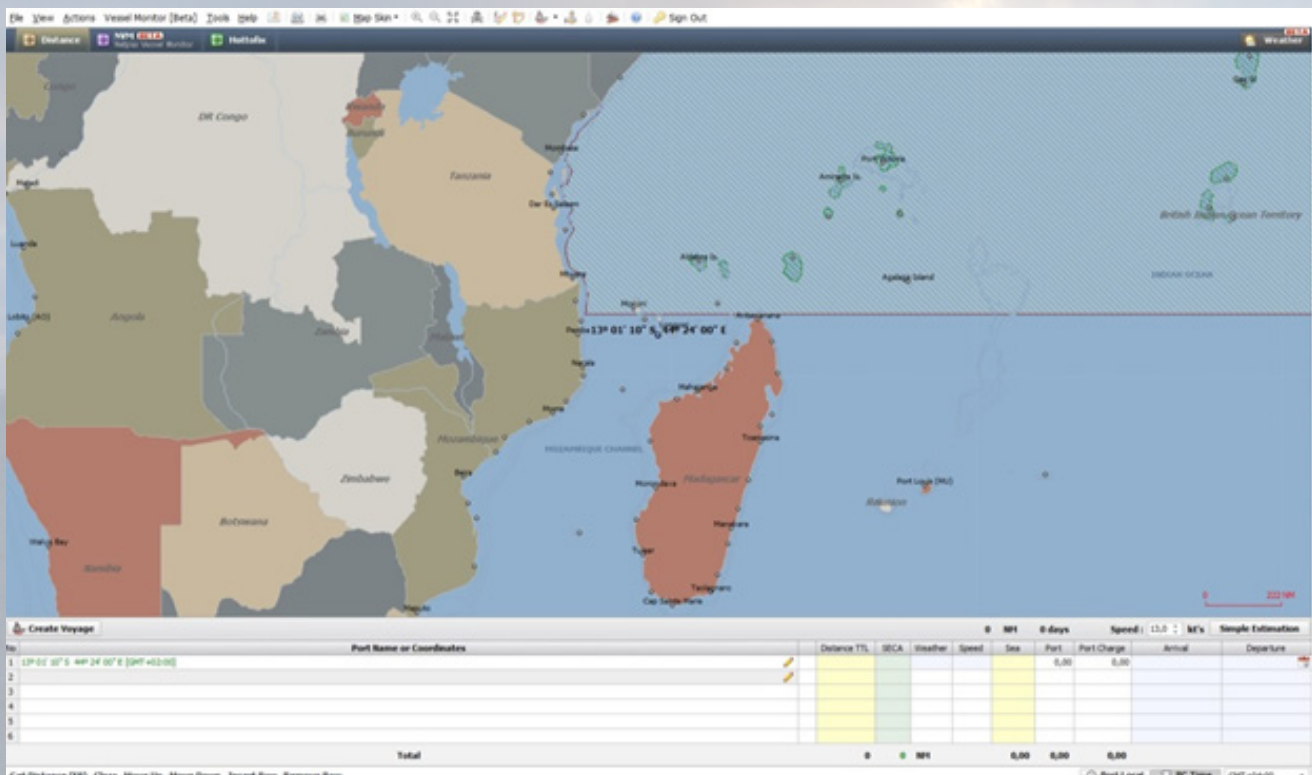
It is meaningful to mark main sectors in relatively safe regions of the Indian Ocean where several pirate attacks have taken place, such as the western coast of India and off the coast of Iran.

(Chart 1, Chart 2).



PIRACY ACTIVITY IN THE INDIAN OCEAN

In addition, in January of this year, an attempted hijacking by Somalia-based pirates of a container ship sailing under the flag of the Marshall Islands, heading south from Comoros, that is, outside the High Risk Area, was recorded. During this incident, the crew took shelter in the citadel and armed security guards fired warning shots in the air, scaring pirates away. Similarly, there is a sustained piracy threat within the region of the Mozambique Channel, where the production of hydrocarbons on the shelves of the coastal states (Kenya, Tanzania and Mozambique) is being developed and maritime traffic toward South East Asia and Europe is increasing.



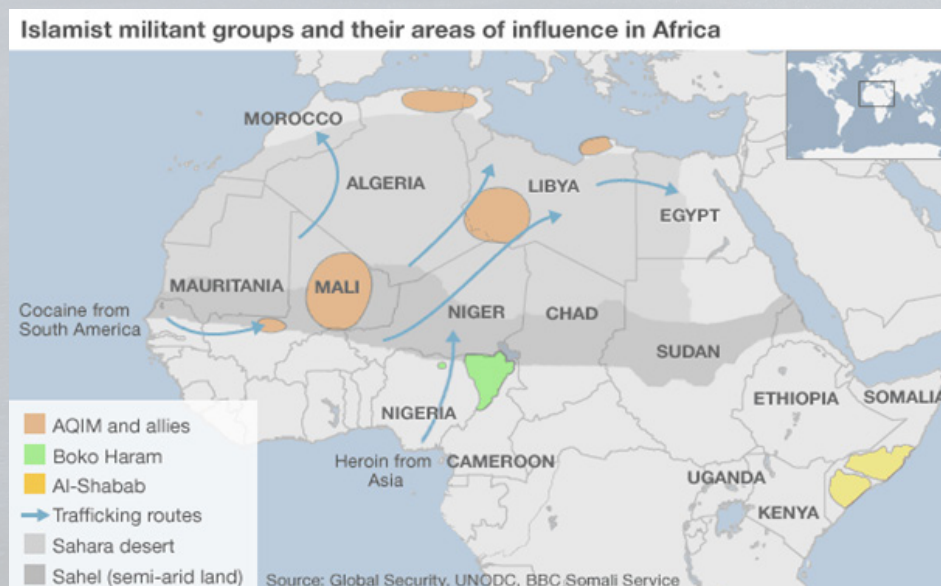
It should be noted that in 2013, the efforts of Moran Security Group Ltd. prevented as many as five pirate attacks on the following vessels of the group of companies known as Sovcomflot: MV Barents Sea (Southern coast of Oman, 16 49,4 N 057 43,6 E), MV Troitsky Bridge (Western coast of India, 13 13,3 N 074 08,3 E), MV Nikolay Zuev (IRTC, 13 48,4N 050 40E), MV Laptev Sea (Arabic Sea, 08 14N 56 26E), MV SCF Prudencia (IRTC, 12 03,5 N 42,1 E).

PIRACY ACTIVITY IN THE INDIAN OCEAN

According to data coming from the Indian Ocean region, more and more facts are emerging regarding the use among pirates of such heavy weapons as RPG7s and machine guns. In connection with the unstable political situation in North Africa and the Middle East (the military coup in Egypt, the government crisis in Iraq, the civil war in Syria, the violent overthrow of Muammar al-Gaddafi's regime in Libya, the downfall of the regime and rise of power by Islamists in Tunisia and the struggle of the government against rebels in Yemen), the further proliferation of various weapons on the black market of the regional states and their transfer to terrorists from Al-Qaeda in the Islamic Mahgreb (including Somalia and its organization "Al-Shabab") is predicted. The criminal structures have strong relations with piracy leaders and consider the "business" of piracy an extremely important source of income for terrorist organizations. It is apparent that, given both extreme poverty and the lack of education of the regional population, more and more young people are joining the Islamic Freedom Fighters and piracy groups because such "work" for them is the only stable source of income in Somalia.

Al-Shabab and other similar organizations actively participate in drug trafficking and distribution within the African continent, and the income generated is directed to the organization of terrorist activity and the recruitment of new disciples. It is common practice for piracy mother ships to be engaged for drug transport within the region.

It is also supposed that after the cessation of the conflict in Syria, irrespective of its outcome, many mercenaries fighting on the side of the Syrian opposition will return to their countries and reinforce the cells of radical Muslim organizations. In this respect, one can expect further escalation of this situation in the Islamic Mahgreb that will exacerbate the general criminal situation in the Indian Ocean, including the actualization of the maritime terrorist threat.



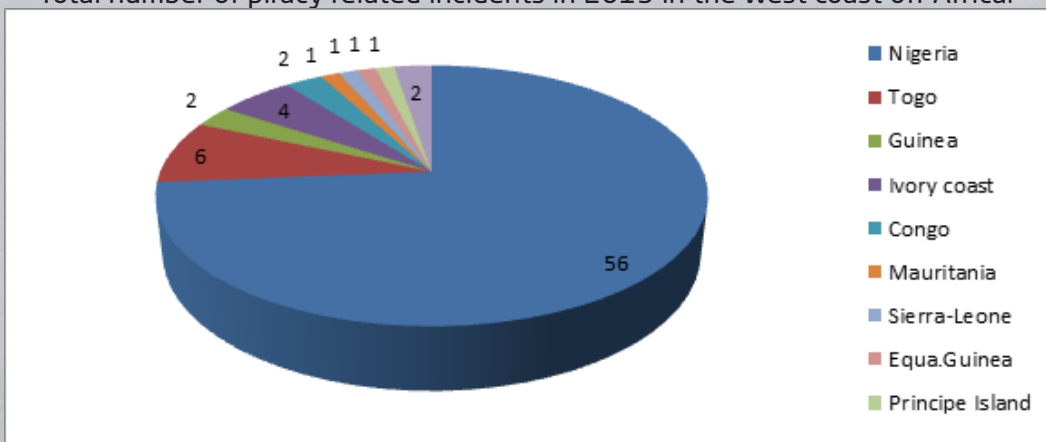
THE COAST OFF WEST AFRICA



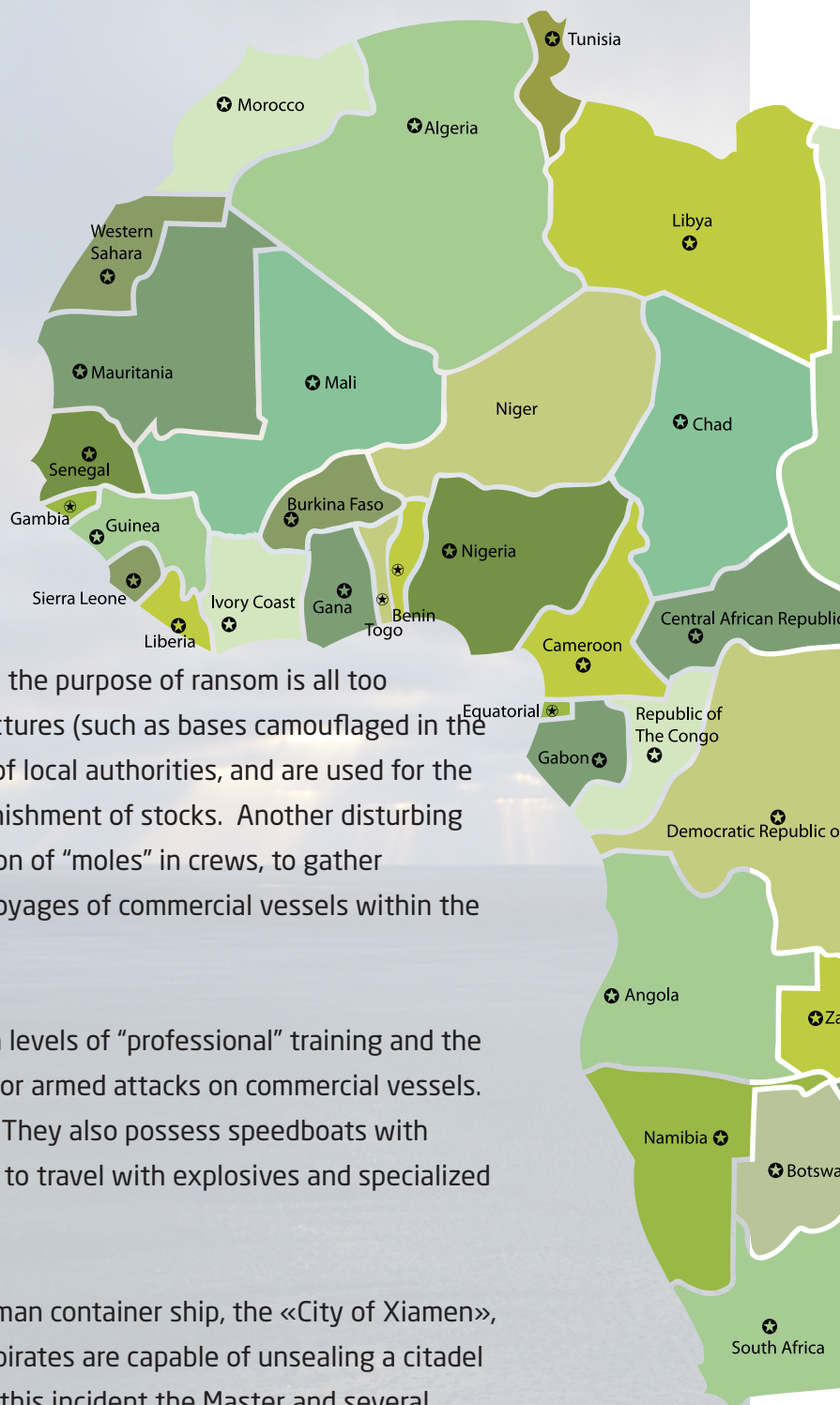
By our estimation, this water represents the most serious dangers for commercial shipping vessels operating off the coast of West Africa. To this effect, in June of this year, the Joint War Committee (Lloyd) added Togo to Benin and Nigeria, and included it in the High Risk Area. According to our data, the number of attacks in the Gulf of Guinea for the first eight months of 2013 equaled 75 incidents, whereby 39 of them were hijackings and armed robberies. This nearly doubles the statistical data for the similar period of 2012 (with 43 incidents and 8 hijackings). It is worth noting that in 2013, 45 attacks occurred in Nigeria (25 hijackings and 21 attempted hijackings), roughly 80% of the total number of attacks.

In addition, piracy attacks are usually executed with the use of speed boats and heavy weapons, often leading to casualties among crew members and significant damage to vessels and their equipment (means of detection, communication, etc.). Vessels may be attacked at anchorage within territorial waters, on the run, or during the Ship-to-Ship (STS) operations.

Total number of piracy related incidents in 2013 in the West coast off Africa.



THE COAST OFF WEST AFRICA



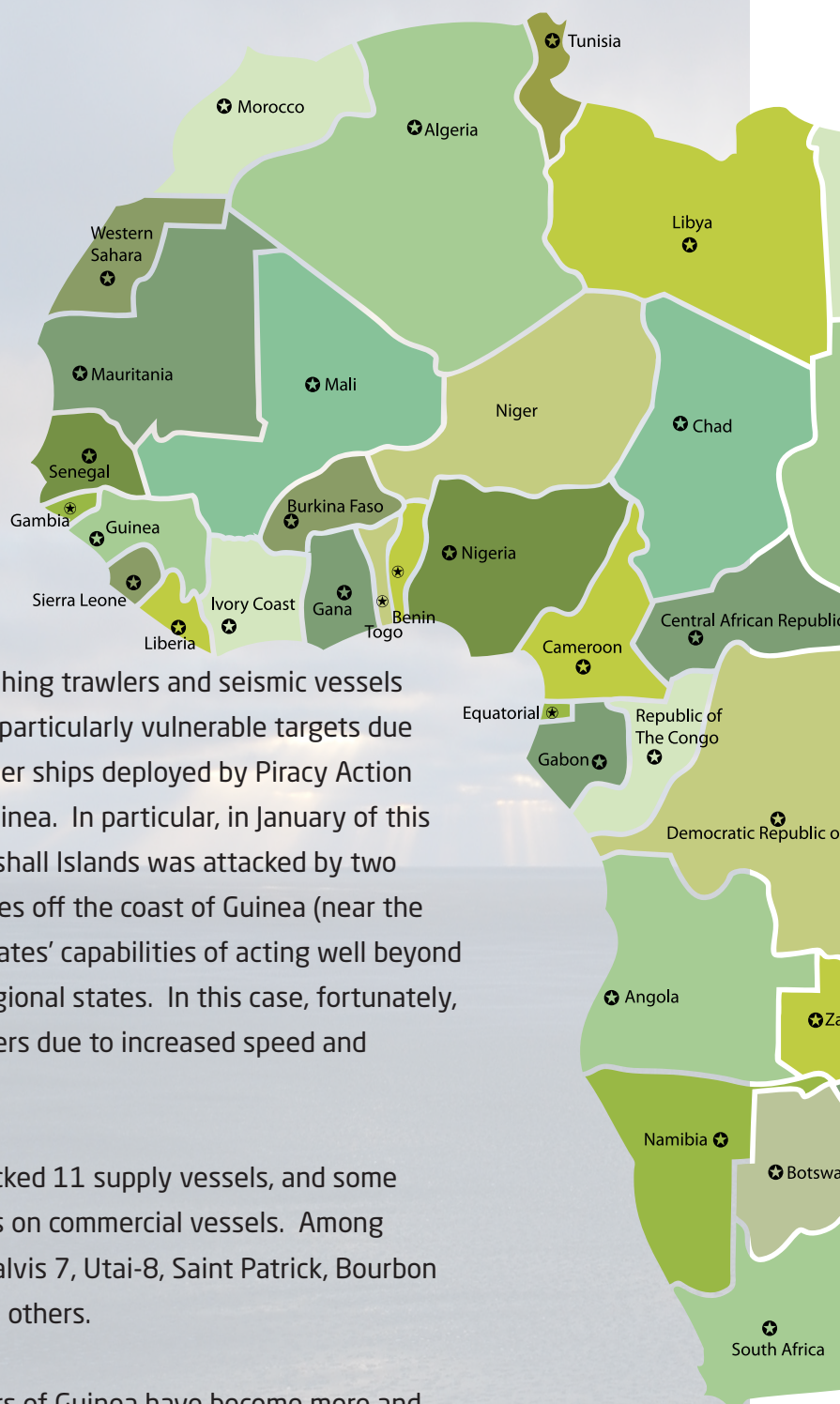
The practice of kidnapping seafarers for the purpose of ransom is all too common. Finely-tuned piracy infrastructures (such as bases camouflaged in the jungle) function with the tacit consent of local authorities, and are used for the confinement of seafarers and the replenishment of stocks. Another disturbing trend involves spying and the penetration of “moles” in crews, to gather information about planned and actual voyages of commercial vessels within the Gulf of Guinea.

It is also important to point out the high levels of “professional” training and the material/technical outfitting of pirates for armed attacks on commercial vessels. Many pirates have fighting experience. They also possess speedboats with large-caliber machine guns and are able to travel with explosives and specialized equipment.

The incident of the hijacking of the German container ship, the «City of Xiamen», in April of this year, demonstrated that pirates are capable of unsealing a citadel with the use of hydraulic pliers. During this incident the Master and several crewmembers were kidnapped.

Primary targets of pirates remain the same: Tankers, container ships and bulk carriers. They are attacked primarily for the seizure of cargo, especially crude oil and oil products, for subsequent resale on the black market of West African countries. Pirates use their own shelf fleets for the pumping and transportation of oil to traffic points; the number of vessels per fleet constantly varies.

THE COAST OFF WEST AFRICA



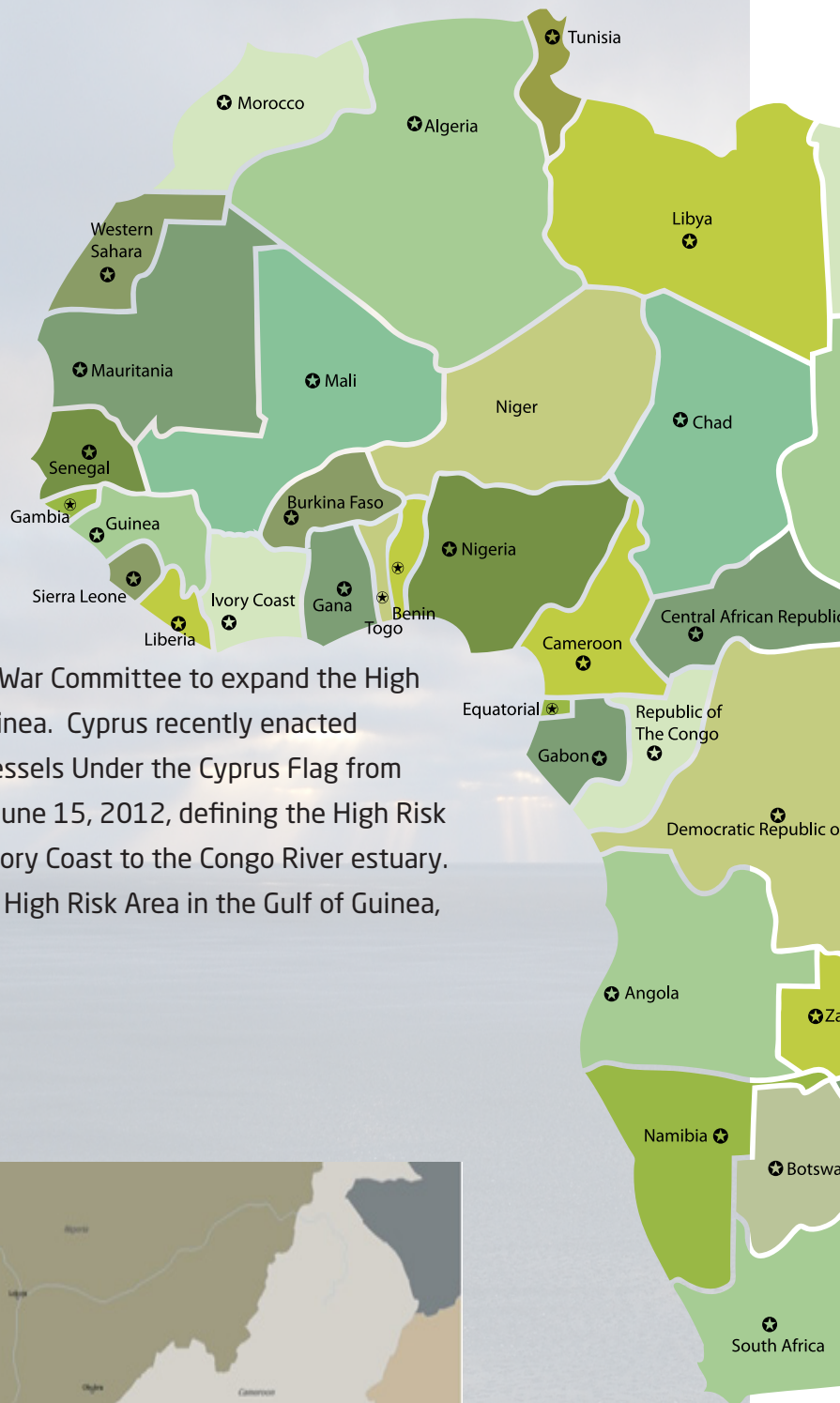
In this regard, offshore vessels, small fishing trawlers and seismic vessels operating in the Gulf of Guinea become particularly vulnerable targets due to their potential for future use as mother ships deployed by Piracy Action Groups throughout the entire Gulf of Guinea. In particular, in January of this year, a tanker under the flag of the Marshall Islands was attacked by two skiffs at a distance of 1205 nautical miles off the coast of Guinea (near the capital city, Conakry), illustrating the pirates' capabilities of acting well beyond the Exclusive Economic Zones of the regional states. In this case, fortunately, the vessel was able to evade the hijackers due to increased speed and maneuvering.

During 2013, thus far, pirates have hijacked 11 supply vessels, and some of them took part in subsequent attacks on commercial vessels. Among these vessels are the Armada Tugas, Walvis 7, Utai-8, Saint Patrick, Bourbon Arethuse, C-Viking, Continental One and others.

Thus, the territorial and economic waters of Guinea have become more and more treacherous for commercial shipping. For example, in June of this year, 25 nautical miles southwest of Conakry, five robbers armed with machine guns stormed onto an anchored ship, menacing the crew with violence and stealing money and property, before fleeing the vessel.

Furthermore, an alarming fact is the expansion of the High Risk Area to the south, up to the Exclusive Economic Zone of Gabon, where in July of 2013, two commercial vessels were hijacked simultaneously. One of the vessels was a tanker traveling under the flag of Malta.

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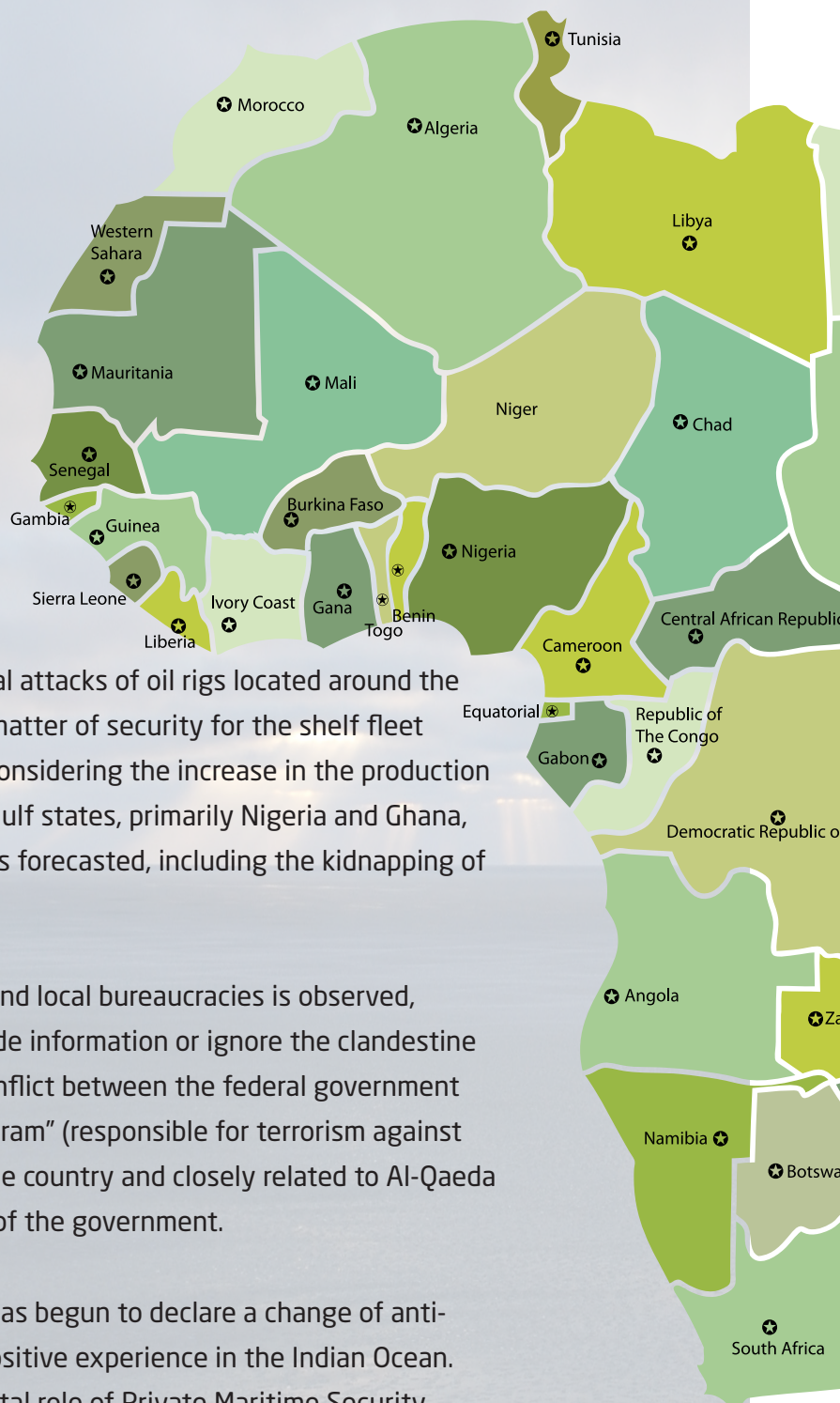


Such incidents have prompted the Joint War Committee to expand the High Risk Area to the south of the Gulf of Guinea. Cyprus recently enacted legislation, entitled "On Protection of Vessels Under the Cyprus Flag from Piracy and Other Illegal Acts", effective June 15, 2012, defining the High Risk Area from the western boarder of the Ivory Coast to the Congo River estuary. Slide 1 illustrates the boundaries of the High Risk Area in the Gulf of Guinea, as defined by the Joint War Committee.

Slide 1



THE COAST OFF WEST AFRICA



A separate issue concerns the occasional attacks of oil rigs located around the Gulf of Guinea. In this connection, the matter of security for the shelf fleet serving these rigs becomes very real. Considering the increase in the production of hydrocarbons on the shelves of the Gulf states, primarily Nigeria and Ghana, a significant increase in such incidents is forecasted, including the kidnapping of foreign workers.

An interpenetration of criminal groups and local bureaucracies is observed, whereby the complicit authorities provide information or ignore the clandestine activity. Furthermore, the ceaseless conflict between the federal government and the radical terrorist group, "Boko Haram" (responsible for terrorism against the civilian population in the north of the country and closely related to Al-Qaeda in Islamic Maghreb) diffuses the power of the government.

It is worth noting that Navy Command has begun to declare a change of anti-piracy politics, contributing to a more positive experience in the Indian Ocean. They now very seriously consider the vital role of Private Maritime Security Companies (PMSCs) in the protection of commercial ships in the Exclusive Economic Zone of Nigeria.

According to our data, the piracy business in the Gulf of Guinea region is becoming more structured, as evidenced by elaborate interaction with local law enforcement, the use of satellite communications, and the recruitment of interpreters knowing eastern European, European and Asian languages, who establish contact with hostages' relatives. It is documented that Nigerian criminal groups functioning across the entire Gulf perform the majority of attacks.

THE COAST OFF WEST AFRICA

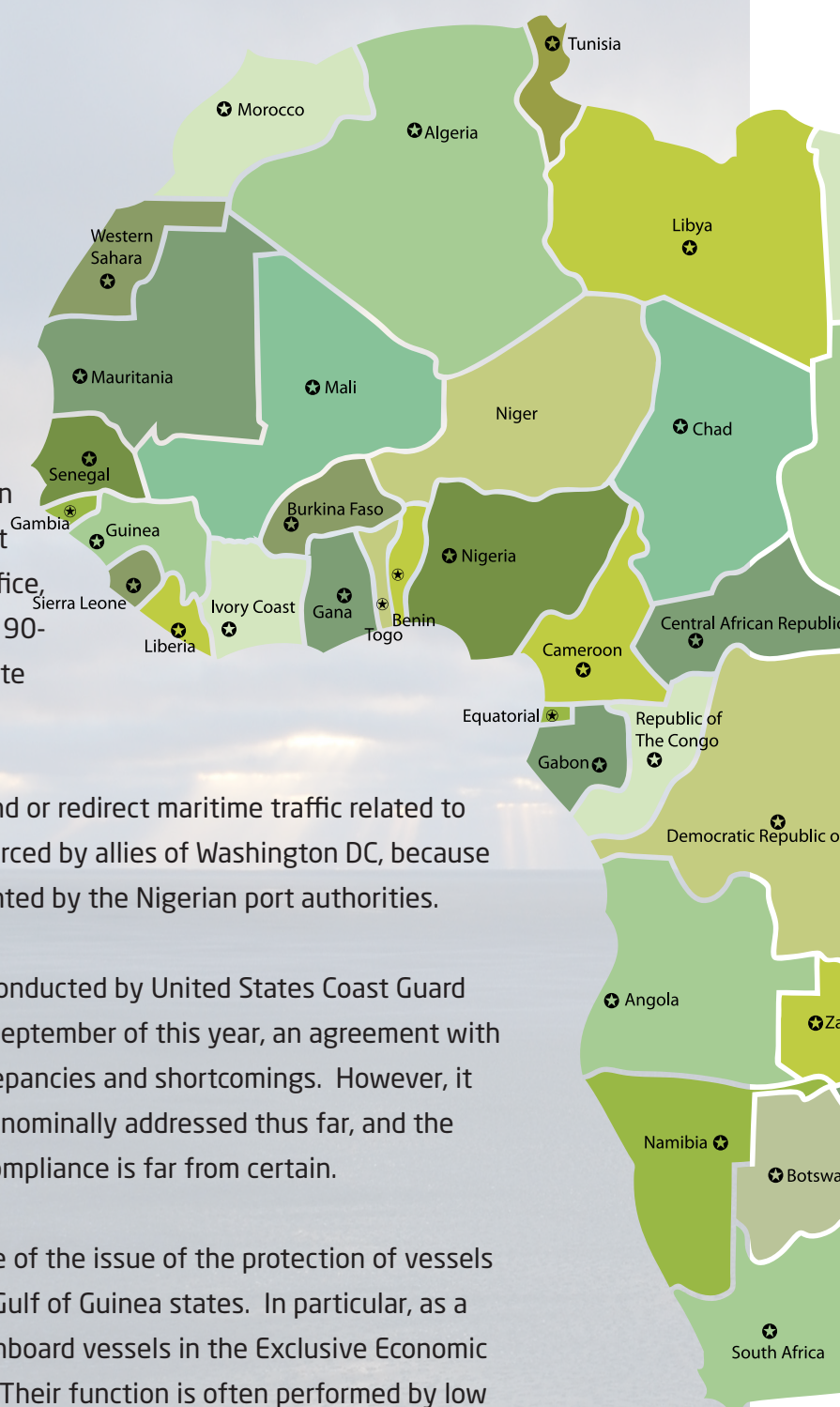
In connection with the difficult criminal situation in Nigerian waters and the absence of adequate security systems in Nigerian ports, the US State Department sent a decree to the Nigerian foreign office, protesting the state of affairs, issuing a 90-day ultimatum, and demanding immediate correction.

The United States threatened to suspend or redirect maritime traffic related to Nigerian ports. This warning was reinforced by allies of Washington DC, because the ISPS Code has never been implemented by the Nigerian port authorities.

Based on the findings of a ports audit conducted by United States Coast Guard representatives in August and in early September of this year, an agreement with NIMASA was reached to rectify all discrepancies and shortcomings. However, it appears that the issues have only been nominally addressed thus far, and the rectification of the Nigerian ports noncompliance is far from certain.

In this context, there is a legal abeyance of the issue of the protection of vessels bound for the territorial waters off the Gulf of Guinea states. In particular, as a general rule, the use of armed guards onboard vessels in the Exclusive Economic Zone and internal waters is prohibited. Their function is often performed by low quality Navy units of the Gulf States, providing their service men to ship owners on a commercial basis.

Also in this context, on June 24, 2013, an official acceptance in Cameroon by 22 states of western and central Africa, of a so-called "Code of Conduct" on anti-piracy measures under the auspices of the International Maritime Organization (IMO), will hardly ameliorate the security situation in the Gulf of Guinea. This is due to the vagueness and ambiguities of the formulations and the absence of provisions on the use of privately contracted armed security personnel, who could contribute greatly to the stabilization of the conditions within the region.





PIRACY ACTIVITY IN SOUTH AMERICA

MORAN SECURITY GROUP

10.09.2013

PIRACY ACTIVITY IN THE INDIAN OCEAN

According to available data, piracy attacks on vessels in the waters of Latin American states (Ecuador, Columbia and Peru) are relatively rare and tend to consist of covert penetrations onboard and pilferage. During such incidents, weapons are not typically used. The one exception is the incident occurring in the waters of Guyana, in January of 2013, when armed robbers penetrated an LNG tanker at anchorage, taking the first mate hostage, stealing the crew's money, and successfully disappearing.

However, in relation to the increase in the production of hydrocarbons along the Venezuelan shelf and within the Orinoco river basin, an increase in criminal incidents is forecasted, primarily against the vessels of the shelf fleet serving the oil production infrastructure. In particular, in June of this year, the Joint War Committee included the Exclusive Economic Zone of this country in the area of military and terrorist risks. The shared border with Columbia was a contributing factor in this important decision.

It is believed that the chief agents in the attacks against vessels will be representatives of such terrorist organizations as the Columbia National Liberation Army (ELN) and the Revolutionary Armed Forces of Columbia (FARS) that have their own bases within Venezuela's territory. The practice of foreign experts working in the oil production region will become more widespread. In addition, according to data from the US State Department, fighters from the Lebanese terrorist group, Hezbollah, use Venezuela for the organization of fighters' training camps, weapons trade, money laundering and "smurfing", and sabotage in the Middle East, rendering these fighters highly capable of attacking commercial vessels.