4. Arms production and military services

Overview

Austerity measures in North America and Western Europe as a result of the 2008 global financial crisis had a varied impact on sales of arms and military services by companies in the SIPRI Top 100 arms-producing and military services companies for 2011. Ongoing spending discussions have generated uncertainty in the largest arms and military services market—the United States—and are a key reason companies based there and in Western Europe are seeking increased market shares in other regions, including Asia, Latin America and the Middle East. In efforts to shield their industries from potential sales decreases due to decreased military spending in austerity packages, governments have stepped up efforts to increase arms exports and support cost reductions. Lowered military spending due to austerity measures in North America and Western Europe has already led to decreases in sales of arms and military services, although in some cases company subsidiaries have maintained or increased arms and military services sales outside of the countries in which the parent companies are headquartered (see section I in this chapter).

Public and private entities and individuals are becoming increasingly reliant on the Internet and networked technologies. As a result, each year, public and private entities around the globe increase spending on cybersecurity. Coupled with decreases in spending on traditional arms and military services, growing cybersecurity spending is a key explanation for why many of the companies in the SIPRI Top 100 for 2011 are increasingly interested in the cybersecurity market. A wide range of companies, including leading systems integrators, information technology companies and military services companies, operate across the various segments of cybersecurity services. These services can be categorized as network and data protection software and services; testing and simulation services; training and consulting services; and operational support (see section II).

Sales of arms and services by companies in the SIPRI Top 100 totalled $410 billion in 2011, a 5 per cent decrease in real terms (see section III). At the same time, while overall arms and military services sales have decreased, the cut-off for inclusion in the Top 100—that is, the arms sales of the company ranked 100—more than doubled, from $280 billion in 2002 to $660 billion in 2011, reflecting an increase in the number of medium-sized companies in the Top 100. Major subsidiaries play a significant role in the arms sales and company strategies of many of the parent companies in the SIPRI Top 100. The

20 major subsidiaries listed (but not ranked) in the SIPRI Top 100 accounted for 14 per cent of the parent companies' arms and military services sales in 2011.

Several factors contributed to changes in the Top 100 for 2011, including company restructuring and significant new contracts, the impact of armed conflict, and changes in government spending on arms and military services. For example, Northrop Grumman's arms sales decrease is largely attributable to spinning off Huntington Ingalls Industries. In particular, the withdrawal of US troops from Iraq and the imposition of United Nations sanctions against Libya had varying impacts on arms and military services sales. Some companies' sales decreased due to decreases in contracts (e.g. US-based AM General, KBR and L-3 Communications and Russia-based TRV Corporation), while others had increases (e.g. US-based Navistar, Fluor and DynCorp). Sales from force modernization also contributed to some increases.

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