

Identifying the leaders of defence sector: problems and opportunities

A large number of governments support the indigenous development and production of weapons for foreign, military and industrial-policy reasons. A high level of domestic production of arms is perceived as an important factor for guaranteeing autonomy in foreign policy. Arms production is also believed to add to economic autonomy through its contribution to overall economic output, employment, and technological innovation. Similarly, support for weapon sales to foreign governments can be an instrument of military and foreign policy as well as industrial cooperation.

Therefore the question of ranking the countries by the volume of military production requires special attention of the specialists and general public. In order to address these and related questions, and assess the existing national arms production capabilities, we need access to valid information about the activities of the arms industry. But analyzing the available public information, we are facing some problems, which make this task rather complicated.

Limitations of available information

The information made available by the arms industry itself and by government organizations is of limited value for a number of reasons.

First of all, there are no internationally regulated rules for implementing the collection and dissemination of information, which are a necessary precondition for guaranteeing its reliability. Information on the defence industry is seldom provided in a regulated way. Only a few governments provide exhaustive and comprehensive information about their national defence industry on a regular basis and in a format that is comprehensible to the general public. Various and sometimes conflicting pieces of information are often provided in separate reports.

Thus, the lack of external rules for implementing the collection and dissemination of information results in a wide range of applied definitions and a large variety in the content and format of public reports. The limited information that is publicized is therefore not comparable across countries and seldom comparable across sectors or even over time.

Government organizations in a number of countries compile information on the activities of the domestic arms industries, including economic statistics, but few make them available to the general public. Moreover, we should note, that government regulation and control of the activities of the defence industry does not guarantee public accountability. Governments may allow or even suggest non-disclosure or limitations to the disclosure of national arms production activity on the grounds of military secrecy. Governments may also support industry requirements for commercial confidentiality.

Valid information provided on a voluntary basis directly by the arms industry—either by single companies or by arms industry associations—is even more limited and its comparability is restricted between countries. Individual companies or industry associations—established primarily for political lobbying on behalf of their member companies—do not have any obligation to provide information on the size and volume of arms production to the general public.

In general, information is provided on an ad hoc basis, in a format that seldom facilitates international comparisons or comparison with civilian industrial activities. On the other hand, the rapid advances in information and communication technologies over the past decade enable a swift and wide dissemination of the limited information that is available.

Finally, these problems exacerbate by the fact that the concept of “arms production” itself has not unified and internationally accepted determination. Companies supplying goods and services for military applications do not form a distinct industrial sector according to such generally accepted codes as the International Standard Industrial Classifications. What primarily distinguishes the military industry from the civilian one is the application of its products and the particular relationship with national governments resulting from this.

Moreover, the traditional demarcation between ‘defence’ and ‘non-defence’ products and services continue to blur, since the defence procurement agencies around the world pursue policies of commercial-defence production integration and dual-use technology. While some goods and services have been developed for military purposes only, such as combat aircraft, combat ships, armored vehicles, and guns, others are produced for military purposes, but can also be used in civilian spheres, and vice-versa—such as certain transport and communications equipment, logistical services and a wide range of general-purpose goods—such as food, clothing, fuel, and office equipment. So, whether to attribute the type of goods produced to the military or dual-use commodities remains an open question, which is not subject to any international rules or regulations.

Countries - leaders of Arms production

The top layer of the world arms industry is made up of large corporations with international markets, internationally based production and a broad international shareholder base. These corporations provide a large amount of information on financial performance as well as non-financial aspects of their activities—such as measures taken to ensure environmental and social ‘sustainability’—in their annual reports, company profiles, and press releases. However, scant information is provided on the value and volume of arms production.

Few of the national arms industry associations make comprehensive information on the activities of member companies available to the general public. Two national arms industry associations, the Canadian Defence Industries Association and the Association of Swedish Defence Industries, publish regular statistical surveys.

Nevertheless, there are some organizations that collect data on arms production from various available sources and try to deliver it to the public in a distinct and comprehensive manner. One of the most famous and reliable of them are SIPRI (Stockholm International Peace Research Institute), Forecast International and Teal Group.

For example, the general task of SIPRI is to conduct research on questions of conflict and cooperation of importance for international peace and security, with the aim of contributing to an understanding of the conditions for peaceful solutions of international conflicts and for a stable peace. SIPRI developed its own specific method of calculating the volume of arms transfers.

Another important information source is various periodicals, observing the defense industry and related questions, for example - Defence News, part of the Defence News Media Group, the world's leading group of professional defence trade periodicals. Since 1991, Defence News has published the Defence News Top 100, a ranking and report about the world's leading defence companies. The highlight of the report, which examines how companies adjust to the everchanging defence environment, is the annual list of the world's top 100 defence companies based on defence revenues. The list is compiled using the results of a questionnaire filled out by senior company executives.

Analysing the Defence News rating for 2005, we ranged the companies by the countries and compiled them in the table below. Thus, the combined arms production of the top 100 defence

companies in 2005 amounted to \$294 billion. Total sales of these companies (combined civil and defence) are about \$998 billion.

Of course, the reliability and precision of this information are limited due to the differences in national accounting and lack of information for some countries (as China or Iran for example). Nevertheless, these figures are able to provide the general overview of the situation around military sales all over the world and reflect it with some degree of certainty.

Combined revenue of all companies, included in TOP-100 rating 2005, summarized by the country in millions of U.S. dollars

Rank of defence revenue	Country	Defence revenue ¹	Percent in total TOP-100 DEFENCE revenue	Number of companies in the country
1	U.S.	196,698.8	67.0%	43
2	U.K.	31,870.9	10.9%	10
3	France	17,924.2	6.1%	5
4	Netherlands	9,120.3	3.1%	1
5	Italy	7,701.9	2.6%	2
6	Japan	6,102.3	2.1%	7
7	Russia	5,546.0	1.9%	9
8	Germany	4,378.9	1.5%	5
9	Israel	3,782.7	1.3%	4
10	Sweden	2,895.1	1.0%	2
11	India	1,594.8	0.5%	2
12	Spain	1,183.0	0.4%	2
13	Australia	1,040.9	0.4%	2
14	Singapore	922.0	0.3%	1
15	Norway	798.7	0.3%	1
16	South Korea	595.6	0.2%	1
17	Switzerland	580.7	0.2%	1
18	Canada	452.3	0.2%	1
19	Brazil	406.0	0.1%	1
	TOTAL	293,595.1	100.0%	100

So, the table obviously demonstrates, that the overall leader in military production is the USA, with 43 companies, producing 67% of the total 100 leaders defence output. It is reasonable, since international giants of military production such as Lockheed Martin, Boeing, Northrop Grumman, Raytheon, General Dynamics and others are based in the United States. The most significant companies of United Kingdom Defence Industry are BAE Systems and Rolls-Royce.

As for Russia, it takes up the seventh place in this rating, with nine companies, producing about 2% of the total top-100 revenue. The Russian companies² included in this list are: Almaz-Antei, Irkut Corporation, Admiralteiskiye Verfi, Sevmash, Aviation Holding Company Sukhoi, Severnaya Verf, Tactical Missiles, Aerospace Equipment, MMPP Salyut. But, given an appraisal of the Russian companies, we should emphasize, that all of them (excluding Irkut Corporation) prepare their reporting in accordance with the Russian Accounting Standards only, which differ significantly from the international one (GAAP, IFRS), especially in the procedure of revenue recognition. So, these figures may change significantly if they were adjusted into accordance with each other.

¹ Defence revenue is a part of total Co revenue, its amount is based on company's reporting or estimated by the analysts.

² Means that MiG and some other Russian companies are not included in TOP-100 rating for 2005.

Sources of information:

1. *Stockholm International Peace Research Institute*
<http://www.sipri.org/>
2. *Defence News.Com*
<http://www.defensenews.com/>
3. *Global Security.org*
<http://www.globalsecurity.org/military/>
4. *Центр анализа стратегий и технологий*
<http://www.cast.ru/comments/>