

II. The military services industry

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Military services are military-specific services—such as research and analysis, technical services, operational support, and armed force—that were once undertaken by military establishments but have been outsourced to private companies.¹ The private military services industry has grown substantially over the past two decades. The SIPRI Top 100 arms-producing and military services companies for 2010 includes 20 companies categorized as primarily military services providers; their combined military-related sales in 2010 totalled \$55 billion (see table 5.3). This is a 147 per cent real-terms increase in sales since 2002, when the SIPRI Top 100 included 20 military services companies with combined military sales of \$22 billion (in constant 2010 dollars).² While this was a major increase, the annual rate of growth in sales of these military services slowed in 2009 and 2010.

The increase in privatized military services began as a result of post-cold war restructuring in the United States and Western European arms industries. The concentration and specialization in arms production during the consolidation of the 1990s included expansion into military services, as part of the longer-running trend to privatize (or outsource) government services.³ Justifications for outsourcing (in both the private and the public sectors) include cost savings, quality improvement, access to new knowledge, expertise and skills, and risk management, as well as greater flexibility and ‘on-time’ deliveries.⁴

The growth in the military services industry has been most obvious in the USA.⁵ In 2010 the US Department of Defense’s annual expenditure on services (including non-military services) accounted for half of the \$400 billion it spent on procurement.⁶ Furthermore, the current trend for US arms-

¹ Perlo-Freeman, S. and Sköns, E., ‘The private military services industry’, SIPRI Insights on Peace and Security no. 2008/1, Sep. 2008, <http://books.sipri.org/product_info?c_product_id=361>. Military services do not include generic services, such as peacetime provision of health care and cleaning. As well as military services outsourced by armed forces or defence ministries, military services include those services that are military in nature and purchased by other parts of government and by clients in the private sector.

² Figures for the 2002 SIPRI Top 100 are drawn from the SIPRI Arms Industry Database. Consistent SIPRI data for these companies is only available since 2002.

³ Singer, P. W., *Corporate Warriors: The Rise of the Privatized Military Industry* (Cornell University Press: Ithaca, 2003).

⁴ Perlo-Freeman and Sköns (note 1); and Singer (note 3).

⁵ Although public–private partnership programmes also grew in Western Europe during this period, this section focuses on the USA.

⁶ US Department of Defense, ‘DOD news briefing with Under Secretary Carter with opening remarks by Secretary Gates from the Pentagon’, News transcript, 14 Sep. 2010, <<http://www.defense.gov/transcripts/transcript.aspx?transcriptid=4684>>.

producing companies to shift into military services is likely to continue.⁷ On the one hand, the shift is part of strategies to maintain sales in anticipation of cuts in armaments programmes. On the other hand, companies are moving into military services (a) to take advantage of general government cost-savings efforts, (b) to protect themselves from the reduction in projects that had become expected to rotate among the prime contractors as a means of maintaining the financial health of the arms industry (known as Kurth's 'follow-on' imperative), and (c) to take advantage of governments' general willingness to decrease the number of new programmes and extend the in-service time of existing platforms.⁸ For instance, even before the global financial and economic crisis set in, the US military was planning to move to a commercial maintenance, repair and overhaul (MRO) model for air systems. This 'through-life' approach aims to reduce the costs of aircraft acquisition as well as support for equipment already in service.⁹

Military services companies in the SIPRI Top 100

Of the 20 military services companies in the Top 100 for 2010, 16 are based in the USA, with total military services sales of \$47 billion. A further three are based in the United Kingdom, with total sales of \$6.6 billion, and one is based in Kuwait, with sales of \$1.3 billion (see table 5.3).¹⁰

While the composition of the military services companies in the SIPRI Top 100 has been largely stable, there have been some notable changes since 2002.¹¹ In addition to sales increases from military services contracts related to the wars in Afghanistan and Iraq and the subsequent emergence of some top military services providers, changes in the composition of the Top 100 can also be attributed to acquisitions and divestment of specifically military services companies. In 2003 General Dynamics acquired Signal Corporation, which had bought Veridian in 2002, and in 2006 acquired Anteon, removing all three of the smaller companies from the SIPRI

⁷ Shalal-Esa, A., 'Bigger firms seen in the next US defense consolidation', Reuters, 20 Sep. 2011, <<http://www.reuters.com/article/2011/09/20/us-defense-consolidation-idUSTRE78J4MY20110920>>.

⁸ Kurth, J. R., 'The political economy of weapons procurement: the follow-on imperative', *American Economic Review*, vol. 62, nos 1-2 (Mar. 1972).

⁹ Magelhaes, M., 'Military aircraft maintenance, repair and overhaul: wake-up call to a silent revolution?', Frost & Sullivan, 8 Mar. 2004, <<http://www.frost.com/prod/servlet/market-insight-top.pag?docid=10899576>>.

¹⁰ The military services sales of the Kuwaiti company, Agility, decreased by 47% in 2010 due to a contract ending and because the company was suspended from bidding on US Government contracts pending the outcome of ongoing legal cases in the USA. In 2010 Agility transitioned the remainder of its last US Government contract to Anham, a company based in the United Arab Emirates, which was subsequently awarded a contract worth \$2.16-6.47 billion to provide food services to the US military and non-military personnel in Iraq, Jordan and Kuwait. As a result of the ongoing cases in the USA, Agility is refocusing its business on civilian logistics. On the legal cases see Jackson, S. T., 'The SIPRI Top 100 arms-producing companies, 2009', *SIPRI Yearbook 2011*, p. 252. See also Anham, 'Selected contracts', <<http://www.anham.com/Contracts.aspx>>.

¹¹ On companies active in military services provision see Perlo-Freeman and Sköns (note 1).

Table 5.3. Military services companies in the SIPRI Top 100 for 2010

Figures are in constant (2010) US\$ m. Companies are those in the Top 100 that specialize in military services; other companies in the Top 100 may also sell military services.

Rank in Top 100		Company	Country	Sales of military services (US\$ m.)	
2010	2002			2010	2002
9	9	L-3 Communications	USA	13 070	3 660
12	13	SAIC	USA	8 230	3 640
14	17	Computer Sciences Corp.	USA	5 940	2 400
23	-	KBR ^a	USA	3 310	..
29	74	Babcock International Group	UK	2 770	540
32	-	Hewlett-Packard ^b	USA	2 570	..
33	76	ManTech International Group	USA	2 490	520
38	24	DynCorp International	USA	2 390	1 650
39	75	CACI International	USA	2 320	520
43	62	Serco	UK	2 130	670
50	40	QinetiQ	UK	1 730	1 150
58	-	Agility	Kuwait	1 310	..
59	-	Fluor	USA	1 300	..
67	67	Jacobs Engineering Group	USA	1 020	600
78	-	Shaw Group	USA	810	..
81	95	Cubic Corp.	USA	810	380
86	-	Alion Science and Technology	USA	770	..
88	77	Mitre	USA	740	510
93	-	VSE Corp.	USA	680	..
98	-	AAR Corp.	USA	650	..

^a In 2002 KBR was a subsidiary of Halliburton, which was ranked 39 with sales of \$930 million. Halliburton divested KBR in 2006; the company entered the Top 100 in 2007.

^b Hewlett-Packard entered the Top 100 in 2008 when it acquired EDS. EDS was ranked 58 in 2002 with sales of \$570 million.

Source: SIPRI Arms Industry Database.

Top 100. L-3 Communications increased its military services portfolio in 2003 with its acquisition of Vertex Aerospace and in 2005 with its acquisition of Titan.¹² After Halliburton divested KBR in 2006, the former parent company left the Top 100; KBR entered the Top 100 as a military services company in 2007. Hewlett-Packard entered the Top 100 when it acquired EDS in 2008. In late 2009 VT Group divested its shipbuilding business to become a services-only company; in turn, it was acquired in 2010 by Babcock International, increasing the latter's share in the military services market.¹³

¹² After Raytheon divested the company in 2001 and until 2003, Vertex Aerospace was known as Raytheon Aerospace.

¹³ Acquisition and divestment data is based on the SIPRI Arms Industry Database. On the military services sales related to the wars in Afghanistan and Iraq see Jackson, S. T., 'Arms production', *SIPRI Yearbook 2010*.

The military services industry is much larger than the data above suggests, since the data covers only companies categorized as predominantly military services providers. In addition to these 20 companies, a large number of companies in the Top 100 that are not categorized as military services companies nevertheless generate significant sales from military services. Although most of these companies with mixed portfolios generally do not provide separate figures for their service revenues in their financial reporting, some do. For example, 48 per cent of BAE Systems' total reported sales in 2010 were generated in the services market, including 42 per cent for 'readiness and sustainment' services and 6 per cent for cybersecurity and intelligence.¹⁴ Sikorsky, a subsidiary of UTC, reported a 2 per cent increase in sales of aftermarket support in 2010. It stated that this increase was due primarily to higher military sales and more aircraft modernizations.¹⁵

Developments in selected military services sub-sectors

There are four main categories of military services: (a) research and analysis; (b) technical services (e.g. informational technology services, system support, and MRO); (c) operational support (e.g. logistics and training); and (d) armed force.¹⁶ To show where and how some of the core aspects of military technical and operational support activities have shifted to the private sector, four sub-sectors are examined here: military aircraft MRO; systems support for unmanned aerial systems (UASs); logistics support during the Iraq War and for United Nations peace operations; and training for stability and UN peace operations. These have been less systematically examined than more controversial sectors, such as armed force, and represent some of the more discreet ways in which governments are outsourcing services with little debate.

Maintenance, repair and overhaul: military aircraft services

There has been general growth in aftermarket sales of maintenance and upgrading of in-service weapon systems. This growth has an impact on the structure of the MRO sector as large systems integrators and original equipment manufacturers (OEMs) rethink how they supply MRO and restructure their businesses in order to raise the priority of MRO to match

¹⁴ BAE Systems, *Annual Report 2010: Total Performance Across Our Markets* (BAE Systems: London, [2011]), p. 4.

¹⁵ United Technologies Corporation, *Form 10-K Annual Report under Section 13 or 15(d) of the Securities and Exchange Act of 1934 for the Fiscal Year Ended December 31, 2010* (US Securities and Exchange Commission: Washington, DC, 10 Feb. 2011), p. 16.

¹⁶ Perlo-Freeman and Sköns (note 1).

that of systems production.¹⁷ With the general push to privatize government services, industry has viewed military maintenance as being a relatively stable market (compared, e.g., to commercial aircraft maintenance) in the unstable economic environment of recent years. Because military maintenance contracts are made with governments, which have long-term budget commitments, military maintenance is generally less susceptible to fluctuations in the global political economy.¹⁸

The growth in global MRO in the first decade of the 21st century was particularly noticeable in military aircraft services, sales of which reached \$59.8 billion in 2010, a 2 per cent decrease from \$61.1 billion in 2009 but still higher than the \$58.6 billion in 2008.¹⁹ Sales of military aircraft MRO reached \$31.1 billion in North America (primarily the USA) in 2010, nearly double MRO sales in Europe. The overall increase in military aircraft MRO sales since the early 2000s indicates one way in which arms-producing companies are diversifying in order to counter anticipated military budget cuts in equipment acquisition.

Countries that do not have the industrial capability to produce military aircraft are building up their military aircraft MRO sectors instead. For example, the aerospace division of the Singaporean company ST Engineer provides MRO not only for the Singaporean Air Force but also for Brazil, Indonesia and the USA.²⁰

Systems support: unmanned aerial systems

Growth in services for systems support is occurring in many sectors including helicopters and military communications systems. This trend is largely due to a diminishing military workforce and increasingly complex systems. These systems require a more specialized workforce and longer periods of support activities, which has led to a rebalancing of companies' production and services portfolios.

Unmanned aerial systems provide a clear illustration of the growth in systems support services.²¹ The increasing use of UASs, their growing technological sophistication and a shortage of trained military personnel have led to greater use of civilian personnel in their operation. Notably—and contrary to the argument typically used to justify the outsourcing of

¹⁷ Michaels, K., 'Outlook for the aerospace MRO market', Gerson Lehrman Group, 28 Aug. 2007, <[http://www.glgresearch.com/glgi-presentations/Kevin Michaels/](http://www.glgresearch.com/glgi-presentations/Kevin%20Michaels/)>.

¹⁸ '737 maintenance: supporting a bestseller', *Aircraft Technology Engineering & Maintenance*, Farnborough Air Show 2010 Special Edition (July 2010), pp. 48–59.

¹⁹ AeroWeb, 'Military aircraft MRO', version 1.96, Barr Group Aerospace, <<http://www.bga-aero.com/Military-MRO.html>>; and PricewaterhouseCoopers and Confederation of Indian Industry, *Changing Dynamics: India's Aerospace Industry* (PricewaterhouseCoopers: New Delhi, 2009), p. 25.

²⁰ Grevatt, J., 'Singapore's defence industrial capabilities', *Jane's Defence Industry*, 6 Dec. 2011.

²¹ Jackson (note 13), pp. 259–60.

military services—the more civilians that are involved in operating a UAS, the more expensive the service becomes.²²

In many cases, the military services companies provide services such as maintenance and systems training for military personnel. For example, General Atomics provides UAS training for the British Royal Air Force and it has employees based in the Middle East who provide air system maintenance, technical support and pilots for the US Army.²³ As with other types of military service, large systems integrators provide multiple levels of service. For example, Boeing provides not only traditional military equipment and related MRO and training but, through its subsidiary Insitu, also offers field, training and demonstration services for UASs and related equipment, which have been in more demand since September 2001.²⁴

Operational support: logistics for wars and peace operations

The majority of the analytical literature on privatized military support services has centred on logistics companies working in the wars in Afghanistan and Iraq. The focus on contractors in these wars can be partly explained by their being integral to the wars' conduct. For example, contractors collectively were the second biggest contributors to the 'coalition of the willing' in the Iraq War, and in Afghanistan in March 2010 there were, for the first time, more contractors than US troops in a US war.²⁵

These wars have contributed significantly to sales in military services. For example, KBR's military services sales increased by 433 per cent between 2002 and 2009, and by 2009 it had \$4.8 billion in sales from the Logistics Civilian Augmentation Program (LOGCAP) of the US Department of Defense. KBR's sales decreased slightly in 2010 due to the completion of LOGCAP III and shared participation in LOGCAP IV.²⁶ The US Department of State will continue to use the LOGCAP provisions to maintain private sector logistical support in Iraq following the pull-out of US troops. Although the number of foreign military contractors in Iraq decreased during the drawdown in 2011, 5500 security contractors were expected to remain in Iraq to protect US Department of State personnel.²⁷ This deployment of private security contractors where US troops can no longer be

²² Sweetman, B., 'Contractors make UAV ops happen', *Aviation Week*, 1 Dec. 2009.

²³ Sweetman (note 22).

²⁴ Insitu, 'Family of UAS', <<http://www.insitu.com/uas>>.

²⁵ Huskey, K. A., *The American Way: Private Military Contractors & US Law after 9/11*, 2010 update, PRIV-WAR Report, National Reports Series no. 03/10 (PRIV-WAR: Florence, 1 Oct. 2010), p. 6.

²⁶ Sales figures are from the SIPRI Arms Industry Database. In 2001 KBR was the sole recipient of contracts for LOGCAP III, and in 2007 was 1 of 3 companies awarded contracts for LOGCAP IV. US Army, Army Sustainment Command, 'Army segues from LOGCAP III to IV', 27 Mar. 2009, <<http://www.army.mil/article/18864/>>. On LOGCAP in 2010 see section IV below.

²⁷ US Senate, Committee on Foreign Relations, *Iraq: The Transition from a Military Mission to a Civilian-led Effort* (US Government Printing Office: Washington, DC, 31 Jan. 2011), p. 10.

deployed raises the question of the role these contractors are playing in US foreign policy and what the implications are for the US State Department as a diplomatic entity.²⁸

Despite their prominence, the provision of military services in the wars in Afghanistan and Iraq are outlier examples. There has been a longer presence of military services companies in UN peace operations, which has implications for peace management in post-conflict settings. Every UN-led multilateral peace operation since 1990 has included private security companies.²⁹ For example, private companies actively support many peace and stability operations in Africa, including support for logistics, training and development.³⁰ Demand for these types of service in UN peace operations has grown because of the higher number of operations over the past 15 years and their growing complexity. While this has created a need for more highly trained personnel, the number of skilled personnel contributed by the militaries of the Global North has simultaneously decreased.³¹

During this period some companies have rebranded themselves from companies providing private military capabilities and protective services to include human rights training, democratic transition services and other non-arms related services.³² For example, in 2011 Academi—which was previously known as Xe Services and, before that, Blackwater—announced that it would shift its focus from security provision to training.³³ Even with these elements of rebranding and diversification, many private military companies continue to provide traditional services for conflict and war situations. Even the largest weapon systems integrators promote their service divisions for peace and stability operations. For example, on the website of the International Stability Operations Association, BAE Systems lists its services as aviation logistics and maintenance; communications and

²⁸ Strobel, W. P., 'State Dept. planning to field a small army in Iraq', 21 July 2010, McClatchy Washington Bureau, <<http://www.mcclatchydc.com/2010/07/21/97915/state-dept-planning-to-field-a.html>>.

²⁹ Avant, D. D., *The Market for Force: The Consequences of Privatizing Security* (Cambridge University Press: Cambridge, 2005), p. 7.

³⁰ Gichanga, M., Roberts, M. and Gumedze, S., *The Involvement of the Private Security Sector in Peacekeeping Missions*, Conference report (Institute for Security Studies: Nairobi, 21–22 July 2010); and Serafino, N., *The Global Peace Operations Initiative: Background and Issues for Congress*, Congressional Research Service (CRS) Report for Congress RL32773 (US Congress, CRS: Washington, DC, 8 Feb. 2006).

³¹ Østensen, Å. G., *UN Use of Private Military and Security Companies: Practices and Policies*, SSR Paper no. 3 (Geneva Centre for the Democratic Control of Armed Forces: Geneva, 2011), p. 39. On trends in peace operations see chapter 3 in this volume. On the involvement of the Global South in UN peace operations see Tardy, T., 'Peace operations: the fragile consensus', *SIPRI Yearbook 2011*.

³² Østensen (note 31), p. 36.

³³ Academi, 'Leading training and security services provider Xe Services announces name change to Academi', Press release, 12 Dec. 2011, <http://academi.com/press_releases/1>; and Sizemore, B., 'Past lingers for company formerly called Blackwater', *Virginia-Pilot*, 3 Jan. 2012.

tracking; information technology; intelligence services and analysis; logistics, freight and supply; security; and training.³⁴

Operational support: training of foreign military personnel and peacekeeping and security sector reform programmes

Since the Balkan wars of the 1990s, in addition to becoming more involved in the provision of logistical and MRO support services in conflict and post-conflict environments, military services companies have become more entrenched in the provision of other types of operational support service, including training. The presence of these companies in training operations in post-conflict settings marks a new international trend in security policies. Many programmes funded by governments and organizations in a variety of contexts rely on private companies to provide such services. One example is the Global Peace Operations Initiative (GPOI), a multilateral programme established in 2004 to train military troops for peace operations. Under the GPOI the US Department of State spent an estimated \$100 million in financial years 2010 and 2011 on training local forces in Africa for peace operations.³⁵ Beyond companies primarily categorized as military services companies, large systems integrators also participate in these types of programme, for example by providing military training for security sector reform programmes or, as in the case of Northrop Grumman, for the Africa Contingency Operations Training and Assistance (ACOTA) programme.³⁶ These firms are even involved in advising on the structure of joint African security forces, for example with advice on the 'logistic design and concept' of the African Standby Force of the African Union (AU) and the AU/UN Hybrid Operation in Darfur (UNAMID).³⁷

For reasons similar to the growth in the use of private military services in peace operations, sponsoring governments and organizations are likely to continue to increase their use of private companies in security sector reform and other types of operational support service. As for peace operations, the falling size of standing militaries means that fewer skilled military personnel are available to send on these training missions.³⁸ The chal-

³⁴ International Stability Operations Association, 'BAE Systems', <[http://stability-operations.org/BAE Systems](http://stability-operations.org/BAE%20Systems)>.

³⁵ US Department of State, 'Global Peace Operations Initiative (GPOI)', <<http://www.state.gov/t/pm/ppa/gpoi/>>; US Department of State, *Congressional Budget Justification*, vol. 2, *Foreign Operations Fiscal Year 2011* (Department of State: Washington, DC, 1 Feb. 2010); and Isenberg, D., 'Africa: the mother of all PMC', Huffington Post, 22 Mar. 2010, <http://www.huffingtonpost.com/david-isenberg/africa-the-mother-of-all_b_509111.html>.

³⁶ Northrop Grumman, 'U.S. Department of State awards Northrop Grumman African training contract', Press release, 6 July 2010, <<http://investor.northropgrumman.com/phoenix.zhtml?c=112386&p=irol-newsArticle&ID=1444523>>.

³⁷ Gumedze, S., 'Introduction to the SSG project on private military/security companies', Gichanga, Roberts and Gumedze (note 30), p. 5.

³⁸ Østensen (note 31), p. 39.

lence will be to regulate these companies as few countries have general regulations concerning the conduct of private military service personnel and there are no uniform regulations on the export of these services from sponsoring countries.³⁹

Conclusions

In the short term, growth in military services sales is likely to slow. This can be attributed to market saturation caused by rapid increases in sales in earlier years and the continuing decrease in the USA's military activities in Afghanistan and Iraq, although the US Department of State's continuing presence in Iraq will require some private military services. However, the decreases have not been, and are unlikely to be, uniform across companies, especially as military services sales in other areas such as aircraft maintenance, repair and overhaul have increased.

There is a general assumption that private companies provide services more cheaply and efficiently than government agencies. This suggests that outsourcing of military services—both through direct government contracts with 'prime contractors' and through third-party contracts from prime contractors—is likely to continue in the short-to-medium term. In addition to potential impacts on costs, these companies are having an impact on security discourse and practice, for example in how equipment maintenance and systems support are provided, what kinds of capabilities countries have in conflict settings and how countries' armed forces are structured and trained.⁴⁰

³⁹ See Badong, P., 'Keeping the peace: private military and security companies in peacekeeping operations in Africa', Gichanga, Roberts and Gumedze (note 30); and Holmqvist, C., *Private Security Companies: The Case for Regulation*, SIPR Policy Paper no. 9 (SIPRI: Stockholm, 2005).

⁴⁰ Leander, A., 'The power to construct international security: on the significance of private military companies', *Millennium Journal of International Studies*, vol. 33, no. 3 (June 2005).