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**NAVAL
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MBA PROFESSIONAL REPORT

**The Private Military Firms - Historical Evolution
and Industry Analysis**

**By: Yusuf Alabarda
Rafal Lisowiec
June 2007**

**Advisors: Nicholas Dew
Cary Simon**

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**THE PRIVATE MILITARY FIRMS: HISTORICAL EVOLUTION
AND INDUSTRY ANALYSIS**

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Submitted in partial fulfillment of the requirements for the
degree of

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THE PRIVATE MILITARY FIRMS: HISTORICAL EVOLUTION AND INDUSTRY ANALYSIS

ABSTRACT

Soldiers for hire are not a new phenomenon of the twenty-first century. They are as old as war itself. However, in the present day these modern day soldiers for hire are part of well-organized and competently run Private Military Companies (PMC). The private military industry may be one of the most important, but little understood developments in security studies to have taken place over the last decade. This new industry, where firms not only supply the goods of warfare, but also fulfill many of the professional functions, is not only significant to the defense community, but has wider ramifications for global policies and warfare. This study attempts to clarify and analyze the historical evolution of the private military industry, comparing different private military firms and their future impacts on military operations.

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EXECUTIVE SUMMARY

Soldiers for hire have been part of military operations throughout the ages. However, after the end of the Cold War era, the international environment transformed and a new form of private military actor, the Private Military Company (PMC) emerged. In the realm of the public domain, these new actors now share duties with the established state system. While they have many common features with soldiers for hire or mercenaries, they are different from old-time mercenaries in the way they operate their businesses. Although they are legitimate businesses, their morally and legally questionable operations have raised many dilemmas.

To better understand these considerations, a profound look into the industry is required. Although numerous articles have been written and research conducted on the industry, most have been generally descriptive studies dealing with its legal aspects. Without understanding all the dynamics of the private military industry, any study reflecting only one aspect of it would be incomplete

This project covers whether the growth of that industry is supply-push or demand-pull phenomenon. After analyzing this phenomenon, this project also gives an insight into the historical evolution of two Private Military Companies: Blackwater and DynCorp, and later concludes with some future projections related with Private Military Firms' usage.

The new private military phenomenon appears to be entrepreneurial. Starting from the end of the Cold War, many outside events created opportunities for the industry. PMCs have also sought innovative functions to diversify

themselves from the rest of the industry. Whether opportunities are already apparent to PMCs, or they seek new opportunities, the security environment still provides a plethora.

The economic analyses of the industry assert that there are many unexploited lucrative areas for PMCs. However, issues of regulation, ethics, legality, and political and social control of force decrease the prospective growth of the industry. These subjects are the most mentioned areas of the industry. In fact, even if PMCs are generally more effective and less costly, the accountability of PMCs is the major question. In addition, the lack of accountability along with regulations, control and transparency of PMCs would have a negative impact on human rights and oversight responsibilities. Thus, to maintain competition and quality the industry should have clear mechanisms.

As long as war exists, so will a demand for soldiers for hire. The private military industry would continue to benefit from any slack given by traditional forms of security. However, its emergence has raised possibilities and questions. History indicates that they will continue to play a significant role in the security environment. Consequently, no policy toward the private military industry could be effective without a clear understanding of the industry, its dynamics, and its challenges.

I. INTRODUCTION

A. BACKGROUND

Private Military Firms (PMF) are businesses that provide governments with professional services intricately linked to warfare; they represent, in other words, the corporate evolution of the age-old profession of mercenaries. Unlike the individual dogs of war of the past, however, PMFs are corporate bodies that offer a wide range of services, from tactical combat operations and strategic planning to logistical support and technical assistance. Although recent well-publicized incidents from Abu Ghraib to Zimbabwe have shone unaccustomed light onto this new force in warfare, private military firms (PMFS) remain a poorly understood—and often unacknowledged—phenomenon.¹

The modern private military industry emerged at the start of the 1990s, driven by three dynamics: the end of the Cold War, transformations in the nature of warfare that blurred the lines between soldiers and civilians, and a general trend toward privatization and outsourcing of government functions around the world. These three forces fed into each other. When the face-off between the United States and the Soviet Union ended, professional armies around the world were downsized. At the same time, increasing global instability created a demand for more troops. Warfare in the developing world also became messier—more chaotic and less professional—involving forces ranging

¹ Peter W. Singer, "Outsourcing War," *Journal of Foreign Affairs*, (March/April 2005).

from warlords to child soldiers, while Western powers became more reluctant to intervene. Meanwhile, advanced militaries grew increasingly reliant on off-the-shelf commercial technology, often maintained and operated by private firms. And finally, many governments succumbed to an ideological trend toward the privatization of many of their functions; a whole raft of former state responsibilities—including education, policing, and the operation of prisons—were turned over to the marketplace.

The PMFS that arose as a result are not all alike, nor do they all offer the exact same services. The industry is divided into three basic sectors: military provider firms (also known as "private security firms"), which offer tactical military assistance, including actual combat services, to clients; military consulting firms, which employ retired officers to provide strategic advice and military training; and military support firms, which provide logistics, intelligence, and maintenance services to armed forces, allowing the latter's soldiers to concentrate on combat and reducing their government's need to recruit more troops or call up more reserves. Private military companies have operated in more than 50 nations, on every continent but Antarctica.²

B. PURPOSE

The purpose of this MBA Professional Report is to give a better understanding of the tremendous growth of the Private Military Industry after the Cold War. This report

² Peter W. Singer, "Corporate Warriors: The Rise of the Privatized Military Industry," (2003).

gives detailed information about the factors affecting the phenomenal growth of that industry like whether it is a "Supply Push" or "Demand Pull" phenomenon or both. This report also gives a future projection for the growth of that industry.

C. RESEARCH QUESTIONS

This project tries to answer these questions:

What factors have motivated the establishment and influenced the success of Private Military Firms since 1990? To what extent is the establishment of private military firms a demand-pull phenomenon? To what extent is the establishment of private military firms a supply-push phenomenon?

After answering this question, this project considers the historical evolution of two Private Military Companies: Blackwater and DynCorp and analyze some future opportunities these companies may deal with.

What is the historical evolution of two major leading Private Military Companies in the contemporary world?

After answering this question, this project considers the future usage of Private Military Companies.

What can be said about their usage either by states or by groups in coming years? What future projections about their scope can be made?

D. METHODOLOGY

The research methodology of this report consists of three components. First is the examination of the industry

evolution of private military companies, including firms that provide consultancy and those that offer logistical and technological support. The second component is the analysis of the historical evolution of two major leading private military companies. The third component focuses on the usage of these companies in the near future and makes some future projections for them.

E. ORGANIZATION

Chapter I is an overview of this MBA Professional Report and lays out the roadmap of the research.

Chapter II provides a broad overview of the industry evolution of private military and gives an insight about whether this industry's phenomenal growth is related to supply-push or demand-pull.

Chapter III provides a broad overview of the historical evolution of Blackwater, one of the major leading Private Military Firms in the industry and analyzing the key factors that helped to the growth of that company.

Chapter IV provides a broad overview of the historical evolution of DynCorp, another major leading Private Military Firms in the industry and analyzes the key factors the helped the growth of that company.

Chapter V examines the future roles of these Private Military Firms and offers some potential scenarios that these companies might deal with.

Chapter VI summarizes the findings and presents recommendations for further research and study.

F. BENEFITS OF STUDY

The primary benefit of this report is to understand the dynamics of Private Military Industry. This professional report gathers previous research on the industry into a research topic that has not yet been addressed in any body of work to be found. The project provides a better understanding of the industry for future researchers as well as existing and prospective industry actors.

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II. INDUSTRY EVOLUTION IN CONTEXT: DEMAND PULL AND SUPPLY PUSH FACTORS

A. INTRODUCTION

To understand the value of the development of private military firms, a bit of background on services and government responsibilities is required. In a traditional manner, the government provides all its citizens with certain services, which are generally paid through taxation. This occurs in what is known as the public sector. On the contrary, in the private sector individual citizens, now known as consumers, buy needed goods and services in an open market, paying with their own optional funds. This market is made up of private companies motivated by profit. Therefore, the distinctions between these two sectors are the nature of the relationship between provider and user, the sources of funding, and the employment status of the deliverers.³

Occasionally governments have found it advisable to move some of their public responsibilities to the private sector. They may do so because of issues of efficiency, quality, cost or changing conceptions of governmental duties. Education, police, prisons, health care, postal services, garbage collection, utilities, tax collection, and so on are all examples of services that have been shifted back and forth between being viewed as fundamental public responsibilities of the government to something best left to

³ Elliot Sclar, *Selling the Brooklyn Bridge: The Economics of Public Service Privatization* (New York: Twentieth Century Fund, 1999).

the private market.⁴ The terms "privatization" and "outsourcing" are used interchangeably to describe this shift of service provision, often at the same time.

Nevertheless, the governments understood that the military—the force that protects society—was government's sole responsibility, which must be carried by government alone. In other words, providing for the national security of its citizens is one of the most essential tasks of a government. As a result, the military has been the one area where there here has never been a question of states privatizing or outsourcing.

The military is very different from any other profession and is unique specifically because it comprises experts in war making and in the organized use of violence. As professionals, military officers are bound by a code of ethics, serve a higher purpose, and fulfill a societal need. Their craft sets them apart from other professionals in that the application of military power is not comparable to a commercial service. Military professionals deal in life and death matters, and the application of their craft has potential implications for the rise and fall of governments.⁵

However, in the course of time some of the military's responsibilities were transferred to private "hands", which led to the growth of Private Military Companies or PMFs. The end of the Cold War was a key point in the emergence of the privatized military industry. The consequential effect on the supply and demand of military services formed a

⁴ Ronald Coase, "The Lighthouse in Economics," *Journal of Law and Economics* 17 (October 1974): 360-374.

⁵ Bruce Grant, "U.S. Military Expertise for Sale: Private Military Consultants as a Tool of Foreign Policy," *National Defense University for National Security Studies*, Strategy Essay Competition, 1998.

"security gap" that the private market rushed to fill. Besides that, two other necessary factors played significant roles and contributed to the emergence of the industry. Both were long-term developments that under laid the transfer of military services to private entities and the reopening of the market. The first cause was the wide transformations taking place in the nature of conflict itself. These have created new demands and new market opportunities for PMFs. The second factor was the "privatization revolution," which provided the logic, legitimacy, and models for the entrance of markets into formerly state domains. The confluence of these momentous dynamics led to both the emergence and rapid growth of the privatized military industry.⁶ PMFs have not only grown up but they also have become global in both their scope and activities. Beginning in the 1990s, they have been decisive players in several conflicts, and are often the ultimate factor. PMFs have been active in zones of conflict and transition throughout the world. They have been active and operated on every continent but Antarctica, often with strategic impact on both the process and outcome of conflicts. They are business organizations that trade in professional services linked to warfare. The area of their specializations lays in the provision of military skills, including strategic planning, combat operations, intelligence, operational support, risk assessment, technical skills and training.⁷

⁶ Singer, "Corporate Warriors," 49.

⁷ Tim Spicer, *An Unorthodox Soldier: Peace and War and the Sandline Affair* (Edinburgh: Mainstream, 1999), 15.

B. SUPPLY PUSH AND DEMAND PULL FACTORS

“Supply and demand” is perhaps one of the most fundamental concepts of economics and is the backbone of a market economy. Demand refers to how much (quantity) of a product or service is desired by buyers. The quantity demanded is the amount of a product people are willing to buy at a certain price; the relationship between price and quantity demanded is known as the demand relationship. Supply represents how much the market can offer. The quantity supplied refers to the amount of a certain good that producers are willing to supply when receiving a certain price. The correlation between price and how much of a good or service is supplied to the market is known as the supply relationship.

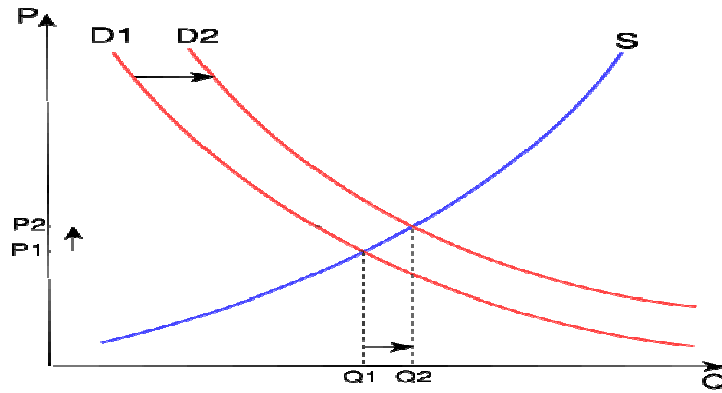


Figure 1. The demand relationship

Price, therefore, is a reflection of supply and demand (Figure 1 and Figure 2). The relationship between demand and supply underlies the forces behind the allocation of resources.

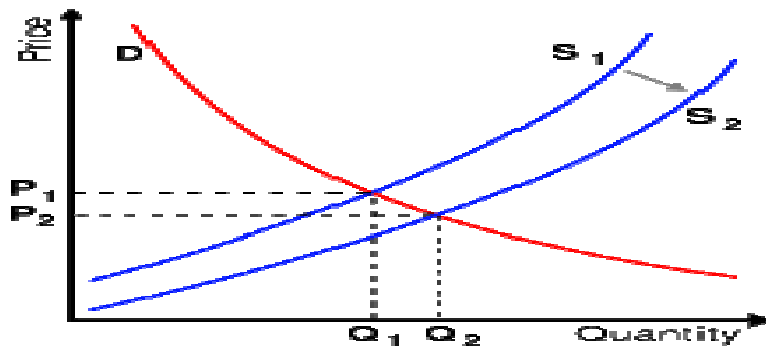


Figure 2. The supply relationship

In market economy theories, demand and supply theory will allocate resources in the most efficient way possible.⁸

1. The End of the Cold War

The end of the Cold War produced a vacuum in the market of security, which exhibited itself in numerous ways, feeding both the supply side and the demand side (Figure 3). Global threats became more diverse, more competent, and more dangerous, while the traditional responses to insecurity and conflict were at their weakest. This transformation provided for a larger phenomenon of state collapse and resulted in new areas of instability. Massive military mobilizations, in turn, provided a large pool of labor for the PMF industry and cheapening of created capital. With this vacuum, the firms are eager to present themselves as respectable bodies with a natural niche in the current, often complicated new world order. PMF consciously aim to fill the security void of the post-Cold War world.

⁸ "Economics Basics: Demand and Supply," <http://www.investopedia.com/university/economics/economics3.asp> (accessed 03/24/2007).

SUPPLY AND DEMAND DIAGRAM

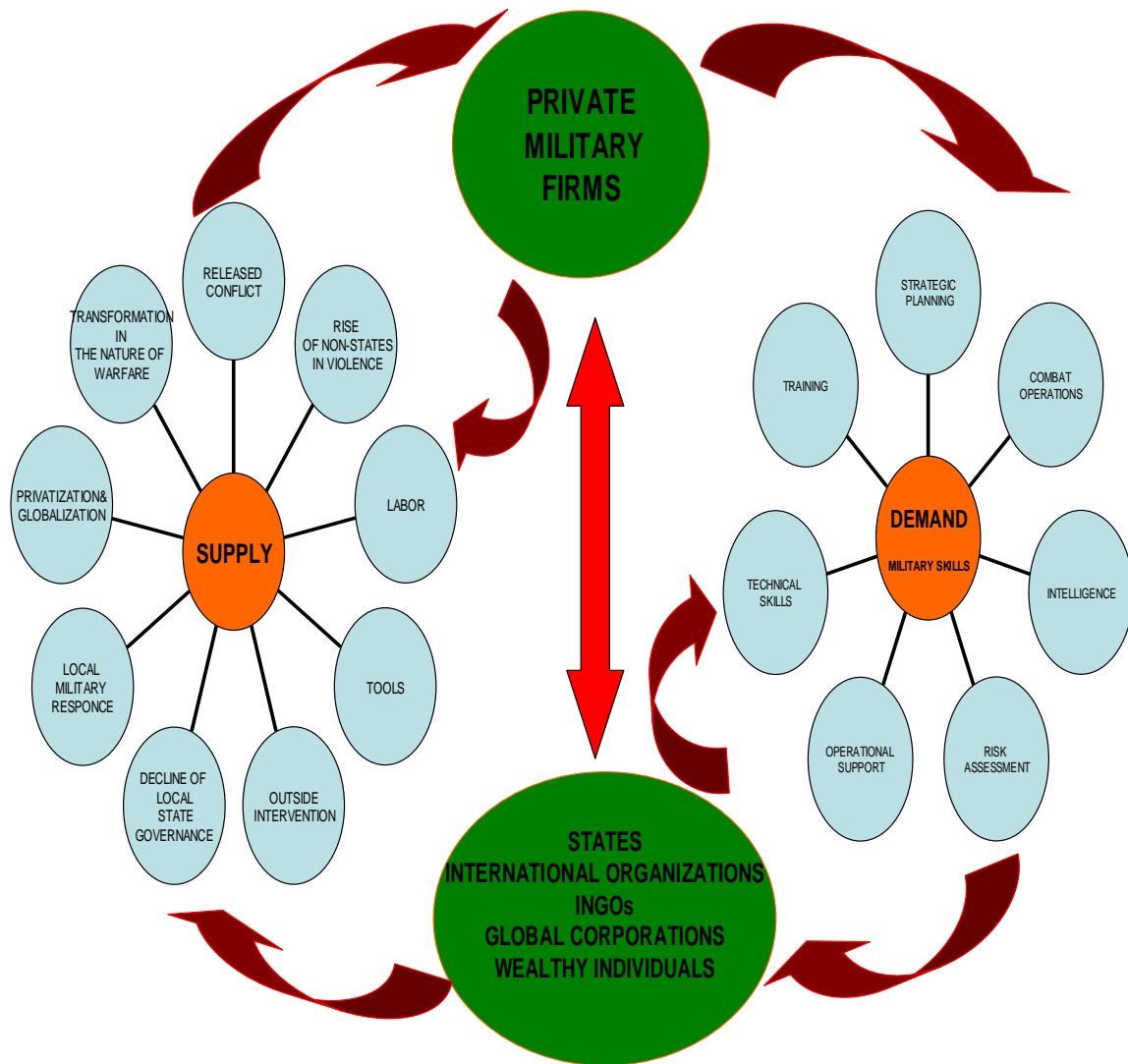


Figure 3. Supply and demand diagram

According to Colonel Tim Spicer, an industry executive:

The end of the Cold War has allowed conflicts long suppressed or manipulated by the super powers to re-emerge. At the same time, most armies have got smaller and live footage on CNN of United States soldiers being killed in Somalia

has had staggering effects on the willingness of governments to commit to foreign conflicts. We fill the gap.⁹

To better understand this phenomenon one should look at the rise of PMFs in terms of released conflicts, the rise of non-states in violence, labor, tools, and the decline of local state governance, local military response and outside intervention, and also transformations in the nature of warfare and the power of privatization.

2. Released Conflicts

The massive increase in global levels of conflict since the Cold War ended was one of the major forces driving the privatization of military services. Wars are a consequence of a power vacuum that is typical of transition periods in world affairs. While many hoped for a "new world order" of global peace after 1989, the real order that came about was that of "peace in the West, war for the rest."¹⁰ A particular outgrowth was the dramatic increase in the number of conflicts occurring inside countries. The incidence of civil wars has doubled since the Cold War's end and by the mid-1990s was actually five times as high as at its mid point. The broader number of conflict zones has roughly doubled.¹¹ The result of failures of governance led to the conflicts and as a result opened up new spaces for private military actors to operate. In sum, the end of the Cold War removed the controls over the levels of conflict while also

⁹ Colonel Tim Spicer quoted in Andrew Gilligan, "Inside LT. Col. Spicer's New Model Army," *Sunday Telegraph*, November 22, 1998.

¹⁰ National Defense Council Foundation, *World Conflict List* 2001.

¹¹ "Internal Conflict: Adaptation and Reaction to Globalization," *Cornerhouse*, Briefing 12, 1999.

releasing unresolved anxieties and new pressures. The era since has seen a consequential massive increase in instability.

3. The Rise of Non-States in Violence

Regarding the rise of non-states in violence, the rapid change in the global security paradigm, facilitated by the opening of the world economy and new stateless zones, also led to the emergence of new conflict groups, not bound to any one state. The new conflict actors vary from terrorist organizations like al Qaeda to transnational drug cartels.

Many of the internal conflicts that have popped up since the Cold War are in fact criminally related attacks on state sovereignty by non-state actors (for example, in Colombia, Liberia, Sierra Leone and Tajikistan). Such "stateless" zones not only breed greater conflict but also local actors whose very existence is defined by violence.¹² The growth of these non-state conflict groups shows no sign of reduction and the activity of these groups has opened up the market for PMFs both on the supply and the demand sides. Some firms have gone to work for non-state conflict groups, helping them in their mission to gain greater military capabilities. Rebel groups in Angola, Sierra Leone and international criminal organizations have all received military help from private companies, which have provided specialized military skills, such as training, and the use of advanced military technologies.¹³ Their state rivals, in turn, have also hired PMFs. Thus, the market for PMFs is

¹² Ralf Peters, "The New Warrior Class," *Parameters* 24 (Summer 1994).

¹³ Andre Linard, "Mercenaries SA," *Le Monde Diplomatique*, August 1998, 31.

stimulated by both the appearance of non-conflict groups and the breakdown of the world community's ability to normalize them.

4. Labor Push

Another major move on the international market of security was the flood of ex-soldiers onto the open market because of downsizing and the dissolution of states after the end of the Cold War. Thus, the private military labor pool for both conflict groups and private firms broadened and cheapened. Similar to the financial effect of changes in the interest rate, these developments influenced both the demand side and the supply side. The half-century of the Cold War was an historic period of hyper militarization. The end of it sparked a global chain of downsizing, with state militaries now employing roughly 7 millions fewer soldiers than they did in 1989. The cuts were particularly strong in the former Communist Bloc, as the Soviet state and many of its clients' forces essentially disappeared. Most of the Western powers have also drastically reduced the sizes of their military establishments.

The U.S. military has one third fewer soldiers than at its Cold War peak, while the British Army is as numerically small as it has been in almost two centuries (Figure 4).¹⁴

¹⁴ D. Shearer, *Private Armies and Military Intervention*, 27.

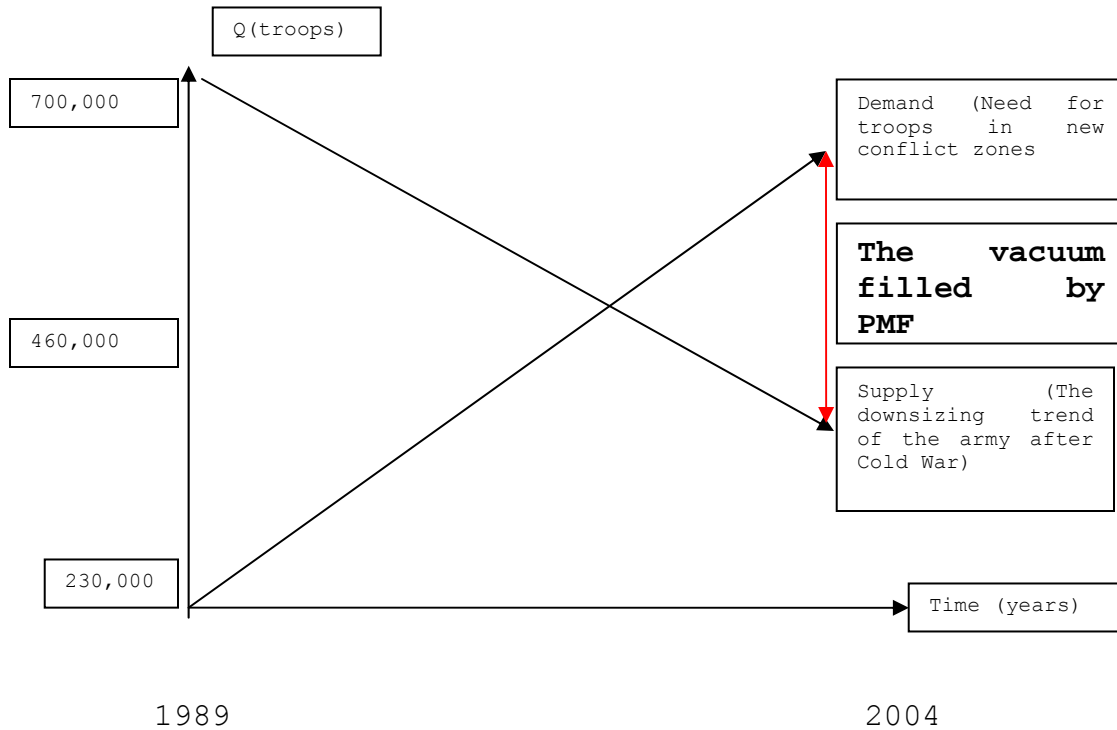


Figure 4. The vacuum filled by PMF

These massive demobilizations produced an oversupply of dislocated military skilled labor. Complete units were cashiered out and a number of the most elite, unsure of their futures, kept their structure and formed private companies of their own. With the reduction of state militaries have also come fewer opportunities for progression and promotion within ranks. So it was not just the matter of getting rid of conscripts, but also the downsizing of professional, careerist soldiers. The consequence was a sharp boost in military expertise available to the private sector.¹⁵ Another important feature of the cutbacks in state military organizations was the functional areas in which they took place. A great part of

¹⁵ C.J. Van Bergen Thirion, "The Privatization of Security: A Blessing or a Menace?" South African Defense College Paper, May 1999.

the cuts were in back-end areas. For example, the U.S. Army Material Command also was reduced by 60 percent.¹⁶ However, power op-tempo (the frequency of military deployments) grew much greater than anticipated, causing a gap in the ability of the United States to support the increased number of its new post-Cold War interventions.¹⁷ This gap has been the beginning of the multibillion dollar military logistic outsourcing industry.

5. Tools (Easy Access to Weapons)

Military downsizing has meant that not only are trained military personnel excess on the world market but also that the resources and tools for large-scale violence have been brought within reach of all types of private actors. Enormous arms collections have become available to the open market. Machine guns, tanks, and even fighter jets can be purchased by any customer. Now many private forces have the most sophisticated weapons systems money can buy, including fighter aircraft and advanced artillery, and can even outgun state forces. After 1989, millions of light weapons were declared surplus and dumped on the world market. Much of the stocks ended up in the hands of arms brokers and gunrunners, who have no compunctions about their destination or use.¹⁸ The consequence was that governments no longer had control over the main means of war, which was once key in the arrangement of states. Now, private conflict groups can

¹⁶ Stephen Zamparelli, "Contractors on the Battlefield: What Have We Signed Up For?" Air War College Research Report, March 1999.

¹⁷ Donal T. Wynn, "Managing the Logistic-Support Contract in the Balkans Theater," *Engineer* (July 2000).

¹⁸ Jasit Singh, *Light Weapons and International Security* (New Delhi: Institute for Defense Studies and Analysis, 1995).

symbolize greater fears. In turn, private firms can tap the same arms market to build their own force capabilities, often in direct reaction.

The easy availability of both sophisticated weapons systems and inexpensive small arms is representative of a broader weakening of the state in many parts of world.¹⁹

6. The Decline of Local State Governance and Local Military Response

In the developing world, an important catalyst in this process has been the decline in external support to weak states. Those states that depended on Soviet aid and support found this fountain dry up entirely and immediately. Foreign assistance from the West also fell after the end of the Cold War.²⁰ Finally, there were new global macroeconomic strategies that had a disastrous effect on state capacity. In particular, structural modification led to increasing micro-management by contributors and the burden of managerial configurations that externalized much decision making. In sum, many states were less willing and less able to guarantee their own sovereign autonomy. Instead, they have increasingly delegated the task of securing the life and property of their citizens to other organizations, including PMFs.²¹ The irony is that this new wave was a reversal of the processes by which modern states originally evolved. To gain military power, regimes do not need to follow the old path of developing their economy or efficient

¹⁹ Van Creveld, *The Rise and Decline of the State*, vii.

²⁰ Global Coalition for Africa, *African Social and Economic Trends*, Annual Report 1999/2000.

²¹ Van Creveld, 337.

state institutions to tax for military forces. Rather, they must simply find a short-term revenue source, such as granting a mining concession, to pay a private actor.²²

A specific manifestation of weakened local state capacities was the poor condition of most militaries in the developing world, particularly in Africa. Many public armed forces were ill-trained, ill-equipped, and often understaffed. As a result, they often have been unable to guarantee the security of their country.

In short, the principal forces of order are in disorder in many countries at a time when legitimacy of central governments and indeed sometimes the state is in doubt.²³

The result was that there has been an overall decay of state armed forces in developing regions. Given the increasing inadequacies of local military and security forces, compared to the rising challenges, it is no surprise that national and corporate leaders would choose to bring in help from whatever quarter is available, including even the private sphere.²⁴

7. Outside Intervention

Another important factor in the opening of the military market for private firms was the declining willingness of outside powers to intervene in these more numerous outbreaks of violence. There were three general factors that have

²² Neild, "Expose the Unsavory Business behind Cruel Wars."

²³ William Thom, "The African Military: Problems and Prospects," *Africa Digest* 18, no.2 (September 1995): 8.

²⁴ Herbert Howe, "Global Order and Security Privatization" *Strategic Forum*, no. 140, May 1998, Institute for National Strategic Studies, National Defense University.

altered the climate under which the United States and other major industrial powers decide whether to intervene into these zones.²⁵ The vast majority of potential interventions were optional, in that they were not strictly about the intervening country's own survival. Second, western military structures were still largely designed for major total warfare and were often inappropriate for limited interventions. Finally, for a variety of reasons, many of these states developed a marked intolerance for casualties suffered in conflicts that do not directly threaten the heart of the nation.²⁶ In short, intervention requires the willingness to make real sacrifices, but such readiness is no longer in limitless supply. This increased the scope for PMFs to operate. Just like nature, the security market abhors a vacuum.²⁷

8. Transformations in the Nature of Warfare

In the initial optimistic burst after the Cold War, it seemed that the UN would take over this international stabilizing role from the superpowers. However, operational disappointments in Bosnia, Somalia, and Rwanda then acted to curb UN activity.²⁸ Several factors prevented the UN from effectively playing a stabilizing role. First were past and present financial strains, primarily from member states' failure to pay their dues. Second, the UN was clearly not an organization designed for fighting wars. The department that

²⁵ Edward N. Luttwark, "Where Are the Great Powers? At Home with the Kids," *Foreign Affairs* (July/August 1994).

²⁶ James Adams, *The Next World*, 279.

²⁷ Gilligan, "Inside Lt. Col. Spicer's New Model Army."

²⁸ Dennis Jett, *Why Peacekeeping Fails* (New York: Palgrave, 1999) 18.

oversees the operations in the field is highly politicized, underfunded, and understaffed. Its staffing process also results in a short supply of true military professionals skilled in the areas they oversee. The fact that the UN is a voluntary organization also acts as a straitjacket of sorts.²⁹ Finally, the voluntary process also means that assembling and deploying a force can be painfully inefficient and slow. The consequence is that the UN is constrained in its ability to get involved properly to stop conflicts and stabilize zones of violence, leaving the gap in the market to PMFs.

There were two underlying trends, without which military service privatization was unlikely to have occurred, despite the market opening that these shifts in supply and demand have created. The first of these was that warfare itself was undergoing revolutionary changes. The second was that at the high intensity level of warfare the requirement of advanced technology has dramatically increased the need for specialized expertise, which often must be pulled from the private sector. In sum, warfare was undergoing several key transformations—diversification, technologization, civilianization, and criminalization—each of which created opportunities for private military firms to play significant roles.

9. The Power of Privatization

The opportunities created for private actors in the wake of the post-Cold War market shift and transformations

²⁹ Stephen Mbogo, "Mercenaries? No, PMCs," *West Africa Magazine*, September 18, 2000, 10-13.

in the nature of warfare were underscored by the third critical trend, namely the new power of privatization. The compared successes and failures of privatization provided important antecedent conditions for the growth of the privatized military industry. They not only shifted economic power, opened minds, and shattered worldviews but also offered important avenues for rethinking past practices.³⁰ In sum, the 1990s saw unprecedented levels of privatization. By 1998, the rate of global privatization was roughly doubling each year. This "privatization revolution" went hand in hand with globalization; both trends embraced the notion that comparative advantage and competition maximize efficiency and effectiveness.³¹ The privatization of protection, personified by PMFs, has quickly become linked to this expansion of market-based solutions. According to Mark Duffield:

Wherever patterns of privatization have evolved, all have created the demand for private protection. Indeed, the one thing that has characterized the expansion of global markets in unstable regions is the increasing use sophistication of private protection to assure the control of assets.³²

The global trend to outsourcing also appeared in the corporate area. The business strategy further influenced PMF legitimacy and expansion. As one trade group argued, "Outsourcing is the new shape of business. The changes that

³⁰ Douglass C. North, *Institutions, Institutional Change, and Economic Performance* (Cambridge: Cambridge University Press, 1990).

³¹ *Privatization 1997: A Comprehensive Report on Contracting, Privatization, and Government Reform*, Reason Public Policy Institute, 11th Annual Report on Privatization, 1997.

³² Mark Duffield, *Internal Conflict: Adaptation and Reaction to Globalization*, January 1999.

are taking place are tectonic.”³³ Thus, the privatized military industry is just the next logical step in this global trend of privatization and outsourcing. It is simply a more aggressive manifestation of the market’s move into formerly state-dominated areas. As one observer opined, “If privatization is the trend these days, the argument goes, why not privatize war too?”³⁴

C. CONCLUSION

The newest wave of private military firms was commercial enterprises first and foremost. They were hierarchically structured into registered businesses that trade and compete openly and were vertically integrated into the wider global marketplace. They goaled market niches by offering packaged services covering a broad variety of military skill sets. The very fact that a rational industry made up of these companies was identifiable provides evidence of their distinction.³⁵

The following chapters will introduce the two most powerful PMFs that currently act on the market and will examine the mechanisms that contributed to their successes. One should remember that PMF are the entrepreneurs. In other words, they are opportunity scouts, and they sniff out opportunities. The whole idea is the perception of opportunity. They perceive an opportunity to start a firm in

³³ “Outsourcing 2000,” *Fortune*, May 29, 2000.

³⁴ Juan Tamayo, “Colombian Guerillas Fire on U.S. Rescuers,” *Miami Herald*, February 22, 2001.

³⁵ Singer, “Corporate Warriors,” 45.

this area and they pursue that opportunity. Having that in mind, the next chapters reveal the secrets of the most prominent Private Military Firms.

III. HISTORICAL INDUSTRY EVOLUTION OF BLACKWATER COMPANY

A. MILESTONES TO BLACKWATER

Blackwater USA is a private military company (PMC) and security firm founded in 1996 by Erik Prince and based in North Carolina. The company describes itself as a "military, law enforcement, security, peacekeeping, and stability operations company."³⁶ Their military activities are for-hire, meeting the definition of foreign mercenaries.

In 1965, the Prince Family founded a company that made die-cast machines for the auto industry in Michigan; by 1969, the company was producing an aluminum transmission case every two minutes.³⁷ By 1973, Prince Corporation was a great success, with hundreds of people working for the company's various Holland county divisions.³⁸ By 1980, Prince Corporation boasted numerous plants and more than 550 employees.³⁹ As Erik Prince later recalled,

My dad (Edgar Prince) was a very successful entrepreneur. From scratch he started a company that first produced high-pressure die-cast machines and grew into a world class automotive parts supplier in west Michigan. They developed and patented the first lighted car sun visor,

³⁶ Blackwater, USA Official Website, <http://www.blackwaterusa.com> (accessed 02/23/2007).

³⁷ "Prince Manufacturing Co. Builds Die-cast Machines," *Holland Sentinel*, June 5, 1969.

³⁸ Ibid.

³⁹ Carolina Vernia, "Prince's Jewel: Production of Illuminated Visors," the *Holland Sentinel*, January 26, 1980.

developed the car digital compass/thermometer and the programmable garage door opener.⁴⁰

In the 1980s, the Prince family merged with one of the most venerable conservative families in the United States when Erik Prince's sister Betsy married Dick Devos, whose father, Richard founded the multilevel marketing firm Amway and went on to own the Orlando Magic basketball team.⁴¹ The company would rise to become one of the greatest corporate contributors in the U.S. electoral process in the 1990s, mostly to Republican candidates and causes, and used its business infrastructure as a massive political organizing network.⁴²

On March 2, 1995 Edgar Prince, founder of the Prince Manufacturing Co. died of a heart attack. At the time of his father's death, Erik Prince was a Navy SEAL serving a string of deployments in Bosnia, Haiti, and the Middle East. Due to his father's death, a full-time career as a SEAL was no longer an option for Erik Prince. He assumed active management of the family business. On July 22, 1996, little more than a year after Edgar's death, the family agreed to sell the corporation to Johnson Controls for \$1.35 billion in cash.⁴³

⁴⁰ "Blackwater's Founder on the Record," *The Virginian-Pilot*, July 24, 2006.

⁴¹ Rachel Burstein and Kerry Lauerman, "She Did It Amway," *Mother Jones*, September-October 1996.

⁴² Ibid.

⁴³ Jeremy Scahill, *The Rise of the World's Most Powerful Mercenary Army*, 29.

B. DEMAND PULL FOR PRIVATE MILITARY FIRMS AND BLACKWATER BEGINS

1. What Erik Prince, Founder of Blackwater, Thinks about Private Military Firms and What is Their Significance?

Erik Prince during an interview with the "The-Virginian Pilot", "As I trained all over the world, I realized how difficult it was for units to get the cutting-edge training they needed to ensure success. In a letter to home while I was deployed, I outlined the vision that is today Blackwater."⁴⁴

For Erik Prince, Blackwater is not only a company, but also a partner to the DoD and all government agencies, and Blackwater stands ready to provide surge capacity, training, security and operational services in various areas at their request.⁴⁵ He emphasizes the significance of Private Military Companies (PMC) and Blackwater with these words:

American history details the contributions of private contractors in the development of our Nation. Examples include the Jamestown, Plymouth, and Massachusetts Bay colonies; all started as private investment endeavors whose security was provided by PMCs. Across the street from the White House is Lafayette Park; on its four corners stand statues of Lafayette, Von Steuben, Rochambeau, and Kosciusko. All were foreign professional military officers that came here to help build and develop the capacity of the Continental Army. The base of one of the statues bears the inscription: "He gave military training and discipline to the citizen soldiers who achieved the independence of the United States."

⁴⁴ "Blackwater's Founder on the Record," *The Virginian-Pilot*, July 24, 2006.

⁴⁵ Ibid.

Lewis and Clark's expedition to explore the American West consisted of some active duty soldiers but their "Corps of Discovery" crew also consisted of what would now be considered contractors.⁴⁶

According to Erik Prince, the economics for that industry and its cost effectiveness for the government to outsource these functions are:

[T]he private sector are able rapidly to tailor a custom solution to solve the customer's problem. Our ability to quickly react with a right-sized solution whose entire cost is only associated with the duration of the contract is cost-effective because there are no subsequent carrying costs like salary, medical care, retirement, etc.⁴⁷

My family's business was automotive supply, one of the most efficient and globally competitive in the world. You wake up in the morning having to drive efficiency throughout the organization or you will be driven under. We strive for that level efficiency in what we do today. In very competitive industries, the purchasing/contract officers understand your business as well as you do. The government can ensure good value for the taxpayer by pushing that level of competence and accountability to its purchasing agents and contracting officers too.⁴⁸

2. Blackwater Begins

Erik Prince founded Blackwater in 1996. The company's name was inspired by the black waters of the Great Dismal Swamp close to where Blackwater was constructed. At its

⁴⁶ "Blackwater's Founder on the Record," *The Virginian-Pilot*, July 24, 2006.

⁴⁷ Ibid.

⁴⁸ Ibid.

founding, the company largely consisted of Prince's private fortune and a vast 5,000-acre plot of land located near the Great Dismal Swamp in Moyock, North Carolina.

Its vision was "to fulfill the anticipated demand for government outsourcing of firearms and related security training."⁴⁹ When Erik Prince appealed to the plan commissionaires, his project was described as a "\$2 million outdoor shooting range."⁵⁰ The company had spent its first three years struggling for an identity, paying staff with an executive's credit card and begging for customers.⁵¹ From 1998 until 2000, only six people worked in the training department, and Prince often had to pay from his own pocket just to make payroll.⁵²

In many ways, the Blackwater project couldn't have come at a better time. Blackwater was born just as the military was in the midst of a massive, unprecedented privatization drive that had begun in force from 1989 to 1993. From 1989 to 1993, the military budget shrank \$10 billion and the number of troops dropped from 2.2 million to 1.6 million. The idea of privatization related with DoD was to free up the troops to fight while private contractors handled the backend logistics.

By the time Al Clark, Erik Prince, and a handful of others began serious planning for what would become

⁴⁹ Blackwater, USA Official Website, <http://www.blackwaterusa.com> (accessed 02/23/2007).

⁵⁰ Anna Saita, "Hearing Set on Beach Man's Plan for Shooting Range in Moyock," *the Virginian-Pilot*, December 5, 1996.

⁵¹ Jeremy Scahill, "Bush's Shadow Army," *The Nation Press*, April 2, 2007.

⁵² Robert Young Pelton, *Licensed to Kill: Hired Guns in the War on Terror*, 39-41.

Blackwater in the mid-1990s, the military had been downsizing for years, and training facilities were among the casualties of that trend. This downsizing would provide fertile ground for Blackwater to sprout and grow fast.⁵³ "There was a need for training for military and for Special Operations units, because most of the ranges and facilities were World War II and they were antiquated," said Bill Masciangelo, the first president of Blackwater, who added, "Since they were running out of places to train, and nobody provided a modern military facility, that was the whole concept behind Blackwater when it was first conceived."⁵⁴ At the same time, there was a growing trend toward privatization of government functions. The result is a \$100-billion-a-year global business.⁵⁵

By 1998, Blackwater was doing a brisk business in training private and government customers in the use of a wide variety of weapons from pistols to precision rifles to machine guns. It was leasing out the facility to SEALs for their training. Police officers from Virginia, North Carolina, and Canada had enrolled in Blackwater training programs, and the company was starting to get inquiries from foreign governments.⁵⁶ By the late 1998, Blackwater boasted a nine-thousand square-foot lodge with conference rooms, classrooms, lounge, pro-shop, and dining hall. A wide

⁵³ Scahill, *The Rise of the World's Most Powerful Mercenary Army*, 29.

⁵⁴ Ibid.

⁵⁵ Singer, *Corporate Warriors*, 32.

⁵⁶ John Frank, "Best of the Best Arms Training Site Aims to Lure Gun Enthusiasts, Soldiers," *The Virginian-Pilot*, September 27, 1998.

variety of ranges, including an urban street façade and a pond for water-to-land training were just some of the early offerings.⁵⁷

One turning point in Blackwater's corporate evolution came with the October 2000 suicide bombing of the Norfolk-based destroyer U.S.S. Cole. The al-Qaeda terrorist attack, in the port of Aden, killed 17 sailors. The Cole bombing settled the company's internal debate: Blackwater would quit foraging for civilian business and start going after federal contracts.

"We were at about 20-something employees," Blackwater's President Gary Jackson said. "The Cole was bombed, and the Navy did a bottom-up review and looked at their processes, their procedures, their tactics, and they found out that there were some glaring holes. The young sailor was not getting the training with live firearms. They lost most of their firearms instructors so they called us up and asked us if we could train up to 20,000 students in a prescribed amount of time and I said 'Sure.' And we did it."⁵⁸

To date, Blackwater has trained some 30,000 sailors.⁵⁹ Blackwater was officially awarded the \$35.7 million Navy contract for "force protection training that includes force protection fundamental training."⁶⁰

⁵⁷ Steve Waterman, "Blackwater Lodge," <http://williambowles.info/guests/blackwater.html> (accessed 04/23/2007).

⁵⁸ Bill Sizemore, "Blackwater: Profitable Patriotism," *The Virginian-Pilot*, July 24, 2006.

⁵⁹ "Defense Contracts," *Defense Daily*, September 18, 2001.

⁶⁰ *Ibid.*

On February 1, 2000, Blackwater took its first contract with the General Services Administration, creating a government-approved list of services and goods Blackwater could sell to federal agencies.

Erik Prince recruited former CIA operative Jamie Smith in 2001 after the 9/11 attacks. Smith saw a market in hiring out men skilled in State Department style personal protection skills and wanted to create a division that had potential as a growth industry. It was not until after 9/11 that Prince became fully committed to the idea.⁶¹

The second turning point was September 11 attacks. Within months, as the U.S. occupied Afghanistan and began planning the Iraq invasion, Blackwater Security was already turning a profit, pulling in hundreds of thousands a month from a CIA contract.⁶² The company's work for the CIA and the military after Smith's and Prince's political and military connections would provide Blackwater with important leverage in wooing what would become its largest confirmed client, the U.S. State Department.⁶³ Prince's timing was calculated, since CIA security resources were soon spread thin. Six months after 9/11, the CIA's security division was overstretched, and they needed protection for their newly established Kabul station. After Prince called seeking opportunities for his new business venture, Blackwater obtained a \$5.4 million, six-month contract that was specified as "urgent and compelling" necessity.⁶⁴

⁶¹ Pelton, *Licensed to Kill*, 36.

⁶² Ibid., 39-41.

⁶³ Scahill, *The Rise of the World's Most Powerful Mercenary Army*, 29.

⁶⁴ Pelton, *Licensed to Kill*, 39-41.

Almost overnight following September 11, the company would become a central player in a global war. "I've been operating in the training business now for four years and was starting to get a little cynical on how seriously people took security," Prince told Fox News host Bill O'Reilly shortly after 9/11.⁶⁵ It got even better in March 2003, when President Bush expanded the "global war on terror" to Iraq, providing more fuel for Blackwater's fast rise.

C. BLACKWATER IN WAR ZONES AND OPPORTUNITIES

1. Guarding Paul Bremer in Baghdad, Innovations and Gold Rush Effect

In mid-April 2003, Paul Bremer was offered to the job of head of the Coalition Provisional Authority in Baghdad after the invasion of Iraq and started his job in May 2003.⁶⁶ On August 28, 2003 Blackwater contracted with a sole-source and no-bid contract to provide personnel security to Bremer. The amount of the contract was \$27.7 million and it was Blackwater's starting point in Iraq.⁶⁷

"Standard wages for PSD (personal security detail) pros (In Iraq) were previously running about \$300 a day," *Fortune* magazine reported. Once Blackwater started recruiting for its first big job, guarding Paul Bremer, the rate increased to \$600 a day. Blackwater described its Bremer project as a "turnkey security package." In response, Blackwater developed an innovative combat PSD program to ensure Ambassador Bremer's safety and that of any ambassador who

⁶⁵ Scahill, "Bush's Shadow Army."

⁶⁶ Naomi Klein, "Downsizing in Disguise," *The Nation*, June 23, 2003.

⁶⁷ Scahill, *The Rise of the World's Most Powerful Mercenary Army*, 69.

followed. The company provided him with thirty-six "personnel protection" specialists, two K-9 teams, and three MD-530 Boeing helicopters with pilots to taxi him around the country.⁶⁸

The Bremer contract had officially elevated Blackwater to a special status in the war on terror and opened many doors in the world of private military contracting. The firm's performance in guarding Bremer can be viewed from the perspective of free-market economy—that is, if you want to earn more money you have to protect your primary in any case. For the military, if the primary gets killed, that is a very bad thing but nobody is going to go out of business. For a private company like Blackwater, the death of the primary can mean the death of the business itself. That is why Blackwater's marketing campaign during this time was: *"if we can protect the most hated man in Iraq, we can protect anyone, anywhere."*⁶⁹

2. Supply Push Factors for Blackwater and Other PMFs

The Times of London said, "In Iraq, the postwar business boom is not oil. It is security." In Iraq Blackwater, with its former Special Forces operators and political connections billed some clients \$1500 to \$2,000 per man per day, according to Time magazine.⁷⁰

Around the time Blackwater won its Bremer contract, PMFs quickly poured into Iraq. Firms like Control Risks

⁶⁸ Scahill, *The Rise of the World's Most Powerful Mercenary Army*, 70.

⁶⁹ Ibid., 73.

⁷⁰ Michael Duffy, "When Private Armies Take to the Front Lines," *Time*, April 12, 2004.

Group, DynCorp, Erinys, Aegis, ArmorGroup, Hart, Kroll, and Steele Foundation, many of which already had some presence in the country, began deploying thousands of hired guns in Iraq and recruiting internationally. When Bremer left Iraq in June 2004, there were more than twenty thousand private soldiers inside the country's borders and Iraq had become the real lab for the future of PMFs. According to *The Economist* magazine, the Iraqi occupation shot British military companies' revenues up from \$320 million before the war to more than \$1.6 billion by early 2004, "making security by far Britain's most lucrative postwar export to Iraq."⁷¹

The privatization of the occupation in Iraq also offered a chance for many combat enthusiasts, retired from the service and stuck in the ennui of everyday existence, to return to their glory days on the battlefield under the banner of the international fight against terrorism. Dan Boelens, a fifty-five-year-old police officer from Michigan and self-described weapons expert, went to Iraq with Blackwater because it was "the last chance in my life to do something exciting," saying, "I like the stress and adrenaline push it gives me."⁷²

"When a guy can make more money in one month than he can make all year in the military or a civilian job, it's hard to turn it down," says ex SEAL Dale McClellan, one of the original founders of Blackwater USA.⁷³

⁷¹ "The Baghdad Boom: Mercenaries," *The Economist*, March 27, 2004.

⁷² Ted Roelofs, "Good Money, Constant Fear," *The Grand Rapids Press*, September 26, 2004.

⁷³ Joanne Kimberlin, "Iraq Operators Perform Duties in the Line of Fire," *The Virginian-Pilot*, April 15, 2004.

Many Special Forces soldiers who served in the "peacetime" of the 1990s also felt robbed of the overt combat of different eras and viewed the war on terror as their chance at glory. Another ex-SEAL, Curtis Williams says, "We are trained to serve in our country in an elite fashion; We went to go back and kill the bad guy. It is who we are."⁷⁴

Blackwater's Gary Jackson bragged shortly before the notorious Fallujah killings, "We have grown 300 percent over each of the past three years, we have a very small niche market, and we work towards putting out the cream of the crop, the best."⁷⁵

3. Fallujah Ambush and Effects on Iraq's Invasion

The U.S. occupation of Fallujah began in April 2003, one month following the beginning of the invasion. Fallujah was one of the most peaceful areas of the country just after the fall of Saddam Hussein, and the arrival of U.S. soldiers was received peacefully. There was very little looting and the new mayor of the city Taha Bidaywi Hamed, selected by local tribal leaders—was pro-American.⁷⁶

On the evening of April 28, 2003, several hundred residents defied the Coalition curfew and marched down the streets of Fallujah, past the soldiers positioned in the Ba'ath party headquarters, to protest the Coalition's

⁷⁴ Michael Stetz, "War against Terror Gives Former SEALs the Chance to Resurrect Their Skills," *The San Diego Union Tribune*, June 3, 2004.

⁷⁵ Jonathan Franklin, "US Contractor Recruits Guards for Iraq in Chile," *The Guardian*, March 5, 2004.

⁷⁶ "United States occupation of Fallujah," <http://www.answers.com/topic/united-states-occupation-of-fallujah> (accessed 05/02/2007).

presence outside a local school. A U.S. Army Psychological Operations team attempted to make the crowd disperse with announcements, but failed. According to locals, at this point the U.S. military fired upon the unarmed crowd. According to the soldiers on the ground, the 82nd airborne soldiers inside the school responded to "effective fire" from inside the protesting crowd. Reportedly, 17 protesters were killed while the U.S. suffered no casualties from the incident.⁷⁷

Approximately one year after the invasion, the city's Iraqi police and Iraqi Civil Defense Corps were still unable to establish law and order. Insurgents launched attacks on police stations in the city killing 20 police officers.

On March 31, 2004, four men working for Blackwater USA as security guards—Scott Helvenston, Wesley Batalona, Jerry Zovko and Michael Teague—were ambushed by insurgents in Fallujah. They were killed, their bodies burned and mutilated, and two were strung up on a bridge over the Euphrates. The insurgents made their own video of the attack, broadcasting the images around the world. Almost overnight, the issue of private contractors in Iraq was put on the map. The Marines in charge of the area didn't know the Blackwater team would be traveling that day into the dangerous city of Fallujah, but four days later they were

⁷⁷ "The High-Risk Contracting Business," <http://www.pbs.org/wgbh/pages/frontline/shows/warriors/contractors/highrisk.html> (accessed 05/02/2007).

ordered to invade the city and find the killers; this was not the original plan they had had for quelling the insurgency in the area.⁷⁸

The Blackwater mission was to provide security for trucks belonging to a food caterer, ESS. The empty trucks were being sent to pick up kitchen equipment from the 82nd Airborne. But the Blackwater men were uneasy. One team member, former Army Ranger Wes Batalona, complained to a friend that the team had never worked together before. Furthermore, Blackwater was contractually obligated to supply two SUVs with three guards per vehicle. Instead, the men set out that morning with just two men per car, each short a rear gunner.⁷⁹

After the Fallujah attack, the lid of Pandora's Box was opened for all Private Military Firms, Private Security Companies and Private Military Support Firms. In addition to the discussions about their lack of legitimacy, their oversight and accountability and human right violations in Iraq, it also affected the command and control issues on the battlefield.

Iraq can easily be described as a complex battle space where military forces, civilian U.S. government agencies, international organizations, contractors, non-governmental organizations (NGO) and the local population all share the same ground. The private security company is now added to that complex battle space in today's warfare.

⁷⁸ "The High-Risk Contracting Business," <http://www.pbs.org/wgbh/pages/frontline/shows/warriors/contractors/highrisk.html> (accessed 05/02/2007).

⁷⁹ "The High-Risk Contracting Business."

One of the major fallouts of this complex battle space is the number of "blue on white" incidents that are occurring in Iraq. A blue on white incident is a term that is used by both the military and private security companies to describe an incident in which the military (blue) fires at a friendly private security contractor (white). When the term is reversed (white on blue), it describes the incident where a private security contractor fires on a military unit.⁸⁰ Some private security contractors believe that they receive fire from the military without provocation due to new troops rotating to the region and not being familiar with the roles and missions of the private security contractors in supporting reconstruction efforts.⁸¹

4. Post Paul Bremer Period for Blackwater

For Blackwater, the Bremer contract in Iraq was undoubtedly a valuable reference. It was prestigious and an invaluable marketing tool to win more clients and high-value government contracts. The company could boast that the U.S. government had entrusted it with the protection of its most senior officials on Washington's hottest front line in the "war on terror."

In June 2004, at the end of Bremer's tenure, Blackwater was handed one of the most valuable and prestigious U.S.

⁸⁰ Martin Smith, "Contractors in Iraq," <http://www.pbs.org/wgbh/pages/frontline/shows/warriors/view/> (accessed 05/20/2007).

⁸¹ Ibid.

government contracts on the market, through the State Department's Worldwide Personal Protective Service (WPPS) program.⁸²

The WPPS contract was divided among a handful of well-connected PMFs, among them DynCorp and Triple Canopy. Blackwater was originally to be paid \$229.5 million for five years, according to a State Department contract list. As of June 30, 2006, just two years into the program, it had been paid a total of \$321,715,794.⁸³

In an interview, Erik Prince clarified the phenomenal growth of Blackwater and the private security industry due to a few simple, but important factors: "Delivering services complete, correct, and on time, and continue to attract committed professionals who value service over self and who want to have an immediate positive impact for customers."⁸⁴ For Erik Prince, growth in this industry is not restricted to Iraq alone. Because of the demand, the companies who have continually invested for the long term will be the companies who are looked at to provide services whenever they are needed.⁸⁵

As with Halliburton, the Pentagon's largest contractor, Blackwater is set apart from simple war profiteers by the defining characteristic of its executive's very long view. They have not just seized a profitable moment along with

⁸² Scahill, *The Rise of the World's Most Powerful Mercenary Army*, 185.

⁸³ Scahill, *The Rise of the World's Most Powerful Mercenary Army*, 185.

⁸⁴ "Blackwater's Founder on the Record," *The Virginian-Pilot*, July 24, 2006.

⁸⁵ *Ibid.*

many of their competitors but have set out to carve a permanent niche for themselves for decades to come. Blackwater's aspirations are not limited to international wars, however. Its forces beat most federal agencies to New Orleans after Hurricane Katrina hit in 2005, as hundreds of heavily armed Blackwater personnel—some fresh from deployment in Iraq—fanned out into the disaster zone. Within a week, they were officially hired by the Department of Homeland Security to operate in the U.S. Gulf, billing the federal government \$950 a day per Blackwater soldier.⁸⁶

The president of Blackwater, Gary Jackson, states his future vision as, “[That our] military is doing a fabulous job in fighting the war on terrorism is apparent by the results of the most recent victory in the Battle of Fallujah. As Iraq continues to become more stable the Department of State will be sending in more U.S. Government Officials to assist Iraq in becoming a democracy. These Officials need professional protection and the Department of State, Bureau of Diplomatic Security has chosen and contracted Blackwater Security Consulting to assist their organization in providing that protection.”⁸⁷

D. BLACKWATER AVIATION AND BLACKWATER AT THE CASPIAN SEA

1. Blackwater Aviation

Blackwater aviation was born in April 2003, as the Iraq occupation was getting underway, when Prince Group acquired Aviation Worldwide Services (AWS) and its subsidiaries,

⁸⁶ Edgar Prince, “Spirit of Giving Defined a Giant,” *The Grand Rapids Press*, March 3, 1995.

⁸⁷ Gary Jackson, *Blackwater Tactical Weekly*, November 22, 2004.

including Presidential Airways.⁸⁸ The AWS consortium had been brought together in early 2001 under the ownership of Tim Childery and Richard Pere, who focused on military training operations and aviation transport for the U.S. government. Presidential Airways was the licensed air carrier and provided CASA 212 and Metro 23 aircraft for military training contracts, including some for the U.S. Special Operations Command.⁸⁹

In addition to offering solutions for firearms training, steel targets and range construction, and security needs, Blackwater now offers aviation and logistical solutions for its customers with the strategic goal of providing a "one stop" solution for its customer's security and tactical training needs.

Blackwater also began developing a surveillance blimp that could be used to spy on "enemy" forces abroad or by the Department of Homeland Security to monitor the border.⁹⁰

In 2004, Blackwater announced plans to move the operations of its aviation division to North Carolina and in 2006 sought approval to build a private airstrip with two runways for its fleet of more than twenty planes.⁹¹

2. Blackwater in the Caspian Sea Region

The United States' strategic interest in petroleum reserves certainly did not begin with the 1991 Persian Gulf

⁸⁸ Scahill, *The Rise of the World's Most Powerful Mercenary Army*, 255.

⁸⁹ Jeffry S. Hampton, "Blackwater Aviation Unit to Relocate," *The Virginian-Pilot*, March 29, 2006.

⁹⁰ Ibid.

⁹¹ Ibid.

War or the subsequent 2003 invasion of Iraq. While Iraq and the war on the terror have dominated the headlines, the U.S. government and American corporate interests have long been quietly engaged in a parallel campaign to secure the Caspian Sea region, which is believed to house well over 100 billion barrels of oil.⁹²

Two powerful nations—Russia and Iran—also border the Caspian Sea and view the U.S. incursion into the area as a hostile threat. American oil companies including Amoco, Unocal, Exxon, and Pennzoil have invested billions of dollars in Azerbaijan and plan to invest billions more. The list of private American citizens who are seeking to make money from Azerbaijani oil or to encourage investment are former Secretaries of State Henry Kissinger and James A. Baker III, former Defense Secretary Dick Cheney, former Senator and Treasury Secretary Lloyd Bentsen, former White House chief of staff John H. Sununu, and two national security advisers, Brent Scowcroft and Zbigniew Brzezinski.⁹³

In May 2001, Dick Cheney's energy task force estimated that proven oil reserves in Azerbaijan's and Kazakhstan's sectors of the Caspian alone equaled "about 20 billion barrels."⁹⁴

The Cheney Group estimated that if the United States could get a major pipeline flowing West from the Caspian

⁹² Jan H. Kalicki, "Caspian Energy at the Crossroads," *Foreign Affairs*, September/October 2001.

⁹³ Stephen Kinzer, "Azerbaijan Has Reason to Swagger: Oil Deposits," *The New York Times*, September 14, 1997.

⁹⁴ Report of the National Energy Policy Development Group, "Reliable, Affordable, Environmentally Sound Energy for America's Future," released by the White House in May 2001.

Sea-away from Moscow's control-daily exports from the Caspian Sea to world markets could go as high as 2.6 million barrels per day by 2005.⁹⁵

The Bush administration knew that the controversial pipeline would need to be protected in each country it passed through. While Washington increased its military aid to Georgia, it faced a decade-long U.S. Congressional ban on military assistance to Azerbaijan, where the oil would be extracted.

Beginning in July 2004, Blackwater forces were contracted to work in Azerbaijan, where they would quietly train a force modeled after the Navy SEALs and establish a base at the north of the Iranian border as part of a major U.S. strategy in the region.⁹⁶ Instead of sending in battalions of active U.S. military to Azerbaijan, the Pentagon deployed "civilian contractors" from Blackwater and other firms to set up an operation that would serve a dual purpose: protecting the West's new oil and securing gas deals in a region historically dominated by Russia and Iran.

In strategically important Baku, Blackwater renovated a Soviet-era maritime special operations training facility that Pentagon planners envisioned as a command center modeled on those used by the Department of Homeland Security.⁹⁷

⁹⁵ Report of the National Energy Policy Development Group, "Reliable, Affordable, Environmentally Sound Energy for America's Future," released by the White House in May 2001.

⁹⁶ Scahill, *The Rise of the World's Most Powerful Mercenary Army*, 167.

⁹⁷ Russ Rizzo, "Pentagon Aims to Bolster Security in Caspian Sea Region," *Stars and Stripes*, August 10, 2005.

E. BLACKWATER TODAY AND STRATEGIC ALTERNATIVES FOR THE FUTURE

1. Blackwater Today

The company advertises itself as "the most comprehensive professional military, law enforcement, security, peacekeeping, and stability operations company in the world."⁹⁸ According to the company's website, it is comprised of nine separate business units, and has strategic relationships with Aviation Worldwide Services and Greystone Ltd.:⁹⁹

- Blackwater Training Center, the largest private firearms and tactical training center in the U.S. and the company's original focus,
- Blackwater Target Systems, a department offering shooting range target systems,
- Blackwater Security Consulting, a risk analysis and training service, which also supplies clients with mobile security teams of former members of special operations units,
- Blackwater Canine, a dog-training unit,
- Maritime Security,
- Manufacturing of custom Armored Vehicles,
- Parachute Jump Team,
- Aviation,
- Raven Development Group, an expanded service for building secure facilities.

⁹⁸ Blackwater, USA Official Website.

⁹⁹ Ibid.

These business units have the following capabilities:¹⁰⁰

- A logistics operation that can deliver 100- and 200-ton self-contained humanitarian relief response packages,
- A Florida aviation division with 26 different platforms, including helicopter gunships, Boeing 767, and a Zeppelin,
- The largest tactical driving track in the US,
- A 20-acre manmade lake with shipping containers,
- A K-9 training facility with 80 dog teams deployed around the world,
- A 1,200-yard-long firing range,
- A large private armory, including Berettas, Glocks and Sig Sauers,
- An urban armored vehicle development program called the Grizzly.

As the company continued to see training as its core business function, in 2004 it made major upgrades to its facilities by receiving permission from Currituck County to expand its facilities into that county. New facilities include firearms ranges, parachute landing zones, and explosives training areas. Later, "Blackwater began to build a roadway through 90 acres of its property that would be suitable for training in high-speed chases (above 100 miles per hour) as well as motorcade protection against terrorist attacks."¹⁰¹

¹⁰⁰ M. Hemingway, "Warriors for Hire: Blackwater USA and the Rise of Private Military Contractors," *The Weekly Standard* 12, no. 14 (2006), 23-24.

¹⁰¹ Blackwater, USA Official Website.

In March 2006, Blackwater suggested at an international conference that a brigade-size force was ready to move into a troubled region for humanitarian efforts and low intensity conflicts.¹⁰²

In November 2006, the company announced its plans to open a new training site in Illinois, to be known as Blackwater North. It would have seven flat ranges, one each known- and unknown-distance ranges, and a climbing tower.¹⁰³

In 2007, during the State of the Union Speech, President Bush mentioned an initiative that would help the U.S. forces in response, in reconstruction and in war: Civilian Reserve Corps. The proposed Corps was not his idea alone. Erik Prince, the mega-millionaire owner of Blackwater had a privatized version of the concept. In early 2005, Prince announced the idea at a military conference of a 'contractor brigade' as an addition to the official military, but with a lower price tag.¹⁰⁴

2. Strategic Alternatives for the Future

As long as war exists, so will a demand for military expertise. PMFs will resultantly benefit from any slack given by traditional sources of security not only on the battlefield but also in many different business lines where

¹⁰² B. Sizemore, "Blackwater USA Says It Can Supply Forces for Conflicts," <http://content.hamptonroads.com/story.cfm?story=102251&ran=202519&tref=po> (accessed 02/27/2007).

¹⁰³ *Blackwater Plans Second Training Facility*, Vol. 231 (Washington, D.C.: Space Publications, 2006), 1.

¹⁰⁴ J. Scahill, "Bush's Rent-an-Army," *Los Angeles Times*, Main News section, 2007, <http://libproxy.nps.edu:8080/login?url=http://proquest.umi.com.libproxy.nps.edu:8080/pqdweb?did=1201702101&sid=8&Fmt=3&clientId=11969&RQT=309&VName=PQD> (accessed 02/27/2007).

PMFs can operate. Blackwater, in addition to business lines it currently operates, can exploit those new revenue streams, as well:

- Humanitarian Relief Effort (As in the case of Hurricane Katrina). Blackwater already offered its services to the California Department of Homeland Security for California Disaster relief contracts.¹⁰⁵ Blackwater states in its official website that: "Blackwater can provide a wide range of consulting, manpower, and material support in response to humanitarian events worldwide to include: Disaster planning and evaluation of disaster plans, mobility and logistics planning and evaluation of standing support plans, establishment of crisis management centers in support of disaster event, Personnel augmentation in support of standing aid organizations."¹⁰⁶
- United Nations Peacekeeping operations all over the world. Blackwater officials say they can help keep peace in Darfur. Doug Brooks runs an association of private military firms, which includes Blackwater, and says his members can help where governments have failed.

"What we've seen is the West has largely abrogated any responsibility to put their own people on the ground in places they don't care about," says

¹⁰⁵ Interview with the author of "Blackwater" Jeremy Scahill.

¹⁰⁶ Blackwater Official Website, [http://www.blackwaterusa.com/securityconsulting/Human Support.asp](http://www.blackwaterusa.com/securityconsulting/Human%20Support.asp) (accessed 05/07/2007).

Brooks. "It's willing to authorize these missions, but it's not willing to put boots on the ground. The private sector can step in. It can fill that gap."¹⁰⁷

- Manufacturing & Service: Blackwater, with the experience it has gained from war zones, now offers its newly manufactured armored personnel carrier, called the "Grizzly". Blackwater touts the Grizzly on its official web site: "The leader in the high-threat security industry, Blackwater incorporates real-world lessons learned on the streets of Iraq and Afghanistan into all of our operations. Now, we've gone one step further. Blackwater presents the GRIZZLY - the world's only Armored Personnel Carrier intended to counter the most lethal threats in the modern urban combat environment."¹⁰⁸
- Spare Parts supply related to manufacturing.
- Providing infrastructure security and executive protection for Fortune 500 companies against terrorist attacks.
- Providing energy pipeline security around the world, especially in the Caspian Sea, Central Asia and Middle East regions.

¹⁰⁷ Frank Langfitt, "Private Military Firms Pitches Its Services in Darfur," <http://www.npr.org/templates/story/story.php?storyId=5433902> (accessed 05/06/2007).

¹⁰⁸ Blackwater Official Website.

F. BLACKWATER'S COMPETITORS

1. DynCorp

DynCorp International LLC has its origins with two companies formed in 1946: Land-Air, Inc. and California Eastern Airways. In 1998, DynCorp established DynCorp Technical Services, Inc. (DTS) and transferred its existing aerospace and international-division business—including contracts later held by DynCorp International—to the new DTS subsidiary.

DynCorp also operates in the field of Aerospace, Logistics, Law Enforcement and Security, Infrastructure, Maritime, and Contingency. At their official web site, they declare that DynCorp International can deploy law enforcement and security personnel anywhere at virtually a moment's notice and use a database of more than 3,000 qualified individuals, so they have an unmatched ability to recruit and assemble large security contingents.¹⁰⁹

2. Triple Canopy

Founded in September 2003 by Thomas Katis, Matthew Mann and John Peters, Triple Canopy grew to over 800 employees and earned annual revenues exceeding \$100 million within its first year of operation. They explain their extraordinary achievement as due in part to their carefully selected management team.¹¹⁰ According to their official web site:

¹⁰⁹ DynCorp International Official Website, <http://www.dyn-intl.com/subpage.aspx?id=36> (accessed 03/05/2007).

¹¹⁰ Triple Canopy Official Website, <http://www.triplecanopy.com/triplecanopy/en/about/index.php?pg=history> (accessed 03/05/2007).

The dynamic combination of our unparalleled operational leadership comprised of former operators from tier-one special operations units and a proven executive management team has accelerated growth and enabled us to set the standard for security solutions. The name Triple Canopy was initially chosen to evoke the protection offered by a "triple canopy" jungle. We still embrace that idea but further define ourselves by the multiple layers of security we offer as well as the levels of redundancy built into every operation.¹¹¹

Triple Canopy, one of the leading actors among Private Military Firms, also states its mission and vision at its official web site:

Legal, moral and ethical business practices have always been a cornerstone of Triple Canopy's philosophy. We firmly believe that honesty and integrity in all we do best serves our clients and society.

Vision

To be the global market leader, providing our clients with premier integrated security solutions while setting the conduct and performance standards for our industry.

Mission

Triple Canopy provides legal, moral and ethical security solutions enabling our clients to excel globally in challenging environments.¹¹²

¹¹¹ Triple Canopy Official Website.

¹¹² Ibid.

3. CACI

Another major player in the industry is CACI, a company that has been in existence for some time.

Caci was founded in July of 1962 by two extraordinary individuals: Herb Karr, a practical and visionary businessman, and Harry Markowitz, a programming genius. These entrepreneurs took an unsupported public domain software language, realized it presented a promising business opportunity and created a company to train and support its users. In a very short time Herb and Harry went from doing business on a park bench to launching a successful venture in the nascent computer industry.¹¹³

CACI describes its historical evolution as:

Following the trend lines, building on legacy expertise and delivering quality client service became hallmarks of CACI's evolving culture. And these ideals served us well in the 1980s, when we encountered a dramatic change in the federal landscape. As new rules and regulations went into effect we had to retool our business to succeed in a now competitive environment. We adapted, survived and, thanks to our solid business philosophies and culture, continued to succeed.

In the '90s we really took off, changing from a professional services firm to an IT solutions provider. We recognized that IT was shifting from individual software applications to networks and enterprise-wide projects... and it was clear it would soon be a "network world."

Today, even in a period of economic uncertainty, CACI's fiscal performance remains outstanding. Our stock value continues to rise and for fiscal

¹¹³ CACI International Official Website, <http://www.caci.com/about/hist.shtml> (accessed 05/03/2007).

year 2006 we announced record revenues of \$1.76B. We maintain an aggressive acquisition strategy - 34 acquisitions in 14 years - to augment our core competencies by adding talented new people and powerful new capabilities. CACI now fields a force of approximately 10,000 employees across more than 130 offices around the world.

CACI takes great pride in our record of achievement. The secret of our success is no secret at all... our culture effectively provides the foundation for our achievements. Hiring and rewarding good people, predicting and acting on technology trends, dealing openly and honestly with our clients and delivering the best products and services... these remain our focus, our strategy and our guide to success.¹¹⁴

4. Gurkha Personal Security Company

Gurkhas are well known throughout the world for their professionalism, dedication, discipline, loyalty, integrity and courage in the face of danger. The majority have served on average 20 years with the British Army, stationed worldwide. They adapt to any culture, environment or society where they are called upon to serve.

When the British East India Company tried to expand their trade routes into Nepal and beyond, they encountered the Gurkhas. They got their name from the Gurkha district of Nepal. These hill men fought the British Army over a number of years, and their respect for each other grew. The British were so impressed by their fighting skills that it was suggested that the Gurkha hill men should be recruited into the Army to form new Battalions made up entirely from their numbers. In March 1816, a treaty was signed signaling a

¹¹⁴ CACI International Official Website.

cessation of hostilities. In April of the same year, authorization to form the first Battalion of Gurkha recruits took place.

The Gurkhas have been part of the British Army for nearly 200 years. During that time, they have fought in every major theatre of war, from the first Afghan war through to Bosnia, the Falklands and more recently Iraq. They have received in all 6,500 decorations for bravery, including 13 Victoria Cross awards.

Gurkha Security Company describes itself in its official web site as:

Gurkha Security (UK) Ltd prides itself in providing professional Gurkhas who have served in the British Army and can offer Personal Security, Protection and Professional Bodyguard Services.

Our Gurkha Personal Security Program will ensure the protection requirements of your situation are carefully assessed and the relevant Gurkha Security program is put in place.

Many of our Gurkhas have undertaken Bodyguard Services and have provided Professional Security Services to a wide range of clients.

The role of the company is to supply Gurkhas, who are trained to the very highest standards, to clients who require professional personal security or the services of personal security guards. We also provide protection consultancy.

As Martin Rea, the Director of Operations explained "many of our Gurkhas have undertaken positions such as providing Close Protection for the Prime Minister of the State of Qatar, we also have a Gurkha who was the Assistant Director for

Brinks Mat in Hong Kong and employment as an armed guard for a security company in Kirkuk, Iraq.¹¹⁵

¹¹⁵ Gurkha Security Ltd. Official Website, <http://www.gurkha-security.com/> (accessed 05/05/2007).

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IV. HISTORICAL INDUSTRY EVOLUTION OF DYNCORP COMPANY

A. OVERVIEW

DynCorp International is a complex, global enterprise that provides inventive solutions to the various technological and professional services needs of government and commercial industry worldwide. While they are a highly successful provider of critical support to military and civilian government institutions, they also have significant commercial business in aviation, infrastructure development, security, and logistics, including international projects to build and administer regional air facilities.¹¹⁶ DynCorp is based in Falls Church, VA and its current president and CEO is Stephen J. Cannon. DynCorp is owned by Computer Sciences Corporation (CSC) who paid \$950 million for it. CSC's clients include the following: General Dynamics, BAE SYSTEMS, Chevron Corp., DuPont, MIT - Massachusetts Institute of Technology, Nortel Networks, Raytheon, Siemens, U.S. Department of Defense and U.S. NASA Goddard SFC. CSC is one of the top 20 corporations to do work for the US government.¹¹⁷

DynCorp's roots are in aviation. In 1951, their precursor, Land-Air, Inc., implemented the first Contract Field Teams, by which they deployed teams of technicians to the field to maintain military aircraft. They have held the

¹¹⁶ DynCorp Official Website, <http://www.dyn-intl.com/subpage.aspx?id=13> (accessed 04/16/2007).

¹¹⁷ William Bowles, "Private Military Contractors—A \$300 Billion Dollar Business," <http://www.williambowles.info/ini/ini-019A.html> (accessed 04/16/2007).

Contract Field Teams contract continuously since then, and currently maintain rotary and fixed-wing aircraft for all branches of the U.S. Armed Forces throughout the world, for foreign governments flying American aircraft, and for commercial aviation. The company provides unique capabilities to U.S. and foreign governments. DynCorp is a provider of over 90% of services under the Civilian Police (CIVPOL) program for the Department of State and also the single supplier of International Narcotics and Law Enforcement (INL) Eradication services to the Department of State.

Moreover, it is the largest provider of Contract Field Team (CFT) services to the Department of Defense. In recent years, DynCorp International has expanded its scope to program management and security. Previously, they have recruited, trained, and deployed more than 5,000 highly-qualified civilian peacekeepers and police trainers to 11 countries, including Haiti, Bosnia, Afghanistan, and Iraq, for the Department of State.¹¹⁸ To better understand the scope of DynCorp's activities it is necessary to look at the DynCorp clients. These are the Department of State, Department of Defense, U.S. Army, U.S. Navy, U.S. Air Force, U.S. Marine Corps, NATO, and Armed Forces of The United Kingdom, Government of Nigeria, Australian Defense Force, Kuwaiti Air Force and Department of Homeland Security.¹¹⁹

DynCorp International has a highly efficient global recruiting network that recruits skilled professionals and

¹¹⁸ DynCorp Official Website.

¹¹⁹ DynCorp Investor Presentation, 8.

technicians worldwide. Currently, they have nearly 14,000 employees in more than 30 countries (Figure 5).¹²⁰

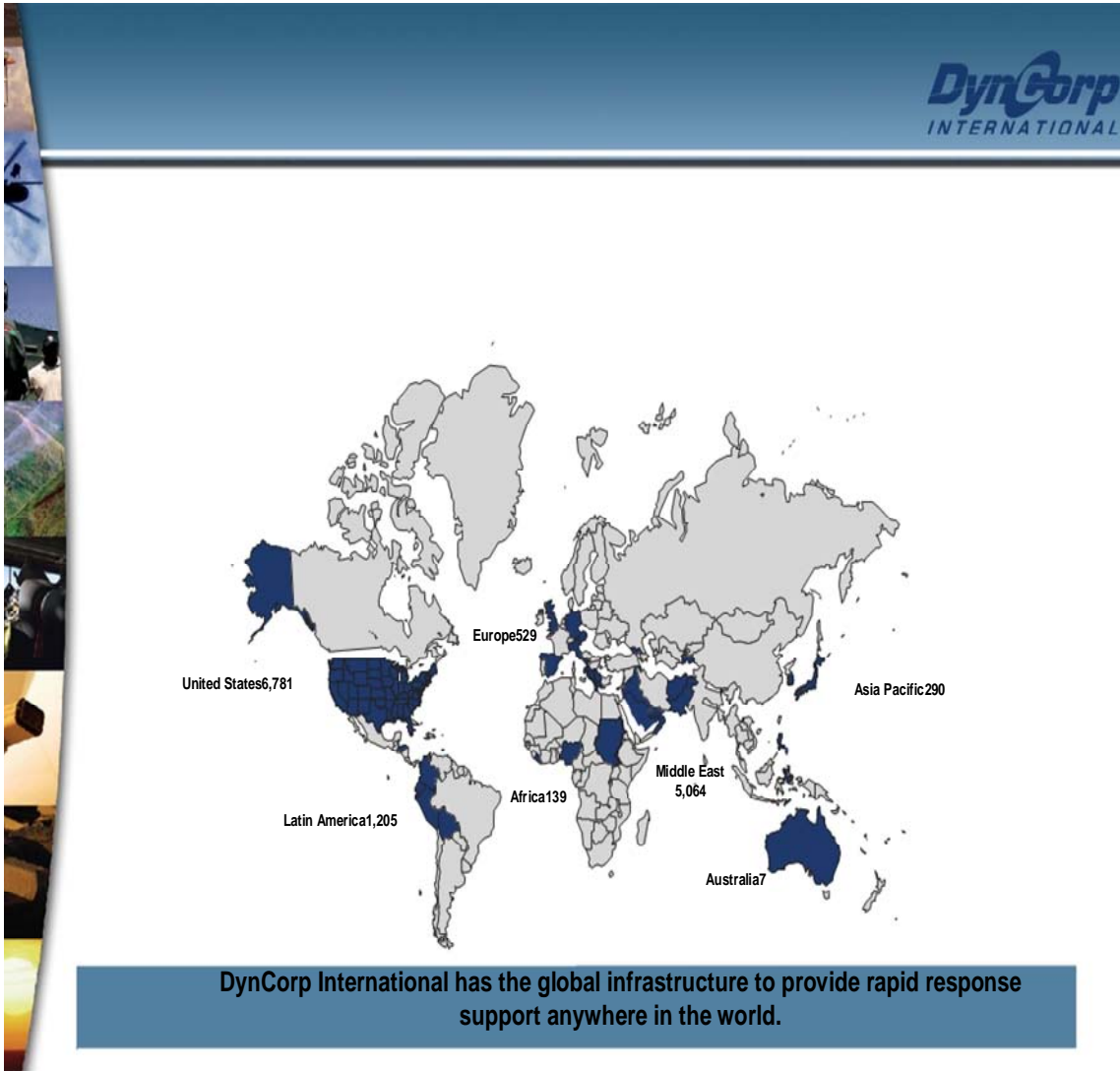


Figure 5. DynCorp International global network

B. ORIGINS OF DYNCORP INTERNATIONAL

DynCorp International LLC has its origins with two companies created in 1946, Land-Air, Inc., and California Eastern Airways Land-Air, Inc., which became the predecessor

¹²⁰ DynCorp Official Website.

to DynCorp International's Maintenance and Technical Support Services (MTSS) Division. MTSS reached a major milestone in 1951, when it was awarded the first Contract Field Teams (CFT) contract by the Air Force Logistics Command (AFLC). Contract field teams offer mission support and depot-level repair to U.S. military aircraft and weapons systems worldwide. DynCorp International and its predecessors continue to offer services under the CFT program continuously since being awarded that first contract.¹²¹

Moreover in 1951, Land-Air, Inc. was acquired by California Eastern Airways, Inc. (later California Eastern Aviation, Inc.). In 1962, California Eastern Aviation, Inc., changed its name to Dynalectron Corporation, and in 1987, Dynalectron changed its name to DynCorp. In 1998, DynCorp created DynCorp Technical Services, Inc. (DTS), and transferred its existing aerospace and international-division business—including contracts later held by DynCorp International—to the new DTS subsidiary. In December 2000, DynCorp formed DynCorp International LLC, and transferred all of its international business to the new entity. DynCorp Technical Services LLC continues to perform DynCorp's domestic contracts.¹²²

In March 2003, DynCorp and its subsidiaries were acquired by Computer Sciences Corporation (CSC). DynCorp remained the parent of its existing subsidiaries, including DTS and DynCorp International LLC, and CSC became their last parent.¹²³

¹²¹ DynCorp Official Website.

¹²² Ibid.

¹²³ Ibid.

In 2004, CSC made a strategic decision to separate itself from its non-core businesses, including security and aviation services. As part of that decision, CSC moved its aviation services business segment into a separate CSC subsidiary, DTS Aviation Services. The U.S. Government approved the transfer of government prime contracts that were part of this business to DTS Aviation Services on September 30, 2004. On December 12, 2004, DynCorp and CSC entered into an agreement to sell DynCorp International LLC, including its subsidiaries Dyn Marine Services LLC and DTS Aviation Services LLC, to DI Acquisition Corp, a partner of Veritas Capital Management. The transaction closed on February 11, 2005, and the buyer was renamed DynCorp International Inc. DynCorp International Inc. is the business parent of DynCorp International LLC.¹²⁴ May 9, 2006 saw an initial public offering (IPO)—the first sale of DynCorp's common shares to investors on a public stock exchange. The main purpose of the IPO was to raise capital for the corporation. They consummated an equity offering of 25,000,000 shares of their Class A common stock, par value \$0.01 per share, at a price of \$15.00 per share.¹²⁵

124 DynCorp Official Website.

125 DynCorp 2006 Annual Report, 21, <http://library.corporate-ir.net/library/19/194/194296/items/206569/2006DynCorpInternationalAR.pdf> (accessed 05/24/2007).

DynCorp Time Evolution

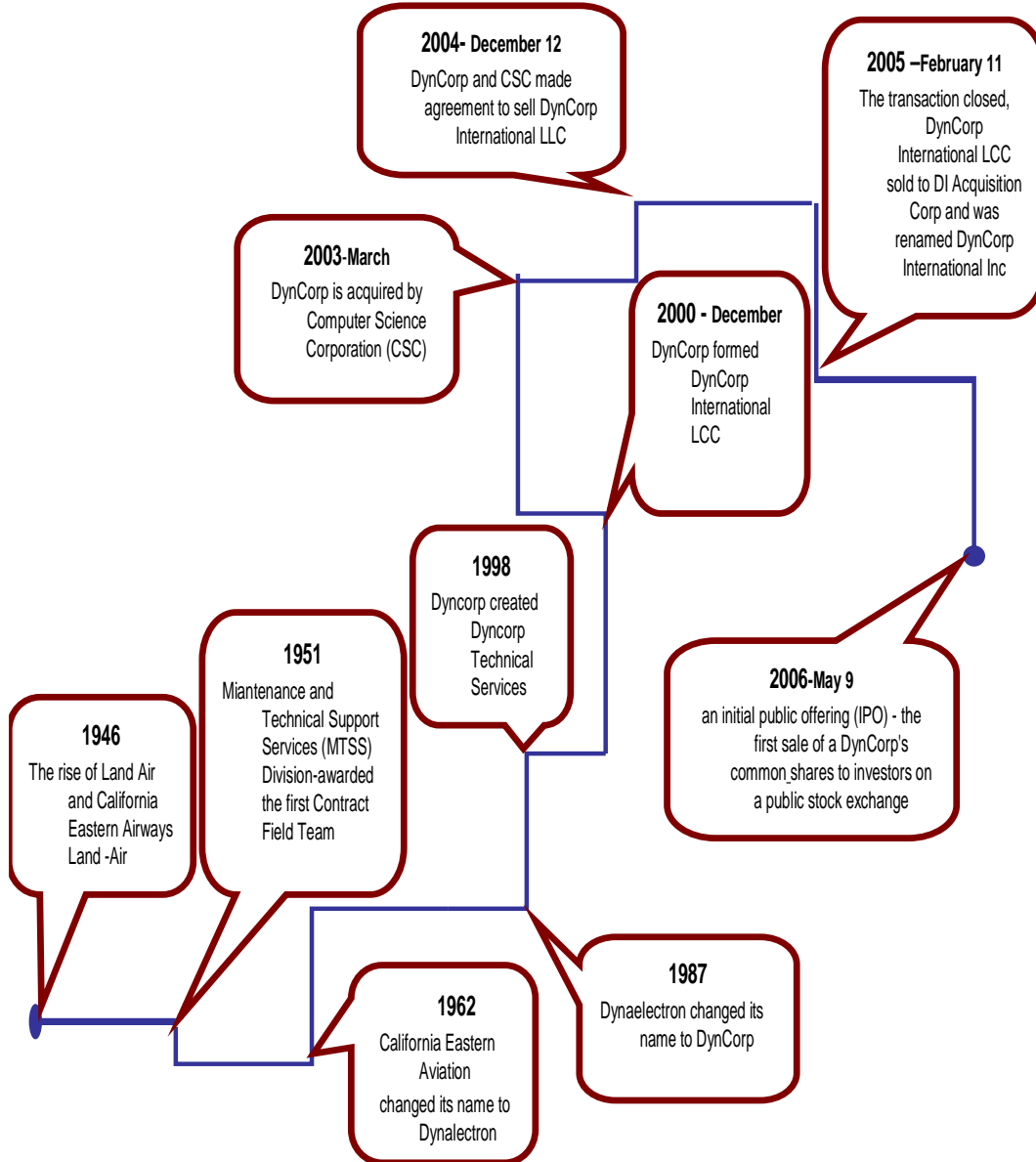


Figure 6. DynCorp International's historical evolution

C. DYNCORP CAPABILITIES

In recent years, defense spending has been rising at the fastest pace since the 1980s. According to Secretary of Defense Donald Rumsfeld, approximately 300,000 military personnel are performing work that can be outsourced. DynCorp International (DI) has benefited from the U.S. government's increasing utilization of the private sector for critical functions. Typically, once these functions have been outsourced, they remain so. Many foreign governments, such as the United Kingdom and Australia, are following the lead of the United States, thereby providing more opportunities for DI. DynCorp International benefits from the decreasing size of the U.S. military and consequent need for outsourced services (Figure 7).¹²⁶

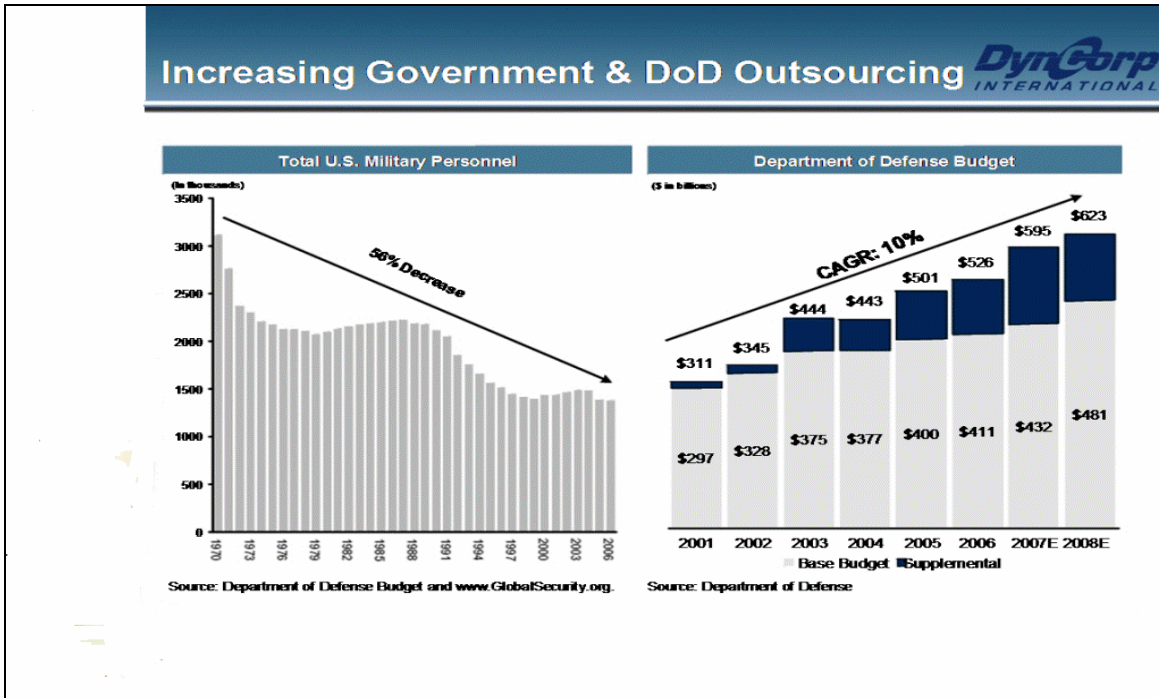


Figure 7. Increasing government & DoD outsourcing

¹²⁶ DynCorp 2006 Annual Report, 9.

DI provides government technical services and outsourced solutions to the customers. Their primary services are provided through their two core operating segments, International Technical Services (ITS) and Field Technical Services (FTS). ITS accounts for approximately two-thirds of the business and has been the fastest-growing segment, with revenues doubling from \$600 million in fiscal 2004 to over \$1.2 billion in fiscal 2006. ITS provides services such as international policing and police training, drug eradication, peacekeeping support, and logistics support services. The FTS division constitutes approximately one-third of the business. It is DI's historical core business and generates a steady stream of revenue and cash flows. FTS offers aviation services such as aircraft fleet maintenance, aviation ground equipment support, and ground vehicle maintenance (Figure 8).¹²⁷

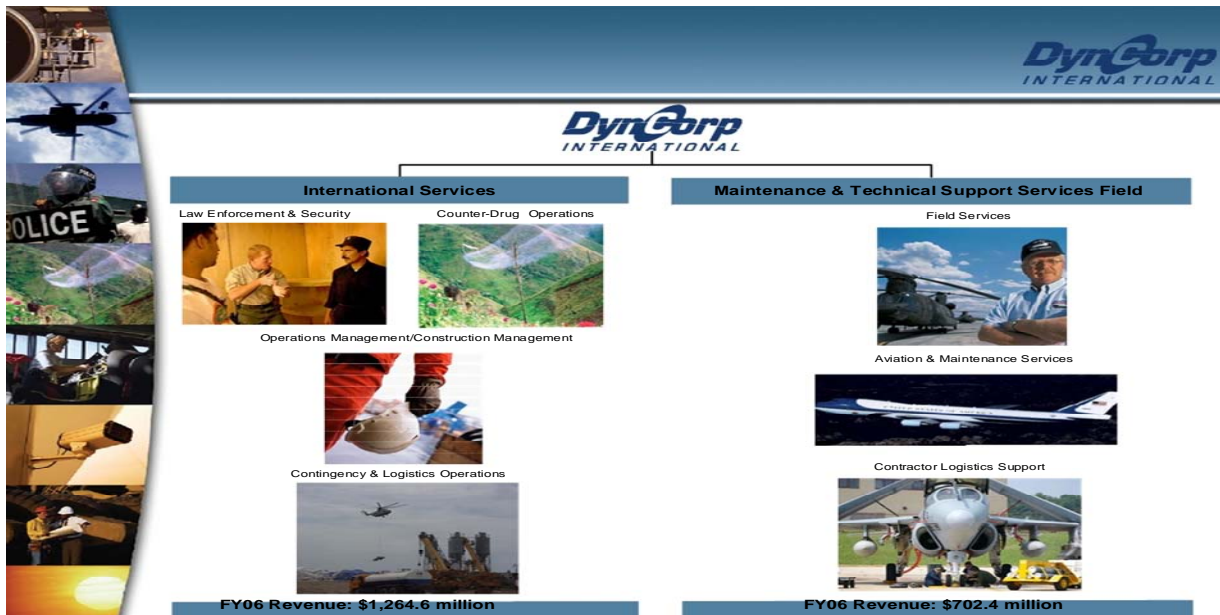


Figure 8. DynCorp International Services

¹²⁷ DynCorp 2006 Annual Report, 4.

1. International Technical Services

This operating segment offers the following services:

- *Law Enforcement Training.* Their services in this area include international policing and police training, judicial support, immigration support and base operations.
- *International Narcotics Eradication.* Their services include drug eradication and interdiction, and host nation pilot and crew training.
- *Contingency Services.* They provide peace-keeping support, humanitarian relief, de-mining, worldwide contingency planning, and warehousing and heavy equipment inspections. They believe they have the ability to provide these services on a rapid response basis.
- *Logistics Support Services.* They offer procurement, parts tracking, inventory and equipment maintenance, property control, data entry and mobile repair services. They believe that they are able to support the deployment of personnel and equipment on short notice.
- *Security Services.* Their services include security for diplomats, personal protection, security system design, installation and operations and cultural training. Using a database of approximately 3,000 qualified individuals, as of March 31, 2006, they have the ability to recruit and assemble large security contingents on short notice.
- *Military Facility Operations.* They provide facility and equipment maintenance and control, civil,

electrical, and environmental and mechanical engineering, custodial and administrative services.

- *Infrastructure Development.* Their services include infrastructure engineering and construction management.
- *Marine Services.* Their services include ship logistics, range ship maintenance, communications services and oil spill response fleet operations. They provide these services for both government agencies and commercial customers.
- *Security Technology.* Their services include installation, maintenance and upgrades of physical and software access control points and servers and development of security software, smart cards and biometrics for use by government agencies and commercial customers.¹²⁸

2. Key International Services Contracts

Figure 9 gives information for the principal International Technical Services contracts:¹²⁹

¹²⁸ DynCorp 2006 Annual Report, 22.

¹²⁹ DynCorp Investor Presentation 2007, 9, <http://ir.dyn-intl.com/phoenix.zhtml?c=194296&p=irol-irhome> (accessed 05/24/2007).



Figure 9. Key international services contracts

3. Field Technical Services

This operating segment offers the following services:

Aviation Services and Operations. Their aviation services and operations include aircraft fleet maintenance, depot augmentation, aftermarket logistics support, aircrew services and training, ground equipment maintenance and modifications, quality control, Federal Aviation Administration certification, facilities and operations support, aircraft scheduling and flight planning and the provisioning of pilots, test pilots and flight crews. Services are provided from both main base locations and forward operating locations.

Aviation Engineering. Their technicians design, manufacture and install aircraft modification programs for a

broad range of weapons systems and, as of March 31, 2006, more than 70 engine types, updating entire fleets to mission-readiness status. They provide services such as engineering design, kit manufacturing and installation, field installations, configuration management, avionics upgrades, cockpit and fuselage redesign and technical data, drawings and manual revisions.

Aviation Ground Equipment Support. Their services in this area include ground equipment support, maintenance and overhaul, modifications and upgrades, corrosion control, engine rebuilding, hydraulic and load testing and serviceability inspections. They provide these services worldwide and offer both short- and long-duration field teams. As of March 31, 2006, they employ over 850 mechanics, technicians and support personnel who perform depot level overhaul of ground support equipment for U.S. Navy and U.S. Coast Guard programs and provide depot-level ground support equipment support at 20 worldwide locations.

Ground Vehicle Maintenance. Their ground vehicle maintenance services include vehicle maintenance, overhaul and corrosion control and scheduling and work flow management. They perform maintenance and overhaul on wheeled and tracked vehicles for the U.S. Army and U.S. Marine Corps, in support of their pre-positioning programs. They also provide overall program management, logistics support, tear down and inspection of equipment cycled off of repositioned ships.¹³⁰

¹³⁰ DynCorp 2006 Annual Report, 23.

4. Key Maintenance and Technical Support Services Contracts

Figure 10 gives information for the principal Field Technical Services contracts:¹³¹



Key Maintenance and Technical Support 				
Contract	Principal Customer	Initial/Current Award Date	Recompete Date	Estimated Value ⁽³⁾
Contract Field Teams Life Cycle Contractor Support	Department of Defense	Oct. 1951/Oct. 1997	March 2008	\$2.39 billion ⁽¹⁾
Andrews Air Force Base	U.S. Army and U.S. Navy	August 2000	January 2010	\$944 million
Columbus Air Force Base	U.S. Air Force	January 2001	December 2011	\$337 million
Army Prepositioned Stocks Afloat	U.S. Air Force	Oct. 1998/July 2005	September 2012	\$244 million
Holloman Air Force Base	U.S. Army	February 1999	February 2009	\$218 million
Eglin Air Force Base	U.S. Air Force	September 1999	March 2007	\$107 million
F/A-18	U.S. Air Force	November 2002	November 2010	\$ 80 million
California Department of Forestry	Kuwaiti Air Force ⁽²⁾	Sept. 1997/Dec.2005	December 2010	\$ 70 million
	State of California	January 2002	June 2007	\$ 83 million

⁽¹⁾ Indefinite delivery, indefinite quantity contracts.
⁽²⁾ Reflects end user under the contract rather than the contract party.
⁽³⁾ As of December 29, 2006.

Figure 10. Key maintenance and technical support services contracts

D. FINANCIAL REVIEW

Fiscal year 2006 was productive and exciting for DynCorp International Inc. They completed the first year as an independent company, and shortly after their fiscal year ended, they launched their initial public offering on the New York Stock Exchange, which enabled them to improve their capital structure and reduce their long-

¹³¹ DynCorp Investor Presentation 2007, 13.

term debt. They also finished the year with record revenue and growth in earnings before interest, taxes, depreciation, and amortization (EBITDA) (Figure 11 and Figure 12).¹³²

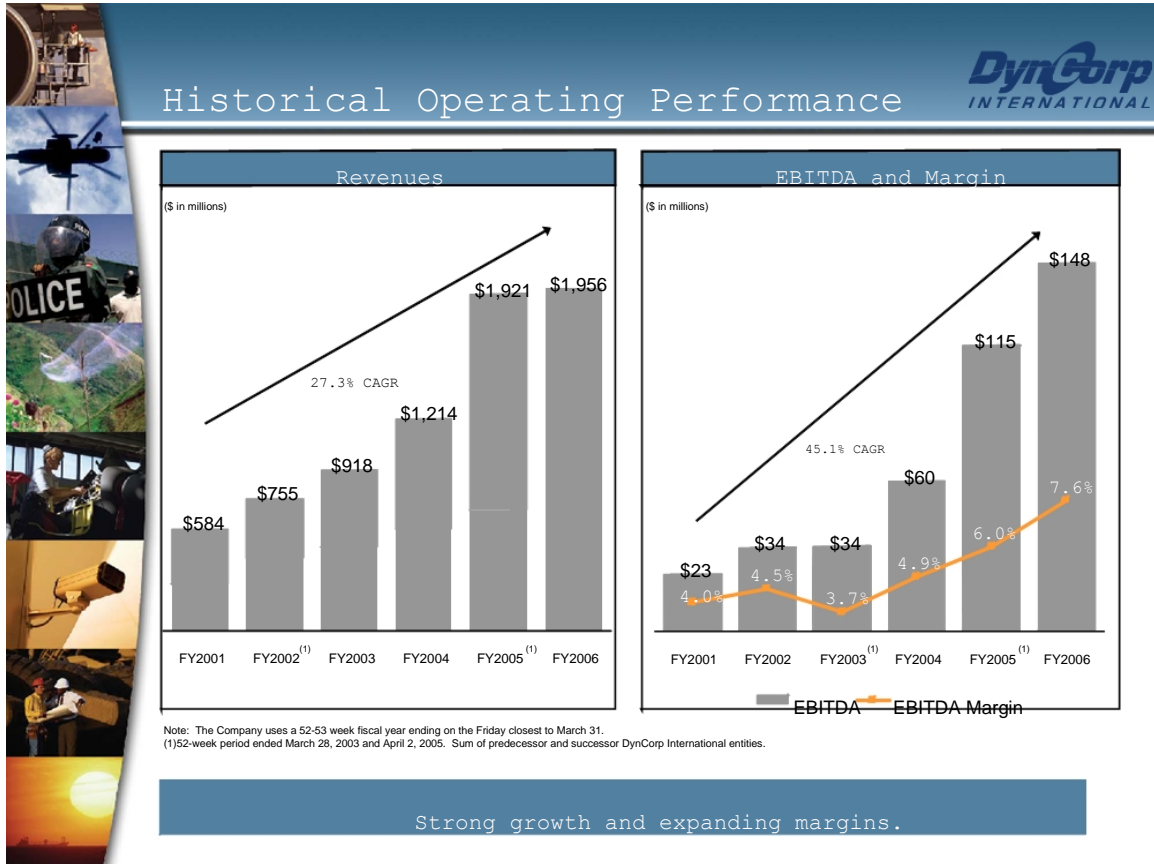


Figure 11. DynCorp International's historical operating performance

¹³² DynCorp Investor Presentation 2007, 17-18.

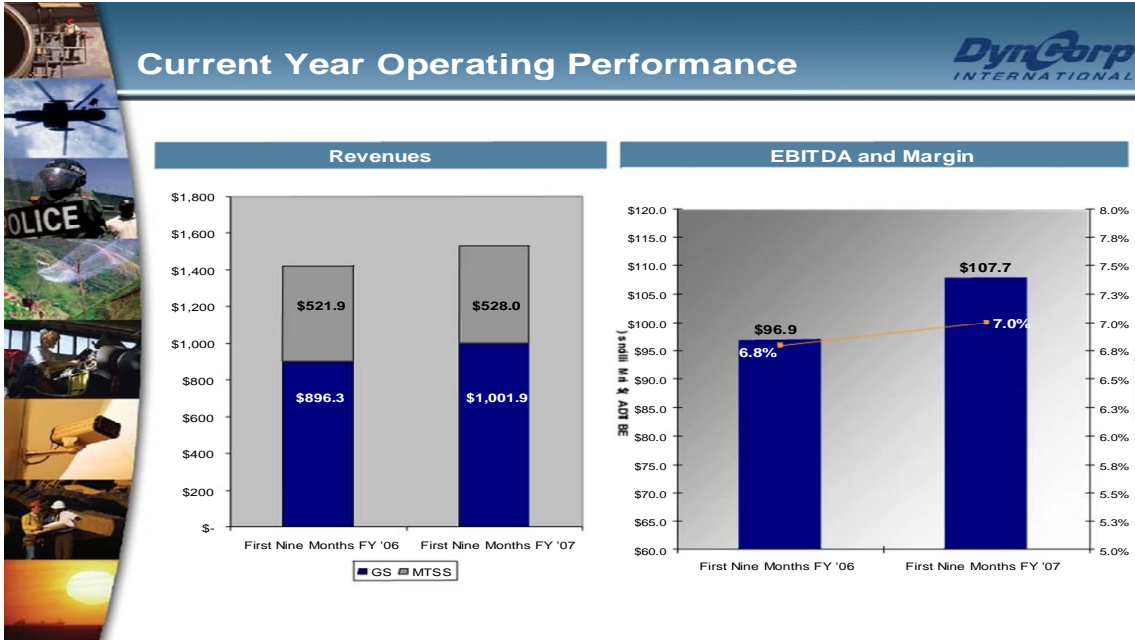


Figure 12. DynCorp 2006 operating performance

During fiscal 2006, 53% of their revenue was derived from the Department of State and approximately 44% from the Department of Defense, with the balance from commercial customers and foreign governments. They currently have a broad business base comprised of 44 active contracts and more than 100 active task orders with different agencies of the U.S. government (Figure 13).¹³³

¹³³ DynCorp 2006 Annual Report, 4.

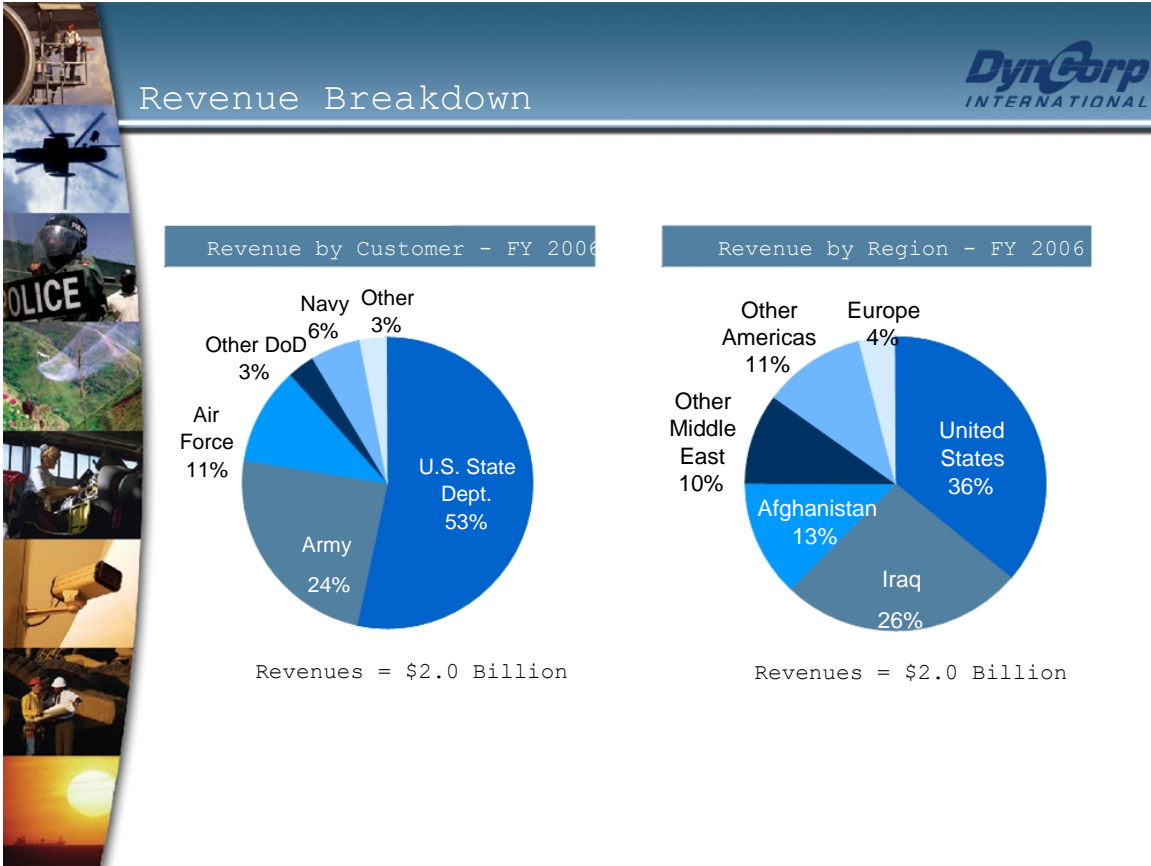


Figure 13. Revenue breakdown

In 2006, their revenue grew to \$1.97 billion, up 2.4% from the prior fiscal year. ITS revenue increased 2.6% to \$1.26 billion, or 64.3% of total revenues. The increase in ITS revenues was primarily driven by new contract work, including new business under their Air-Wing contract, and by hurricane relief efforts along the Gulf Coast. FTS revenues increased 2.1% to \$703 million from the prior fiscal year. FTS revenues were primarily driven by increased aircraft modifications under the Life Cycle Contractor Support program. Adjusted EBITDA reached a record \$156.1 million, an increase of 35.3% from the prior fiscal year. Operating

income was \$101.2 million in fiscal 2006, up 47.7%, with operating margin increasing 150 basis points. The improved margin was largely driven by a contract mix containing a larger proportion of fixed-price and time-and-materials contracts, which carry higher margins. The strong fiscal 2006 operating cash flow of \$55.1 million contributed to improvements in their balance sheet and credit quality. They ended the year with cash and cash equivalents totaling \$20.6 million. Their backlog at fiscal year end was approximately \$2.6 billion, of which more than \$1.0 billion is funded (Figure 14).¹³⁴

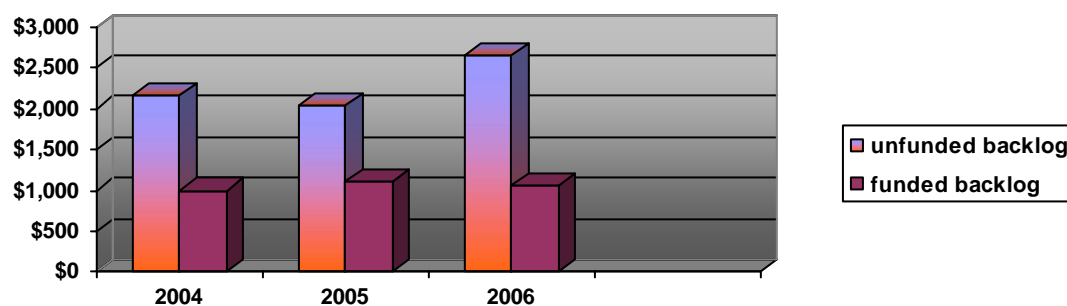
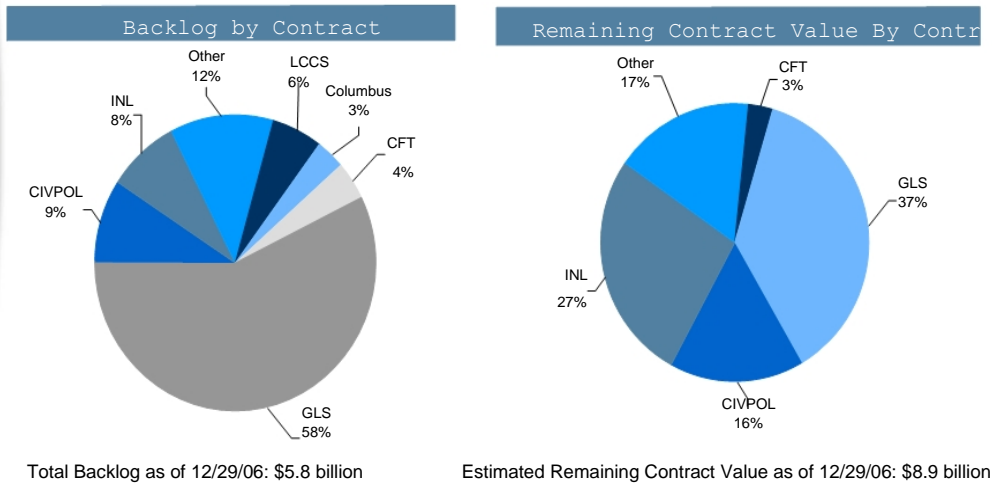


Figure 14. Contracted backlog at fiscal year end
(dollars in millions)

They also track estimated remaining contract value, which they believe is a better indication of the aggregate revenue they expect to earn over the remaining life of their contracts. At fiscal year end, estimated remaining contract value totaled \$8.9 billion, compared to \$4.4 billion at the end of fiscal 2005 (Figure 15).¹³⁵

¹³⁴ DynCorp 2006 Annual Report, 8.

¹³⁵ Ibid., 4-5.



Note: Backlog represents remaining contract value. For Indefinite Delivery Indefinite Quantity, or IDIQ contracts, backlog represents only task orders awarded. Estimated Remaining Contract Value is backlog plus management's

Figure 15. Backlog contract

E. SUPPLY PUSH AND DEMAND PULL FACTORS IN TERMS OF SECURITY SOLUTIONS AND THE MAIN AREAS OF ACTION

Each institution's security needs are unique, so DynCorp International provides security by uniting the right mix of sophisticated technology with expert human decision. They use their physical security knowledge and up-to-date expertise to offer sophisticated personnel identification systems, biometrics, imaging, perimeter controls, personal protection, background checks, and other elements. These can be set up in any combination—at one site or networked

worldwide. DynCorp International can deploy law enforcement and security personnel in a very short time.¹³⁶

They already protect facilities belonging to government and private industry in many parts of the world. DynCorp International's security personnel are skilled, experienced, mature, and matched to the job—and are fully trained to work in other cultures. DynCorp International has been trusted with the fundamental work of helping to protect American diplomats and facilities overseas in high-threat areas. Their security experts have worked under the Department of State's Bureau of Diplomatic Security in countries such as Afghanistan, Israel, and Iraq to help guarantee the safety of American diplomats and some foreign leaders.¹³⁷

1. The Balkans: Bosnia-Herzegovina and Kosovo

In Bosnia-Herzegovina, at the end of 1995, illustrates the ethical and legal challenges involved with the industry. DynCorp helped with the so-called stabilization of the Bosnia-Herzegovina after the Dayton agreement. During that operation, two coworkers were implicated in sex scandals—they bought, sold and abused children by using them as sex slaves. The victims were only 13 years old. The offenders were never officially charged, but rather were simply flown back to the U.S. by DynCorp. The occurrence did not damage the enterprise because the company was assigned to organize

¹³⁶ DynCorp Official Website.

¹³⁷ Ibid.

the U.S.-American contingent of the Kosovo verification mission (KVM) in the autumn of 1998.¹³⁸

After the war against Yugoslavia in 1999, DynCorp signed a contract for more than 628 million dollars for the training of the U.S. police force in the Kosovo. The U.S. Department of State's Bureau for International Narcotics and Law Enforcement was at this time responsible for the U.S. CIVPOL program and had a budget of \$10 million for Fiscal Year 2001 for developing a two-thousand-person CIVPOL cadre drawn primarily from municipal and state law enforcement agencies. The day-to-day administration of the program was subcontracted to DynCorp, which was responsible for recruiting, preparing, and supporting the mission's American officers chosen for deployment.¹³⁹

"We have extensive experience doing business for the military," said Spence Wickham, a retired U.S. Air Force officer who was a director of international operations in the division of DynCorp which was handling the Kosovo mission. He said the men were flying from Texas that day and would arrive in the region the next day. They included weapons inspectors, verification experts, and drivers and technicians to operate the standard U.S. infantry vehicle, the Humvee.¹⁴⁰

138 Jurgen Elsaesser, "The Dogs of the War," <http://www.unikassel.de/fb5/frieden/themen/Privatkriege/elsaesser.html> (accessed 04/20/2007).

139 Special Report, "Establishing the Rule of Law in Iraq," <http://www.usip.org/pubs/specialreports/sr104.html> (accessed 04/20/2007).

140 Jonathan Steele, "U.S. Gives Kosovo Monitoring Job to Mercenaries," <http://taf.ilim.ru/public/kosovo1.html> (accessed 04/21/2007).

Mr. Wickham believed it was the first time American private contractors had sent civilians to replace normal servicemen in combat areas where there was no formal ceasefire agreement. "But we've worked in Bosnia for over three years by contributing former military and police officers to the international police task force there," he said. The DynCorp bid triumphed over that of another company, Military Professional Resources Incorporated, which won two earlier contracts in the Balkans, though neither of them had experience with such a high-risk mission as Kosovo.¹⁴¹

2. Plan Colombia

After funding for Plan Colombia was approved in July 2000, the U.S. Congress set a limit on the number of soldiers and civilian contractors who could "support" Plan Colombia. But in view of the "excellent" performance of the contractors, in May of the next year Washington decided to increase the number of U.S. soldiers in the country from 400 to 500 and to eliminate any limit on the number of private contractors. This quantitative jump in U.S. involvement in Colombia was completely clear.¹⁴²

Without media awareness or public inspection, the Bush Administration has not only embraced but extended Clinton's Plan Colombia by applying it beyond that war-torn nation's borders. Given an increase as the Andean Regional Initiative

¹⁴¹ Jonathan Steele, "U.S. Gives Kosovo Monitoring Job to Mercenaries," <http://taf.ilim.ru/public/kosovo1.html> (accessed 04/21/2007).

¹⁴² "The 'Invisible' U.S. War in Colombia," <http://www.spectrezine.org/war/Secretwar.htm> (accessed 04/22/2007).

(a.k.a. the Andean Initiative), the program aimed to strengthen military and police capabilities from Bolivia to Panama, in the name of drug abolition and prohibition. While supposedly focused on drugs, the \$750 million of military hardware deployed via Plan Colombia was used completely against leftist insurgencies and the farmers that lived in the territories they controlled.¹⁴³

At least six U.S. military-specialty companies have set up operations in the region, according to U.S. military sources. Two Virginia-based companies—DynCorp Inc. and Military Professional Resources Inc. (MPRI)—operated under contracts related to logistical support and training of Colombian police and counterinsurgency forces.¹⁴⁴ The contractors sterilized coca fields, operated airplanes and helicopters for the State Department, arranged programs of alternative development, fixed aircraft and assessed intelligence information for the Colombian Ministry of Defense. This U.S. mini-army also supplied pilots, technicians and almost every kind of personnel required to wage the war in Colombia, including administrative personnel. DynCorp Aerospace Technologies had contracts with more than 37 federal agencies comprising more than 98 percent of its business. In 2001 the company signed a \$600 million contract with the State Department for coca fumigation operations in Colombia, Bolivia and Peru.¹⁴⁵ In the Plan Colombia contract, the company has 88 airplanes and 307 employees—139 of them American—flying missions to get

143 "Plan Colombia and Andean Initiative," <http://eatthestate.org/05-23/PlanColumbiaAndean.htm> (accessed 04/22/2007).

144 Ibid.

145 "The 'Invisible' U.S. War in Colombia."

rid of coca fields in Colombia.¹⁴⁶ DynCorp has a sufficient record of operations around the world. In Colombia, according to Peter Singer, the company's employees have received a reputation of "arrogance and an inclination to fight."¹⁴⁷

3. Afghanistan

In Afghanistan, where DynCorp used to guard President Hamid Karzai, the company had a reputation for brutality and recklessness, including serious complaints from internationals of threats. It has even been reprimanded by the State Department for its "aggressive behavior" in interactions with European diplomats, NATO forces and journalists.¹⁴⁸

There have been several reported cases of apparently overzealous and insensitive behavior on the part of Mr. Karzai's private security contractors. A BBC correspondent recently saw one of the guards slap an Afghan minister. Crispin Thorold reported seeing the Afghan transport minister receive a slap from one of Mr. Karzai's security guards on a visit to the northern city of Mazar-e-Sharif.¹⁴⁹

Despite these issues, DynCorp International was chosen by the U.S. Department of State to support the substantial American contribution to that effort, with the goal of

146 "DynCorp Rent-a-Cops May Head to Post Saddam Iraq," <http://www.corpwatch.org/article.php?id=6328> (accessed 04/22/2007).

147 "The 'Invisible' U.S. War in Colombia."

148 Scahill, "Tender Mercenaries: DynCorp and Me," <http://www.commondreams.org/views05/1101-25.htm> (accessed 04/23/2007).

149 "Afghanistan: DynCorp Guards Chastised by U.S. State Department," <http://www.corpwatch.org/article.php?id=11574> (accessed 04/23/2007).

increasing police presence, improving public security, and supporting the rule of law in Afghanistan. Under the direction of the Department of State, DynCorp cooperated with the Afghanistan National Police, Border Police, and Highway Patrol, focusing on basic skills training for existing police and basic training for lower-ranked police, and they supplied assistance in reforming and equipping the police. Afghan police obtained both general police training and training that was specific to their policing specialty.¹⁵⁰

4. Iraq

Similar to Afghanistan, DynCorp is providing the training of police officers in Iraq. The Company has provided this service since April 2004 under the Department of State's worldwide Civilian Police Program. On September 5, 2006 The United States Department of State awarded DynCorp International a nine-month extension of its task order to support the training of police officers in Iraq. This extension was valued at more than \$318 million and will expire on May 31, 2007.¹⁵¹

DynCorp International police advisers were assigned to the Civilian Police Advisory Training Team (CPATT), the component of the U.S. military's Multinational Security Transition Command - Iraq (MNSTC-I) responsible for the U.S.-led effort to train and equip the 135,000-member Iraqi police service. DynCorp International was responsible for

¹⁵⁰ DynCorp Official Website.

¹⁵¹ Ibid.

recruiting, training, equipping, and sustaining the 700-member U.S. contingent of trainers.¹⁵²

Finally, the DynCorp team won the Iraq interpreter deal. Global Linguistic Solutions, a joint venture between DynCorp and McNeil Technologies, has won a five-year; \$4.6-billion contract to provide linguistic services for the U.S. Army and other government agencies in Iraq.

Awarded by the Army's Intelligence and Security Command, the contract saw GLS providing foreign language interpretation and translation services, including the embedding of Iraqi translators with U.S. units. GLS planned to employ up to 6,000 locally-hired translators and up to 1,000 U.S. citizens with security clearances who were native speakers of languages spoken in Iraq. The effort is being lead by GLS president (and retired U.S. Army Major General) James "Spider" Marks, assisted by Michael Simone. James Marks was responsible for the Iraq Language Program in 2003, while Simone was a former commander of the Defense Language Institute. GLS began the contract in March 2007 after the existing contract with L-3 Communications expired. New York-based L-3 Communications assumed the contract in July 2005 with its acquisition of Titan Corp. Titan held the contract for translation and interpreter services for Operation Iraqi Freedom, the war against the Taliban in Afghanistan and for the U.S. detention facility at Guantanamo Bay, Cuba.¹⁵³

¹⁵² DynCorp Official Website.

¹⁵³ "DynCorp Team Wins Iraq Interpreter Deal," <http://www.isrjournal.com/story.php?F=2436376> (accessed 04/23/2007).

5. USA

In the United States DynCorp is in charge of the border posts between the U.S. and Mexico and many of the Pentagon's weapons-testing ranges, and the complete Air Force One fleet of presidential planes and helicopters. The company also appraised security clearance applications for military and civilian personnel from the Navy.¹⁵⁴ Under previous ownership, DI was precluded from competing in domestic U.S. markets. Now they can apply their core international competencies in the U.S. (Figure 16).¹⁵⁵

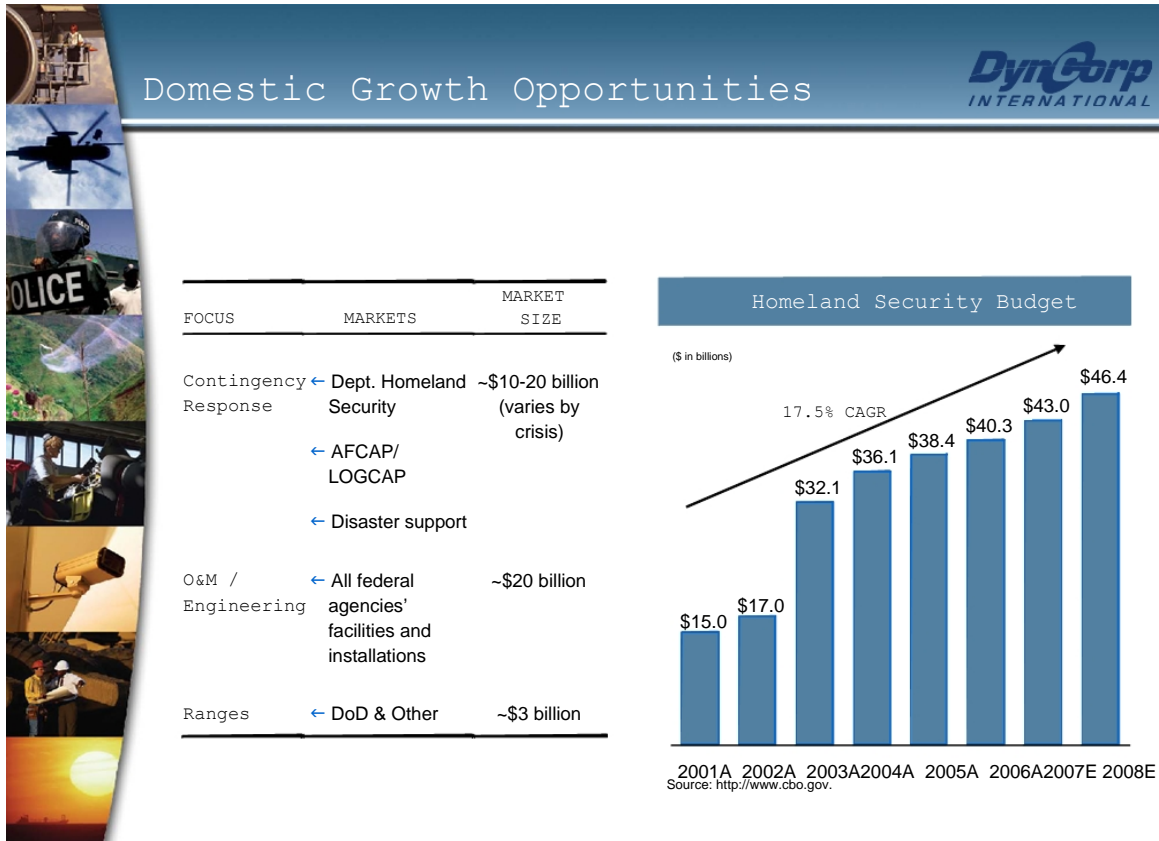


Figure 16. Domestic growth opportunities

¹⁵⁴ "DynCorp Rent-a-Cops May Head to Post Saddam Iraq."

¹⁵⁵ DynCorp Investor Presentation 2007, 14.

F. DYNCORP COMPETITORS

1. Blackwater

Chapter III describes Blackwater more thoroughly. As a brief recap: Blackwater was founded in 1997 by Erik Prince and is based in North Carolina. The company describes itself as a "military, law enforcement, security, peacekeeping, and stability operations company." Blackwater is one of over 60 private security firms employed during the Iraq War to guard officials and installations, train Iraq's new army and police, and provide other support for occupation forces.¹⁵⁶

2. Vinnell Corporation

Vinnell Corporation began operations for a variety of government and other customers during the Great Depression, on 5 continents and in over 50 countries. Its specialties are facilities operation and maintenance, military training, and logistics support. The company is known as a leader in offered services for its customers. The record of the company's achievements shows that it has reacted effectively and efficiently in order to meet the needs of its customers.¹⁵⁷

Moreover, the Vinnell Corporation has been successful for almost three decades in providing training and support to international military forces. The main services that the company offers are:

¹⁵⁶ "Blackwater USA," http://en.wikipedia.org/wiki/Blackwater_USA (accessed 04/25/2007).

¹⁵⁷ Vinnell Corporation Official Website, <http://www.vinnell.com/> (accessed 04/25/2007).

- Training, from the individual soldier to command and staff training of senior military officers
- Logistical and maintenance support from unit to depot level
- Fielding and supporting major weapon systems
- Tactical training from squad to brigade level
- Force-on-force exercises, including the Multiple Integrated Laser Engagement System (MILES).¹⁵⁸

3. Omega Services

Omega Services, based in Russia, was founded by former military personnel from the Russian Naval Omega PDSS group (combat frogmen-saboteurs). They are experts in providing specialized hardware and personnel with highly professional operational and tactical skills, and they supply their services for government state forces, international and non-governmental organizations as well as business corporations.

They also serve as advisors in training government militaries. The members of the company are retired officers, SPN VMF (Russian Naval Specnaz) and Russian Marines.¹⁵⁹

The company supports its government's own armed forces in the following fields:

- operational support
- advisory
- training

Omega is still looking for a long-term cooperation with similar companies around the world in different spheres of

¹⁵⁸ Vinnel Corporation Official Website.

¹⁵⁹ Omega Services Official Website, http://omega.warfare.ru/component/option,com_frontpage/Itemid,1/lang,en/ (accessed 04/25/2007).

its activities. As a politically oriented company, Omega Services provide and support Russia's state interest and state foreign policy worldwide.¹⁶⁰

G. STRATEGIC ALTERNATIVES FOR THE FUTURE

What are the DynCorp prospects for the future? What factors are driving them?

According to Andrew Michels, the former peacekeeping operations and humanitarian affairs director of DynCorp:

DynCorp's prospects for the future in the security area will depend very much on the way in which it is successful in convincing the U.S. government to allow private contractors to continue to operate in the security area. There are a number of people in the policy world, including myself, who believe that my government's outsourcing of security functions especially armed security functions has exceeded upper governance. That is to say there are now people under the DynCorp employment umbrella who are operating in conflict zones and they in some ways become part of the conflict and I think that's a very bad idea for public policy. And there are a number of people in the government in both the executive and legislative branch who agree with my point of view. One school of thought will say that DynCorp will continue to have a very successful security business because the world is becoming, especially for Americans, an increasingly hazardous place. This is especially in the world where gas and oil are very concerned. Gas and oil are found in areas of high conflict and as a consequence security is needed to safeguard persons and installations. That's the private sphere. In the public sphere, I think it's an open question as to whether or not DynCorp, and companies like it, for example Armored Group, Triple Canopy and some of the

¹⁶⁰ Omega Services Official Website.

others like it in the UK will continue to work for the governments in the west in the way that they have in the past. So, one thing you know the conflict in Afghanistan, the conflict in Iraq it will look very different in three to four years. As the conflicts change and the US presence in these countries diminishes so too will private security operators. I think it's a mixed picture. And I rather suspect DynCorp's opportunities will increasingly be found in the private sector rather than public sector contracts.¹⁶¹

The other area of possible actions in the future for DynCorp may be United Nations Organizations in terms of humanitarian relief, natural disasters and support operations.

Moreover, DynCorp is actively pursuing new business beyond the Department of State and Department of Defense, and has been successful in both the U.S. and foreign markets. One example is their project to build a new airport in Nigeria's Akwa Ibom State. This three-phase Greenfield project has a potential total value of \$350 million. After the three years of construction, DI will have a 26-year concession to operate the only maintenance, repair, and overhaul facility in West Africa, as well as to operate the air-cargo facility. The Akwa Ibom International Airport will be a private commercial venture with facilities to handle wide-body aircraft, regional air cargo, and major aircraft repair and maintenance. The construction project is a public/private partnership between DI and Akwa Ibom State. It will be one of the first privately funded and operated

¹⁶¹ Personal Interview with Andrew Michels, The former peacekeeping operations and humanitarian affairs director of DynCorp.

airports in Africa, and will use the latest in technology and design to meet the rapidly-growing needs of West and Central Africa.

In the domestic market, DI worked directly with FEMA and local government to provide security and logistics support following Hurricane Katrina. Shortly after the hurricane, they established living and working facilities, communications, food service, and transportation for the critical employees of St. Bernard Parish, which was almost completely inundated and had suffered the loss of nearly all its structures. Using their extensive police recruiting infrastructure, they also recruited licensed law enforcement officers who were deputized by the St. Bernard Parish sheriff to provide security for hospitals and other private facilities. DI is in an excellent position to gain new business awards in both of these new markets.¹⁶²

H. CONCLUSION

DynCorp is one of the oldest—if not the oldest—private security companies. It didn't begin its life as a security company. It began some 50 years ago. It was born to service the U.S. military in respect to aviation assets, and continues to provide technical assistance to the armed forces for mechanics on airplanes. Only later did DynCorp move into the security field. It expanded into other fields as well including technology, narcotics eradication and the area that Andrew Michels used to direct (peacekeeping and humanitarian affairs). So DynCorp, like most businesses

¹⁶² DynCorp 2006 Annual Report, 16.

keeps its eye out for new opportunities and areas of growth and expansion and will try to compete in those fields.

According to Andrew Michels:

For example, in the peacekeeping area DynCorp was not at all in the peacekeeping business in the year 2001 when I was hired by DynCorp and I was hired to develop the business and we won major contracts and when I left, we had already I think grown the business to \$150 million dollars. So, that's the kind of evolution the company's been on. It's been fairly as we would say perhaps fairly opportunistic in looking for and pursuing new opportunities to work with the U.S. Federal Government.¹⁶³

DI's competitive advantage is, first of all, its long-standing and strong customer relationships, among others with The State Department and Department of Defense, and also its reputation and experience in the military market. The chart of DI's services is very broad and this is one of the keys to success because in this way the company gains new customers and can expand the network of connections and contracts. Throughout the organization, they have employees with significant industry experience, which is especially important in their relationship-driven industry. They have a highly efficient global recruiting network that finds skilled professionals and technicians worldwide.

As an independent company, they are free to apply the many competencies they have gained in support of the military to the domestic market.

Given the strong outlook for the industry, there are many growth opportunities before them and they are well-

¹⁶³ Personal Interview with Andrew Michels.

positioned for future growth. DI currently anticipates revenue growth in excess of 20%, from a combination of existing programs and new programs in both the United States and abroad. They believe their CIVPOL and Air-Wing programs will be the major forces behind growth in the existing programs.¹⁶⁴

¹⁶⁴ DynCorp 2006 Annual Report, 5.

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V. SO WHAT? WHAT MIGHT THE FUTURE BRING? FUTURE PROJECTIONS ABOUT THE USAGE AND ROLES OF PRIVATE MILITARY COMPANIES

A. WHAT MAY THE FUTURE BRING?

As long as war exists, so will a demand for military expertise. Private Military Firms (PMFs) will resultantly benefit from any slack given by traditional sources of security. The overall history of public versus private military actors indicates that the privatized military industry will continue to play a significant and increasing role in international security in the next decades. The simple reason is that the very same structure conditions that led to the industry's original growth still appear to be in place. Additionally, the trend toward worldwide privatization seems to indicate that the marketing of military services will continue to be a growth industry for the foreseeable future.

The supply of private security forces and the demand for them are growing by leaps and bounds. Trying to eliminate them is like trying to eliminate prostitution, said Herbert Howe, a professor at Georgetown University's School of Foreign Service.¹⁶⁵

There are many variables in the future that will affect the future of the Private Security Sector. These are:

¹⁶⁵ "Are Private Security Forces Sometimes Preferable to National Military Forces?" *Fiftieth Anniversary Symposium of the Moore Society on International Law*, University of Virginia.

- Changing nature of warfare
- Privatization
- Growing military technology
- Failed states in the future and U.N. regulation
- Worldwide increasing number of multinational corporations

B. ANALYSIS OF VARIABLES THAT SEEM TO AFFECT THE FUTURE OF PRIVATE SECURITY SECTOR INTRODUCTION

1. Changing Nature of War

After the end of the Cold War, nearly everything started to change except the nature of change itself. The nature of war and conflict also has been affected from that change.

Post Cold War conflicts have become contests between powerful armies and inferior forces that use violent and nonviolent means meant to wear down, rather than defeat opponents. Some analysts contend that the age of Western military superiority has ended. For example, in Iraq, the U.S., the world's only superpower, finds itself in a prolonged conflict with an inferior enemy force; Israel's campaign in southern Lebanon last summer is a similar case. Another example: after decades of failed attempts by Arab states to fight Israel with conventional armies built on the Western model, actors like Hamas and Hezbollah have come up

with a new strategy. It blends violent and non-violent means intended to exhaust, not defeat a superior military force.¹⁶⁶

Max Boot, a Senior Fellow for National Security Studies at the Council on Foreign Relations in New York, says the West is losing the battle in the war on terrorism to adversaries that are as agile as they are cunning.

Our enemies are very nimble, very networked, very quick to adapt. They are able to run this global insurgency with command and control, propaganda, recruiting, financing—so many elements depending on this new technology.

We are having a hard time keeping up. What we have been seeing is the limits of the conventional military and conventional government, which is not adapted to the kind of challenge that we face today.¹⁶⁷

He contends that U.S. armed forces are burdened with a bureaucratic structure that worked well in the Cold War, but not today. He says one way to transform the Pentagon is to further outsource its operations.¹⁶⁸

Intelligence of the battlefield or enemy in all lines also in the near future increasingly will be available on the open market, which will create a market niche for PSCs. Commercial satellites already are providing high-resolution images for sale.

Due to the rapid changes of war, in the future the private sector will be able to rapidly tailor a custom

¹⁶⁶ Jela de Franceschi, "Changing the Face of War" (paper presented to the Voice of America, Washington D.C, March 30, 2007).

¹⁶⁷ de Franceschi.

¹⁶⁸ Ibid.

solution to solve the customer's problem by using the database they are keeping for all solutions from all over the world. A case can be made that their ability to quickly react with a right-sized solution, in which the entire cost is only associated with the duration of the contract, might be cost effective and result oriented.

2. Future Trend of Privatization of Military Capabilities

The private security business is "a growth industry par excellence worldwide" and one of the fastest growing economic sectors in many countries; this trend will continue to increase in the future decade. Today private security personnel within Britain actually outnumber the British Army. Even in communist China some 250,000 guards are employed by the private security industry.¹⁶⁹ As one observer opined "if privatization is the trend in these days, the argument goes, why not privatize war too?"

According to Pelton, "The idea of outsourcing traditional military tasks is a part of the surge mentality that was formed after the Cold War. If you had a task, like Somalia or Bosnia, you don't want to build the military operation and keep paying those people for 20 or 40 years, so you outsource it. This is supposed to be a short-term, one time need."

If the revolution in military affairs continues along its current route and military forces become smaller, more technology reliant, and less dependent on individuals with high levels of physical fitness and the ability to face

¹⁶⁹ Singer, "Corporate Warriors," 139.

physical danger, private militaries will become even more competitive with state ones. If a warrior fights from a computer terminal using computer viruses and the like, states will contract out national security rather than undertake the expense of forming and sustaining armed forces.

Due to the growing technology, usage of unmanned aircraft increased tremendously after the Cold War in all aspects of warfare (intelligence, bombing, etc.) Together with that, it is quite possible that unmanned aircraft technology ("piloting" of military aircrafts for DoD purposes) will be outsourced in the near future.

A parallel trend is underway in the world of intelligence. In the U.S. and Western Europe, private intelligence companies are proliferating. The massive expansion of information and the growth of the Internet are making open-source intelligence of all kinds nearly as good for most purposes as traditional intelligence. National armed forces might thus, ironically, make themselves more redundant by enhancing their capabilities.

3. Growing Military Technology

Except for the western armies few militaries in the developing world have high professional standards and many are hampered by politicization, poor management and lack of civilian oversight. Many states also use the military as an employment program to take in the uneducated, illiterate, or sickly. Training levels are very low as well. For example,

In most African Armies, indiscipline, economic problems and laxity in management have relegated training to the back seat. It is not unusual to

find entire brigades who have not fired a rifle since their basic training. The result is that in the near future even if they are able to buy sophisticated equipment, many developing state militaries simply lack the skilled personnel to operate and maintain it.¹⁷⁰

So long as the instability of those states seems to continue, no further development will be achieved in the fighting, training and education of these armies. This will increase the trend of using PSCs, especially in those Third World countries.

Mozambique for example possesses 43 fighter jets, 6 helicopter gunships, and 12 naval vessels, but it has so poorly maintained them that it doesn't have one boat that floats or one plane that flies.¹⁷¹

As one defense analyst put it "We are using the most advanced technology in the history of the world to wage wars and sometimes the people who built it are the only ones who know how to fix it."¹⁷²

Due to the challenges inherent in the nature of warfare, the technology also will continue to grow to fight with those challenges. This growth will increase the number of private companies operating on the battlefield alongside the conventional soldiers of states.

¹⁷⁰ Singer "Corporate Warriors," 57.

¹⁷¹ Ibid.

¹⁷² Ibid.

C. FUTURE PROJECTIONS ABOUT THE USAGE AND ROLES OF PRIVATE CONTRACTORS

In an interview Robert Young Pelton, the author of "Licensed to Kill", says:

There is no indication that the military and intelligence community has any incentive to reduce their reliance on the private sector. Erik Prince of Blackwater has already announced his 1,740 man private army. It comes complete with gun ships, fighter-bombers, armored vehicles, and intelligence. He calls it "Relief with Teeth" and is hoping that the United States or the United Nations will hire his army to buttress or even replace intervention and stability operations. Prince's biggest customer is the U.S. government, and he is careful not to jeopardize that relationship, but the war on terror has created a massive labor pool of combat-hardened professionals who have a much higher monetary value in the private sector with guns in their hands. There have been examples—like the coup attempt in Equatorial Guinea—in which investors, contractors, and mercenaries tried to effect "regime change" with naked self-interest in mind. So if an investor or world leader wants to hire his own proxy army, this new, informal and massive "old boys' network" can provide them the capability.¹⁷³

So in what business lines may the Private Contractors operate in the near future?

1. Military Training and Assistance

Military training and assistance will keep on growing as a trend in the future due to the fact of continuance of downsizing of many western militaries and poor training levels of newly emerged states. U.S.-based Private Military

¹⁷³ Robert Young Pelton, "Licensed to Kill," 28.

Contractors started to train foreign armies with MPRI during the collapse of Yugoslavia by training Croats against Serbian forces. Later, as mentioned in Ch. III, Blackwater trained up to 50,000 Navy sailors after the suicide bombing of the Norfolk-based U.S.S. Cole.

Because of the increasing demand for military training many PMCs give on their Web page the address and location of international training as "any location on the planet."

One of the most important reasons for the upward trend in demand for international training may be the newly emerged post Cold War states with no armed forces like Azerbaijan, Bosnia, etc., and failed states such as Afghanistan, Iraq and Rwanda.

2. Humanitarian Disaster Relief and UN Peacekeeping Operations

Disorder has increased since the fall of the Berlin Wall; the Cold War has been replaced with many small hot wars. In response to these conflicts many people started to ask how to make the United Nations better at international policing than it currently is. The answer may be to privatize forces providing peacekeeping and security with U.N. oversight. The U.N. may hire private organizations to build military forces specifically tailored to each mission.

The combination of an increasingly unsafe and difficult humanitarian environment and the rise of new marketized military capabilities has led some to call for a twenty-first century business solution to the twenty-first century's human security problems. If everything from prisons to welfare has been privatized, goes the reasoning, why not the protection and provision of humanitarian

assistance? There are also, however, some surprising voices raised in its support, driven primarily by frustration at the international failure to take prompt action in places like Rwanda, and the sorry experiences of peacekeeping in Somalia, Bosnia and the Democratic Republic of Congo. As General Ian Douglas, a former U.N. mission commander in Sierra Leone, put it: "In a perfect world, we would not need them or want them...But the world is not perfect."¹⁷⁴

Prior to the genocide in Rwanda, Executive Outcomes (EO) was contacted by the U.N. for possible use. Lafras Luitingh, a former chief executive officer of the company, estimated that a force of 1,500 EO personnel could save up to 200,000 lives.¹⁷⁵ The UN decided not to pursue that option, or any option for that matter, and disastrous consequences ensued: estimates are that over 800,000 Rwandans were massacred.

Perhaps Hurricane Katrina also gave a lot of future market niche to many PMCs related with disaster relief operations.

"The Red Cross has just announced a new disaster-response partnership with Wal-Mart. When the next hurricane hits, it will be a co-production of Big Aid and Big Box. This, apparently, is the lesson learned from the government's calamitous response to Hurricane Katrina:

¹⁷⁴ Peter W. Singer, "Humanitarian Principles, Private Military Agents: Some Implications of the Privatized Military Industry for the Humanitarian Community," Brookings Institution.

¹⁷⁵ Information taken from the History Channel documentary "Soldiers for Hire."

Businesses do disaster better.” This is how Naomi Klein describes privatization of disaster relief.¹⁷⁶

Some future market niches for PMCs for humanitarian relief operations might be in the areas of:

- Humanitarian and Disaster Relief Operations after Tsunamis in the Indian Ocean area, in countries like Indonesia and the Philippines.
- Establishing and operating Early Warning systems against Tsunamis in the Indian Ocean and Polynesian Islands.
- Earthquake Relief Operations around the world.
- Operating private Federal Emergency Management Agencies around the world.
- Producing ‘Disaster Evaluation Plans’, and establishment & operation of ‘Crisis Management Centers’ all over the world especially in metropolises like New York, Tokyo, Istanbul and London.
- Manpower and material support to international organizations like the Red Cross, Red Crescent and NGOs.
- Debris Removal after disasters like Katrina and the Istanbul Earthquake.
- Renting mobile homes to disaster areas.

3. Military Intelligence Gathering

While military contracting for construction or weapons manufacturing is nothing new, the privatization of

¹⁷⁶ Naomi Klein, *Pay to be Saved: The Future of Disaster Response*, http://www.morphizm.com/observations/klein/klein_saved.html (accessed 05/27/2007).

intelligence instruction is a new and rapidly expanding sector that came about less than six years ago. One estimate in *Mother Jones* magazine, compiled from interviews with military experts, suggests that up to 50 percent of the \$40 billion given annually to the 15 intelligence agencies in the United States is now spent on private contractors.

For instance, Virginia-based Anteon International Corp. has grown tenfold in the last decade. The company has become one of the U.S.'s primary contractors for intelligence sharing, intelligence training and videogame warfare simulators. Although Anteon first came into existence in 1976, its profits began to soar 20 years later, when former investment banker Frederick Iseman bought the company's assets for a mere \$48 million. Today, Anteon's annual revenues exceed a billion dollars and its share price has jumped from its initial public offering of \$18 to \$36 in the last three years.¹⁷⁷

Today the company holds a master contract to teach a wide variety of courses for the Initial Entry Training (IET) in the U.S. Army's intelligence school: ranging from the basic course which is titled 96B, to the more specialized Advanced Individual Training (AIT) courses such as counter-intelligence training, interrogation, signals intelligence, electronic intelligence and signal identification.

Traditionally, these IET and AIT jobs were handled by two battalions of conventional military intelligence brigade troops; today the tasks of teaching—from drawing up the

¹⁷⁷ Pratap Chatterjee, "Intelligence Inc., Military Interrogation Training Gets Privatized" <http://www.corpwatch.org/article.php?id=11940> (accessed 5/20/2007).

curriculum to the final exams for the students—still take place on the military base, but often are conducted by instructors from the private companies.

4. Manufacturing and Service

Private Military Companies, with the experience they have gained from war zones, may offer new weapons and armored personnel carriers and other equipment that are compatible with the requirements of the "21st century battlefield". One of the clear examples of that trend is, as has been described in Ch. III, Blackwater's introduction of the "Grizzly" armored personnel vehicle. Blackwater touts the Grizzly on its official Web site: "The leader in the high-threat security industry, Blackwater incorporates real-world lessons learned on the streets of Iraq and Afghanistan into all of our operations. Now, we've gone one step further. Blackwater presents the GRIZZLY - the world's only Armored Personnel Carrier intended to counter the most lethal threats in the modern urban combat environment.

On the same note, these companies may provide maintenance and spare part supply to armed forces of any country that is not new.

5. Providing Infrastructure Security and Executive Protection

As has been explained in detail above, the threat after the end of the Cold War is asymmetric, and the biggest threat to international corporations is terrorist attacks. The inferiority of insurgents leads them to wear down their enemies rather than taking them on directly. This situation created a huge market niche for Private Security Companies.

Figure 17 gives an idea of how rapidly the security cost of investment has increased. With the invasion of Iraq it was almost 7% and then increased to 10%; then, after the Fallujah incident, security cost in Iraq jumped to 20%.

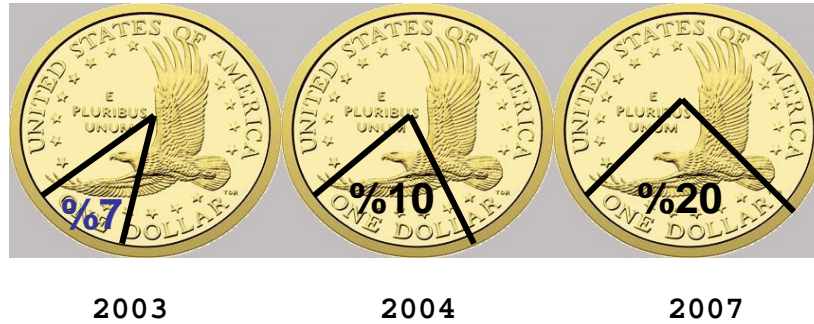


Figure 17. The security cost of investment in Iraq

Thinking about security cost is the first priority for international corporations—like BP in Central Asia and the Caspian Sea region—operating and investing in instable places of the world.

Also, suicide attacks or assassinations of the executives of these international companies will continue to grow as part of the 'wearing down strategy'. Based upon that trend, the executive protection market for Fortune 500 companies will also continue to grow.

In addition to these market niches, maritime and port security all over the world (especially for China and India due to the fact that they are the biggest exporters) is a large potential market.

D. FOUR KEY MEASURES FOR DEVELOPING THE EFFECTIVE AND EFFICIENT USE OF PRIVATE MILITARY ARMIES

1. Transparency on the Accounting Side

Lift the veil of secrecy that surrounds the industry.

The client must exercise its rights by undertaking a comprehensive survey to finally figure out the full scope of what it has outsourced and what the results have been. It seems also that in the very near future transparency and accountability of Private Military Firms will be mandated by accepting certain regulations from Congress. According to Scott Horton, Project Consultant of Accountability for Private Military Contractors, in a very short time many regulations will be introduced by Congress to provide both transparency and accountability.¹⁷⁸

2. Standards on Outsourcing and Privatization

It must be determined what roles and functions should be privatized and which would not be in the best interests of national security and the public.

A lesson of the general outsourcing and privatization in other fields, from cities' privatizing garbage collection to Cisco's outsourcing its router production, is that the privatization can be greatly beneficial, up to the point that it begins to move into core functions.

¹⁷⁸ Personal Interview with Scott Horton, Project Consultant for Accountability for Private Military Contractors.

3. Oversight Capacity

It seems self-evident, but is ignored all too often: privatize something only if it will save you money or raise quality. If it won't, then don't.

In theory, privatization can be greatly beneficial, but that theory is frequently directly undermined either by a misunderstanding of the assumptions that are included in it or by the manner in which it is carried out. That something is private does not make it inherently better, quicker or cheaper. Rather, it is through following the free-market mechanisms that one gets better private results. If the task is put up for competition on the open market so as to get the best price, the firm is able to specialize, the client is then a careful steward of the process, able to provide oversight and management to guard its own interests. The firm is therefore properly motivated through the terms of the contract and a fear of being fired, meaning success can be achieved. Too often, though, the government forgets these simple lessons and rather than getting the best of privatization, it obtains the worst of monopolization.¹⁷⁹

According to Representative Henry Waxman of Los Angeles, even though it is so hard and costly to oversee Private Military firms, oversight capacity of related organizations like GAO and host countries will be increased both functionally and legally in the very near term.¹⁸⁰

¹⁷⁹ Singer, "Outsourcing War."

¹⁸⁰ Personal Interview with Christopher Davis, Assistant to House Oversight Committee Chairman Rep. Henry Waxman.

4. Legal Accountability

Action must be taken on the issue of legal accountability. In an ideal arrangement, states will coordinate their efforts and attempt to involve regional bodies to maximize coverage and ease the path to international standards.

VI. CONCLUSION

A. SUMMARY

The increase in private security can be tied to supply and demand. In the 1990s, the supply factors came from both local (the end of apartheid in South Africa) and international (the end of the Cold War) phenomena that caused militaries to be downsized in the late 80s and early 90s. Military downsizing led to a flood of experienced personnel available for contracting. Connected with the increase in supply was an increase in the demand for military skills on the private market—from western states that had downsized their militaries, from countries seeking to upgrade and westernize their militaries as a way of demonstrating credentials for entry into western institutions, from rulers of weak or failed states no longer propped up by superpower patrons, and from non-state actors such as private firms, INGOs, and groups of citizens in the territories of weak or failed states.

There are those who assume that the turn to Private Military Firms was the obvious, natural, and functional response to the material changes technology brought to warfare and the shift in the balance of power after the Cold War.¹⁸¹ The privatized military industry is no mere fiction. Private companies are not only operating in warfare today, but are, in fact, essential to many military operations. PMFs have been operating on the global scene for more than a

¹⁸¹ Joseph Nye and William Owens, "America's Information Edge," *Foreign Affairs* (March/April 1996): 20-36.

decade now and have reached new summits in their growth as a result of the Iraq war. In looking at their fundamental causes, the forces that drove this growth seem set in place.¹⁸²

Arguments about the future of defense in the U.S. illustrate this thinking. The United States, as the sole remaining superpower, must accomplish a variety of international needs. It must leap ahead technologically, search for the next peer competitor, and maintain the capacity to keep some degree of order in a variety of important, but less than vital arenas.¹⁸³ Maintaining stability includes combating illegal by-products of globalization such as organized crime, drugs, and terrorism, as well as enforcing emerging global norms about human rights and encouraging the democratic institutions that are seen as supporting such norms.¹⁸⁴

Much like the Internet boom, one can expect many of the firms that currently profit from conflicts in Iraq, Afghanistan and other war zones to downsize if these conflicts cool down, but the overall industry is expected to be here to stay.

B. SUGGESTIONS FOR FURTHER RESEARCH

Further study, research, and policy implementation is needed in many areas, because there are many controversies related to accountability, legitimacy, transparency and

¹⁸² Peter W. Singer, "The Private Military Industry and Iraq: What Have We Learned and Where To Next?" 22.

¹⁸³ Nye and Owens, 20-36.

¹⁸⁴ H. Richard Friman and Peter Andreas, *The Illicit Global Economy and State Power* (New York: Roman and Littlefield, 1999).

ethical issues of PMF use. These are compelling issues because after the end of the Cold War the private security business thrived, and citizens are allowed and obligated to be informed about those matters.

Abuses are common in the military or private sector, but the consequences are quite different. An abuse by the military may cause an international incident and shame a nation, but in the case of PMFs a contractor would simply be fired and his employer criticized. The increasing reliance on the private sector removes many of responsibilities that would be expected from the military and creates extensive opportunities for scenarios that could seriously endanger a mission. There are numerous examples of financial, moral and legal abuse of the contractor system—overcharging, running local scams and committing criminal activity. Private contractors can operate well outside of the media radar, and thus without the knowledge of the U.S. taxpayers or the majority of Congress. These problems result from poor governmental oversight of an exploding industry. It also limits transparency by putting so much information in so many different areas.

As a result, there are a couple of questions that must be asked:

“In what ways can the government increase the oversight and improve the transparency of PMF contracts?”

“What rules and values must be implemented by the U.S. State Department and Department of Defense in hiring the private contractors?”

“Why don’t the CEOs of Private Military Firms directly take responsibility for human rights violations on the same level as they bear the responsibility for the financial control and environmental issues?”

“How does the change of the legislative rules and international laws and regulations affect the future of PMFs?”

These are some of the suggested research questions and topics that might be conducted when continuing research of the private military industry.

Researchers in this field often lack comprehensive information on the industry. The following contacts contributed their knowledge to the research for this report and they are willing to cooperate with future students who are interested in Private Military Firms:

- Christopher Davis (Assistant to Representative Henry Waxman), Christopher.Davis@mail.house.gov
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