

Speaking notes for a “trends in arms production” presentation.

Eamon Surry, Research Assistant, Arms Production Project, SIPRI.

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*The powerpoint slides that accompanied this presentation are also available at the Conference Website.*

This short presentation will be done in two parts:

**(Slide 1)**

1. First, I will talk briefly about the SIPRI arms production project itself – the data we collect, and how we obtain it. It appears as if this could be the ‘bottom’ for the defence industry, so I will also talk about our future plans for the database.
2. I will then move on to present the *SIPRI Yearbook 2004* arms production chapter, advance copies of which are now available. Please add your name to our email list and we will send you a copy. There are some interesting trends occurring in the industry now, but given time constraints I would like to focus on one specifically – the continued rise of what is variously called the privatized military industry, private military firms (PMFs), private military contractors (PMCs), and so on. There has been so much media coverage about this issue recently that I will not dwell on the controversies. I will instead focus on the conceptual problems that PMFs raise for us in terms of maintaining the arms industry database, as well as problems as regards industry transparency. I will also pose a number of questions that perhaps you can reflect on and/or suggest ways in which we should handle these new developments.

Part One:

**(Slide 2)**

The SIPRI Arms Production Project was established in 1989. Initially, it tracked the decline in demand for weapons after the end of the cold war. Because of the difficulty of obtaining arms production data at the national level, a database of companies was set up. By analysing the sales of the major companies, it was hoped that some broad trends would become apparent. The database has now grown to over 700 companies.

The database does not provide complete worldwide coverage. The major exclusion is China because of a lack of comparable data. In 2003 Russian companies were integrated for the first time. South Korean companies are also now included but present problems because of the lack of arms industry transparency in that country.

The project is perhaps best known for our annual ‘Top 100’ list of companies. The new list is available as of June. It contains data for 2001 and 2002 and can be downloaded from our website:

<http://web.sipri.org/contents/milap/milex/aprod/top100/byrank.htm>

**(Slide 3)**

A brief note on how the SIPRI Arms Production Project works: We use only open sources. Our preference is to get the data from the companies themselves if they will give it to us. We first scrutinize company Annual Reports and then their press releases and other official documents. I am currently in the process of sending out surveys to 200 of the biggest companies. The response rate is very, very low. Obtaining sales, profit and employment data is generally straightforward, but nothing compels the companies to disclose what percentage of those sales is defence-related. In the absence of company cooperation we use various methods to estimate arms sales – for example, by adding up national Department of Defence contracts awarded. On occasion a company CEO will disclose a percentage number in a media interview.

We also rely on our Arms Production Network. This is a network of experts who collect data for companies in their countries or regions and send it to us. We also ask them to answer specific questions throughout the year. There are a number of countries for which we have no network member. If anyone thinks they might be interested in assisting, please send me an email. My contact details are on the website.

**(Slides 4 and 5)**

We are currently trying to expand the database eastwards. We will focus especially this year on Poland and Ukraine. We are also updating our database system from a rather outdated program to a new web-based system that we can access from anywhere. Our website was completely overhauled about two weeks ago. New data were added and we have tried to make it more user-friendly.

**Part Two:**

The *SIPRI Yearbook 2004* arms production chapter was quite wide-ranging in scope, and our two main conclusions were the following:

**(Slides 6 and 7)**

First, this may be the ‘bottom’ of the trough in terms of arms industry downsizing. It appears that any restructuring which is occurring is no longer driven by pressures to rationalize and downsize, as was the case after the cold war. Instead companies are basing their acquisitions policies simply on where they think the future markets will be. That is to say, the new military environment has compelled them to move very quickly into defence electronics, IT and services. Those companies that already have such capabilities are expanding them, and those companies without such capabilities are swallowing up smaller companies that do.

Second, the boundaries of what we call the ‘defence’ or ‘arms’ industry are being rapidly expanded. Everyone at this conference knows that it has never been an easy industry to define but recent developments will ensure more difficulties for the SIPRI Arms Production Project in the near future, regarding our arms industry database.

It is not news that defence departments have been outsourcing many of their activities to private companies, but the SIPRI Arms Production Project argues in the *SIPRI Yearbook 2004* that the Iraq War clearly demonstrated just how far this has progressed. The following is a quick overview of some of the major contracts:

**(Slide 8)**

*(From SIPRI Yearbook 2004: Armaments, Disarmament and International Security, Arms Production chapter, p. 401)*

- Vinnell Corporation, a subsidiary of Northrop Grumman, was awarded a \$48 million contract to train the new Iraqi Army. The instructors are civilians, but the majority of them are former US military personnel.
- In April 2003 DynCorp, a subsidiary of Computer Sciences Corporation, won a contract worth \$50 million to train the Iraqi police force. Under the terms of the agreement, DynCorp would supply up to 1000 civilian advisors.
- Kellogg, Brown and Root, a subsidiary of Halliburton, was awarded a contract in December 2001 to provide logistical support for US Army field operations. According to the Center for Public Integrity, by September 2003 the company had been awarded orders in Iraq amounting to a total of \$2 billion.

What exactly is it that defines these companies? Probably the most widely accepted definition of companies in conflict zones has been given by Peter Singer of the Brookings Institution.

He divides them into 3 groups:

**(Slide 9)**

*From: Singer, P. W., Corporate Warriors: The Rise of the Privatized Military Industry (Cornell University Press: Ithaca, N.Y. and London, 2003.)*

**Military support firms** – non-lethal aid and assistance (Kellogg Brown and Root)

**Military consultancy firms** – advisory and training (Vinnell Corporation)

**Military provider firms** – implementation and command (DynCorp, Blackwater)

**(Slide 10)**

In the autumn of 2004, the SIPRI Arms Production Project will make a concerted effort to integrate private military companies into our database. This raises all sorts of problems for us, for two reasons. First, definitional problems exist. At what point do we decide that a support or services company is performing a military task? If a civilian shipping company or airline is used to shift equipment or troops, is it a PMC? In addition, how can we separate out these activities from their civilian sales? The boundaries between the three types of companies listed above are not clear, and a company can move in and out of a specific type of activity.

The second problem, which is related, is the issue of transparency. As noted above, nothing compels a company to report what percentage of its activities are military-related, and a company's accounting practices may be such that it may not even be possible for it to do so. The companies are often reluctant to assist with academic

research projects, and also tend to be very secretive and hyper-sensitive to any kind of negative media coverage.

The issue of private military companies raises many interesting questions, including a basic one: does it make economic sense for a government to contract out military services to companies which have a clear interest in prolonging a conflict? I am not an economist and I will not attempt to answer that question. There have also been allegations of massive over-billing that I will not address at this time.

‘Privatized warfare’ is likely to continue to be a controversial issue for years to come. Even if it turns out to be a short-term phenomenon, the SIPRI Arms Production Project wants to attempt to include these companies in our database in order to track the trend, and we are, of course, open to suggestions on how best to do this. It may be that we can only include those companies which we can safely say have a military-related sales share of 100 per cent, but we may miss many interesting companies if such a definition is used.