



## Explaining the Privatization of Military Force and Considerations for the Canadian Armed Forces

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### JCSP 49 DL

#### Exercise Solo Flight

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### PCEMI n° 49 AD

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**Explaining the Privatization of Military Force and Considerations for the Canadian Armed Forces**

**Major Bryan Bereziuk**

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## **EXPLAINING THE PRIVATIZATION OF MILITARY FORCE AND CONSIDERATIONS FOR THE CANADIAN ARMED FORCES**

The emergence, growth, and continued presence of the global private military industry have preoccupied international relations and military scholars over the past thirty years. Since influential work by Singer, who described private military companies (PMCs) and their operational success in regions and contexts where the United Nations (UN) and state-sponsored stabilization missions failed, PMCs have been an interest for academics and intellectuals who view modern mercenaries as new non-state actors.<sup>1</sup> It has been argued that PMCs and the global private security sector represent a potential threat to the state's monopoly on military force and complicate international security.<sup>2</sup> Despite these concerns, the economic efficiencies offered by private sector providers of military force appear to have won the day. They have resulted in a growing international industry that rivals some of the world's most powerful state militaries in size, value, and capability.<sup>3</sup> Indeed, PMCs are a thoroughly addressed topic, especially among political scientists and historians.

This paper will attempt to contribute to the debate by providing a survey of the existing literature on modern privatization of military force with a view to narrowing down our current understanding of why military force privatizes at all. This is especially important given that the presence of PMCs and their employment by modern states seems to run counter to the state's critical role in monopolizing military force to ensure its own sovereignty. This paper will then apply our understanding of private military force to Canada and the Canadian Armed Forces (CAF) with a view to proposing three options for how the CAF and Canada's Department of National Defence could react to the current trend toward PMCs as important players in the global security environment. In general, this paper will argue that the CAF is now in direct competition with the private military industry, and the growing presence of PMCs on the market means Canadian defence policymakers must react to the trend. Given this dynamic, it is increasingly important for military professionals, operational planners, and commanders to understand the private military industry and consider the presence of these non-state actors within their own decision-making processes.

### ***Explaining the Existence of Modern Private Military Companies (PMCs)***

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<sup>1</sup>Singer, P. W. *Corporate Warriors. The Rise of the Privatized Military Industry*. Ithaca and London: Cornell University Press, 2003. COMMENT: Which documented the operational success of 'Executive Outcomes', a private military company (PMC), in conflicts in Angola and Sierra Leone (when UN sponsored missions, for example, failed in other African states).

<sup>2</sup> Warner, Dale A. and Canadian Forces College. "Private Military and Security Companies and the State: Wrestling for the Control of Violence." Canadian Forces College, 2013.

<sup>3</sup> A recent European study estimates the total value of the global PMC industry at over \$200Bn per year, or roughly comparable to the entire European Union annual defence budget. See: Council of the European Union General Secretariat. "The Business of War - Growing Risk from Private Military Companies". 31 August 2023. Accessed 1 May 2024 at <https://www.consilium.europa.eu/media/66700/private-military-companies-final-31-august.pdf>, pg. 6. See also Chesterman, Simon, Chia Lehnardt, and New York University. *Institute for International Law and Justice. From Mercenaries to Market: The Rise and Regulation of Private Military Companies*.

Other students in military staff colleges have studied the PMC industry to understand the employment of modern mercenaries. This includes at least American officers Clark and Stanley at the Fort Leavenworth School of Advanced Military Studies (SAMS) and Canadian officers Warner and Hancock at the Canadian Forces College (CFC). Research conducted by these four students found a general academic consensus that global demand for PMCs is present and growing, although there remains some difficulty with providing a precise categorization of PMCs and how to measure the industry. Stanley's analysis of academic consensus draws from six prominent academics on the topic.<sup>4</sup> These authors describe the sector as "burgeoning" to a "tidal wave" depending on perspective.<sup>5</sup>

As pointed out by Stanley, tracking growth in this sector depends on the time horizon studied and how one defines the specific private entity. If, for example, we look at civilian support to military forces, we can see that wars fought over the past 80 years had significant contributions from non-uniformed personnel. This appears to suggest civilian support to military force is the norm, not the exception.<sup>6</sup> This also demonstrates how easily we can become mired in definitions when we become preoccupied with categories. That modern militaries require civilian support to function has never been in dispute; what has shifted is the more modern tendency for private security forces to take the lead on operations while remaining entirely independent of a state-managed military chain of command. This is where we can begin to see such instances as *Executive Outcomes*, *Academi*, or *Wagner* as remarkable entities on the modern battlespace (See Annex A).<sup>7</sup>

If we accept that something new is happening on the modern battlefield and that mercenary forces are part of the shift, then we need a theoretical framework to

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<sup>4</sup> Stanley, Bruce Edwin. "Selective Privatization of Security: Why American Strategic Leaders Choose to Substitute Private Security Contractors for National Military Force." ProQuest Dissertations Publishing, 2012. Pg. 41 Comment: Stanley uses Shearer 1998, Singer 2003, Kidwell 2005, Avant 2005, Isenberg 2009, and Carafano 2008 in his analysis to determine that there does, in fact, exist general consensus among academics that PMCs are a growing international phenomenon. The other writers appear to concur with this in their own analysis. See: Clarke, Kevin S. and ARMY COMMAND AND GENERAL STAFF COLL FORT LEAVENWORTH KS SCHOOL OF ADVANCED MILITARY STUDIES. Microeconomics, Private Security, and the Significance to Operational Planning 2013, pgs. ; Warner, Dale A. and Canadian Forces College. "Private Military and Security Companies and the State: Wrestling for the Control of Violence." Canadian Forces College, 2013; and Hancock, Kit and Canadian Forces College. The use of Private Military and Security Companies in Somalia. Toronto, Ont.: Canadian Forces College, 2018.

<sup>5</sup> Stanley, Bruce Edwin. "Selective Privatization of Security: Why American Strategic Leaders Choose to Substitute Private Security Contractors for National Military Force." ProQuest Dissertations Publishing, 2012. Pg. 41, and Avant, Deborah D. The Market for Force: The Consequences of Privatizing Security. 1st ed. Cambridge, UK: Cambridge University Press, 2005;2009. Avant describes the sector as 'burgeoning' while Singer describes growth in the sector as a 'tidal wave'.

<sup>6</sup> Stanley, Bruce Edwin. "Selective Privatization of Security: Why American Strategic Leaders Choose to Substitute Private Security Contractors for National Military Force." ProQuest Dissertations Publishing, 2012. Pg. 41; see also Leander, Anna. "The Power to Construct International Security: On the Significance of Private Military Companies." Millennium 33, no. 3 (2005): 803-825.

<sup>7</sup> See ANNEX B for a 'Note on Categorization of Private Military Force'

understand what has caused the change and how military leaders and defence officials may be able to impact this new dynamic.

Stanley has provided a framework for explaining PMCs through his microeconomic approach and five hypotheses (i.e., ‘The Stanley Theory’; see Annex B). Stanley posits that supply and demand analysis offers the only compelling explanation as to why a state would permit PMCs, given that the existence of non-state forces represents a challenge to the state itself, even when the private force is presumed to be loyal to the origin state.<sup>8</sup> Stanley’s hypotheses present various situations or externalities in which PMCs emerge to fill a security vacuum, such as: decreases in government spending on national defence (resulting in a market for mercenaries where demand for security is not met by national forces), rapid reductions in military staffing (causing a supply of veterans to enter the private market); and increased burden on militaries caused by extended conflicts, etc. (i.e. increased demand for soldiers which cannot be met through national recruiting, etc.). Notably, Clark, Warner, and Hancock come to similar conclusions about the cause of PMCs: that they fill a necessary security vacuum or, in other words - they are suppliers of security that simply meet available demand.

These supply and demand arguments ultimately intersect at one economic conclusion to explain why PMCs exist: PMCs reduce the systematic economic burden of ‘deadweight loss’ caused by monopolistic/monopsonistic tendencies within state defence structures.<sup>9</sup> Through PMCs, private sector entities are able to offer more efficient alternatives to a state’s defence apparatus, essentially cutting out bureaucracy, avoiding ossified procurement structures, and avoiding slow training systems. PMCs are offering individual soldiers higher pay and operating with limited support overhead, reducing administrative burden on individual private soldiers, and creating efficiencies and opportunities for profit.

### ***The Significance for the Canadian Armed Forces and Possible Responses***

In the Canadian context, contractors have been an important contributor to the CAF in recent history.<sup>10</sup> As argued by Richards, programs such as the Canadian Contractor Augmentation Program (CANCAP) were designed to offset personnel shortages experienced at the beginning of Canada’s commitment to Afghanistan. CANCAP was generally considered to be a successful program which alleviated time-sensitive and critical shortages in operationally necessary personnel.<sup>11</sup> However, as

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<sup>8</sup> This is particularly notable given *Wagner* was implicated in an attempted coup against the Russian oligarchy in 2023. See Wright, Gwyn. *Wagner Rebellion Turmoil an ‘internal Matter’ for Russia – Minister*. London: Press Association Limited, 2023.

<sup>9</sup> Agapos, A. M. and Paul R. Dunlap. "The Theory of Price Determination in Government-Industry Relationships." *The Quarterly Journal of Economics* 84, no. 1 (1970): 85-99. COMMENT: Agapos and Dunlap provide a detailed discussion on the monopolistic/monopsonistic tendencies of federal government procurement and agency behavior; the paper argues that government behaviour is essentially monopolistic, which causes economic loss.

<sup>10</sup> Richards, Nathan (2023). “Contracting Balance: Alleviating Personnel Pressures During Personnel Crisis” Toronto, Ont.: Canadian Forces College, 2023, pg 3. Accessed 6 May 2024 at <https://www.cfc.forces.gc.ca/259/290/49/192/Richards.pdf>.

<sup>11</sup> Ibid.

argued by Warner and Barnes, the rise of PMCs as an easy option for governments to rapidly fill gaps in military services and capabilities bears the risk of eroding military professionalism within standing state militaries.<sup>12</sup> For this reason, the CAF ought to consider its options in light of a growing industry which stands to offer Canada alternative options for the provision of various security effects.

Considering approaches to international security that involve PMCs may be even more important for the CAF given it is currently facing a number of concurrent internal problems. The CAF is facing a significant recruiting deficit; is facing significant budget pressures; has suffered from generally poor public support for at least ten years; and has an arduous procurement process that is subject to politicization. The Canadian government has recently shown an affinity for funding alternative approaches to achieve national defence objectives, while the Canadian public has been generally accepting of these approaches.<sup>13</sup> Given this, both CAF planners and DND defence officials should recognize that traditional approaches to national defence are no longer the only option and, indeed, have not been the only option for some time.

Given the above, three potential forward-looking scenarios vis-a-vis the CAF relationship with the PMC industry are envisioned as follows:

*1. Embrace:*

Embracing the privatization of military force would allow CAF planners to recognize the potential an open international market on military services offers to a middle power such as Canada. Embracing PMCs would see the expansion of the CAF's and DND's contracting and procurement efforts to improve the rate at which external companies could be reviewed, offered security clearances, and employed on behalf of the government of Canada. A closer relationship between the CAF's training establishment and private sector entities could see the CAF's training establishments supplemented by consultant contractors. The greater use of PMCs by the CAF could see an improvement in operational flexibility (i.e. similar to CANCAP but to include 'military provider firms' along the lines of the US/Blackwater model) in which the force could be easily scaled upwards or downwards (depending upon operational pressures) allowing federal budgets to scale accordingly. Fewer long-term financial commitments would be a significant advantage to Canadians, as various governments would not need to deal with financial commitments tied to military operations that span entire generations (such as payments to veterans for injuries, etc.)

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<sup>12</sup> Warner, Dale A. and Canadian Forces College. "Private Military and Security Companies and the State: Wrestling for the Control of Violence." Canadian Forces College, 2013. LTC David Barnes, "The Challenge of Military Privatization to the Military as a Profession" (conference paper presented at the International Studies Association conference held in New Orleans, LA on 17 Feb 10).

<sup>13</sup> By this I mean Canada's direct funding of the Armed Forces of Ukraine in their war against Russia. By funding Ukraine directly, rather than by increasing defence spending and using the CAF to deter Russian aggression, the Government of Canada has made a deliberate decision to forego funding of its own national defence, presumably because it sees direct funding of a proxy force to be a better option. It should also be noted that funding a foreign force such as Ukraine often means operating through private intermediaries which benefit from the transaction.

From a legal framework perspective, Canadian-employed PMCs could be held more directly liable for their operational activities. For example, the Canadian public would not necessarily be held legally liable for operational errors committed by PMCs, as it would be far more difficult to determine which force and which individual entity is responsible for the offending action. That said, such a circumstance would make military operations opaque and characterized, perhaps, by more illicit activity.<sup>14</sup> In some sense, the use of PMCs could cause an increase in public scrutiny of Canadian military activities, but perhaps more likely, it would make attribution of Canada's expeditionary activities far more difficult to monitor despite scrutiny.

The impact on CAF cohesion and culture would probably be negative with this approach. Loyalty and commitment of CAF regular soldiers would likely become an issue as PMCs and ancillary support firms would represent a constant 'pull' on the best and brightest members of the force. Improved pay and compensation within the private sector would almost certainly cause the CAF to become a second-tier force with the exception of certain elite services (i.e. Special Operations Forces or 'SOF') or those forms of military service with very high financial barriers to entry (i.e. air force and naval capabilities).<sup>15</sup> Further, the profit-driven nature of PMCs would raise a number of ethical dilemmas, including the possibility that PMCs could seek to encourage low-intensity conflict (i.e. maintaining market demand) and could seek to avoid combat situations where casualties are probable (i.e. dead men can spend no money). In general, embracing PMCs as a key aspect of Canadian defence may lead to a privateering era in Canadian defence. On one hand, Canadian influence globally could grow significantly under this model through a rapid growth in the export of military force. On the other hand, Canada would certainly lose its reputation as a contributor to the 'rules-based' post-war international order. A completely unregulated and 'fully embraced' PMC regime could also have serious consequences for Canada's internal security, as hostile foreign services could take advantage of an 'open market' on military and security providers to simply buy up Canadian mercenary services for their own interests.

In general, the 'embrace the PMCs' model would probably create some significant economic opportunities for Canadians but would almost certainly cause problems for Canadian federalism and national unity due to the numerous unintended consequences that may come with this approach.

## 2. *Regulate:*

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<sup>14</sup> The Nisour Square massacre by (assumed) Blackwater mercenaries is an example of how a western aligned PMC, without adequate restraint, could engage in activities that go horribly wrong. See: The Responsible Security Association. "The Nisour Square Massacre". Accessed 30 May 2024 at <https://icoca.ch/case-studies/the-nisour-square-massacre/>.

<sup>15</sup> Although it should be noted that the CAF has already 'outsourced' naval capability through the MV Astrix and for airforce capabilities, private sector providers are also filling this gap, see: Venckunsa. "World's Most Powerful Private Air Forces" accessed 24 May 2024 at <https://www.aerotime.aero/articles/25991-world-s-most-powerful-private-air-forces>.

Seeking to regulate the PMC sector tends to be the most popular option discussed among academics and intellectuals who study the phenomenon of PMCs.<sup>16</sup> Strict regulation of Canadian-sponsored PMCs could include the CAF acting as a federal standards body for military service providers, whether they be the public or private sector. This scenario could require all PMCs to complete specific courses at a CAF training establishment prior to being eligible for contract service with the Government of Canada. Such training could require PMCs to complete annual refreshers, engage in an audit or reporting regime, and ensure a certain percentage of PMC employees are Canadian nationals with residency in Canada.

Standardized procedures and protocols could help to ensure PMCs integrate seamlessly with regular force CAF personnel. Such a regime may appear as a modernization effort for the CAF reserves, in which private sector entities become associated with current reserve force units or, alternatively, for new organizations to become recognized as an extension of the reserve force establishment. The requirement for PMCs to 'check in' on a regular basis with a centralized CAF-controlled reporting regime could also improve Canada's counter-intelligence and security-intelligence posture, making it more difficult for hostile foreign service to use an unregulated PMC industry as a back door into Canada's security apparatus.

Heavy regulation of Canadian-based PMCs would bolster Canada's reputation as a nation committed to upholding high legal and ethical standards in military operations. If Canada were to succeed in establishing such a regulatory regime and actually begin producing deployable and economically viable PMC units, foreign nations may consider participating in Canada's training program and adopting Canadian standards for PMCs.

Although a strict compliance regime may seem appealing, there would be significant downsides to this model, particularly in the short term. The CAF training establishment and security intelligence infrastructure in Canada would be significantly strained and would require substantial investment, probably without short-term returns. Increased standards and reporting requirements may cut into the profitability of PMCs themselves, which would then find it difficult to compete with PMCs offered by other less regulated jurisdictions. In the end, over-regulation of the PMC sector could result in 'recreating the wheel' of the reserve force and would continue to produce a monopolized sector with significant deadweight loss.

As such, applying the right amount of regulation while not stifling innovation and flexibility in the sector is important. Despite this, there is plenty of precedent for Canada to follow in this space. The United Kingdom has established the Security Industry Authority (SIA), which governs private military contractors; the United States indirectly regulates PMCs through the Arms Export Control Act; and Switzerland (a historic

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<sup>16</sup> See: Cameron, Lindsey. "Private Military Companies: Their Status Under International Humanitarian Law and its Impact on their Regulation." *International Review of the Red Cross* (2005) 88, no. 863 (2006): 573-598.; Pattison, James. *The Morality of Private War: The Challenge of Private Military and Security Companies*. 1st;1;First; ed. Oxford, UK: Oxford University Press, 2014.; Bures, Oldrich. "Private Military Companies: A Second Best Peacekeeping Option?" *International Peacekeeping* (London, England) 12, no. 4 (2005): 533-546.

provider of mercenaries globally) has established an ‘International Code of Conduct for Private Military Providers’ which the Swiss government requires its PMCs to abide by in order to maintain their operating license. Switzerland also led the drafting of the United Nations Montreux Document which established PMC best practices when they are used in conflict zones.<sup>17</sup>

### 3. *Compete:*

For the CAF, competing with the PMC sector would mean two things: becoming more competitive as a force relative to PMCs by reducing overhead and increasing operationally deployable capabilities and by, potentially, creating a new arm of government (such as a ‘crown corporation PMC’) that could be used to convert CAF deployments into revenue generating activities for Canada. This option could see a modern CAF engage in something remnant of the chartered companies employed by imperial Britain.

Competing directly with PMCs would require the CAF to observe trends within the private military sector and to adopt certain characteristics of PMCs, such as the ability to deploy an increased number of small and independent organizations with strong tactical leadership capable of making an array of decisions (particularly spending decisions) with limited command and control. This may resemble, for example, significantly expanding Canada’s SOF organization, but would likely also include expansion of ‘SOF ethos’ and behaviours into specific trades and organizations not typically used independent of larger conventional forces. This would necessarily include small teams of logistics advisory services; deployable medical services; intelligence consultants; training groups; and engineering capabilities - all deployed as modularized and independent forces. Such an activity would also require leadership that can engage in client relations, including negotiations for the price of services rendered, as well as irregular distribution of pay and compensation (commensurate with the success of the operation, of course) for those participating in such organizations.

Such a change, however, would require a significant shift in CAF culture and ethos and may even require the creation of a unique uniform to differentiate a ‘crown corporation PMC’ from Canada’s national standing force. Complications with this model could be significant, as a ‘hired’ CAF service provider could find itself mired in the national politics of a client. If war emerged, there could be some question as to whether Canada had a role in creating (or obligation to become involved in) the conflict. That said, the extraordinary expense for the Canadian public in deploying its armed forces and the significant tax burden caused by Canada’s defence sector (along with all its

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<sup>17</sup> See: UK. “Security Industry Authority”. Accessed 23 May 2024 <https://www.gov.uk/government/organisations/security-industry-authority>. and Switzerland. “International Code of Conduct for Private Security Service Providers”. Accessed 23 May 2024 at [https://icoca.ch/wp-content/uploads/2022/01/INTERNATIONAL-CODE-OF-CONDUCT\\_Amended\\_2021.pdf](https://icoca.ch/wp-content/uploads/2022/01/INTERNATIONAL-CODE-OF-CONDUCT_Amended_2021.pdf); and United Nations. “INFORMAL SUMMARY OF THE MONTREUX DOCUMENT BY SWITZERLAND” Accessed 23 May 2024 at [https://www.acq.osd.mil/log/LOG\\_CSD/psc.html/Montreux\\_Document.pdf](https://www.acq.osd.mil/log/LOG_CSD/psc.html/Montreux_Document.pdf). It should be noted that Canadian security companies are regulated at the provincial level and there is no federal level ‘PMC’ regulating document or authority.

inefficiencies, including in major procurement efforts) would suggest that some effort to use military force to recuperate Canada's defence costs has a certain logic and should therefore be taken seriously as an option. It should be noted that there is precedent for this, as the U.S. Army Corps of Engineers operates on a model in which civil works projects can be taken, for a fee, as contracted service providers.<sup>18</sup> Given the recent and increased pressure on the CAF to participate in emergency relief activities associated with forest fires, hurricanes, and various other natural events, creating an organization within the CAF capable of negotiating with and billing clients (whether domestic or foreign) should probably be considered.

### ***Conclusion***

This paper set forth to describe our current understanding of the privatization of military force by reviewing recent research on the topic conducted by students of contemporary military studies attending SAMS and CFC. It has been determined that PMCs have emerged to fill critical gaps (i.e. the security vacuum) in the global security environment. In general, for-profit PMCs exist where national armed forces are unable or unwilling to provide national troops. Our understanding of PMCs has been somewhat mired in expanding and overlapping categorization efforts, although a recent new approach by the European Union to provide a simplified categorization (South Africa Model; US/Blackwater Model; and Russian/Wagner Model) shows promise in helping the public understand the difference between a simple security firm and an independent 'PMC' which could pose a more serious risk to international security.

An economic explanation for the existence of PMCs has been provided through the Stanley Thesis, which essentially determines that inefficiencies within national militaries (which resemble monopolistic / monopsonistic entities) results in deadweight loss (economic loss due to inefficiency) which sets conditions for more efficient PMCs to emerge.

Lastly, this paper explored hypothetical scenarios for the CAF and described how Canada's national defence approach and culture could change depending on how the CAF responds to a growing global market for a 'for-profit' military force. In general, however, it should be reemphasized that Canada (and the CAF) cannot simply wish away the complicated existence of PMCs and must recognize that the CAF is in direct competition with PMCs in some way, shape, or form. If the CAF does not adapt to this new environment, it risks being outstripped by an innovative, aggressive, and growing industry. The scenario in which a weak, underfunded, and poorly equipped CAF continues to wade through the muck of a world in which modern and innovative PMCs continue to operate does not bode well for Canadian sovereignty. Reacting to market conditions created by a complicated international security environment is necessary, both for the CAF and for Canadians as a whole.

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<sup>18</sup> See U.S. Army Corps of Engineers. "Business With Us" Accessed 24 May at <https://www.usace.army.mil/Business-With-Us/>.

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## **ANNEX A - A Note on the Categorization of Private Military Force**

Most studies on private military force offer a review of various categories of privatized providers. This note will provide a similar description and discussion of the categories, which can be separated into two approaches: Functional Models and National Models.

### **Functional Models:**

Hancock provides a solid overview of private military force categories in his piece on PMC use in Somalia.<sup>19</sup> The original authors of these approaches are Singer ('Tip of the Spear Typology')<sup>20</sup>; Kinsey ('Lethal vs. Non-Lethal categories')<sup>21</sup>; and Shearer ('spare parts' categories). The result is a milieu of descriptions which can be variously used to describe certain companies operating in the space, but not others. Such descriptive terms include:

- Private Military Company (PMC)
- Private Military and Security Company (PMSC)
- Military Provider Firms:
  - A category of PMC that delivers 'front line' combat services and which makes their own tactical to operational decisions.
- Military Support Firms:
  - A category of PMC that delivers logistics, training, cyber, or other non-combat support functions.
- Military Consulting Firms.
  - A category of PMC that provides advice, partner force development, or security advice to clients.
- Shearer's 'spare parts' model:
  - I - Direct Support to Military Operators;
  - II - Military Advice and Training;
  - III - Logistics;

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<sup>19</sup> Hancock, Kit and Canadian Forces College. The use of Private Military and Security Companies in Somalia. Toronto, Ont.: Canadian Forces College, 2018, pgs. 4-5.

<sup>20</sup> Singer, P. W. Corporate Warriors. The Rise of the Privatized Military Industry. Ithaca and London: Cornell University Press, 2003.

<sup>21</sup> Christopher Kinsey, Corporate Soldiers and International Security: The Rise of Private Military Companies (New York: Routledge, 2006), 10.

- IV - Security Services;
- V - Crime Prevention

### **National Behaviour Models**

An alternative approach to categorizing PMCs has been adopted by the General Secretariat of the Council of the European Union. This model discards any effort to categorize PMCs by their function, and instead, categorizes the PMC entity based on the entity's behaviour and national allegiance or origin. This approach has resulted in three categories:

- **South African Model:** Based on the behaviour of *Executive Outcomes*, PMCs operating under this model are for-profit soldiers who use funds from a client state to pursue limited operational objectives on behalf of the state. A PMC under the South African Model is effectively a commissioned military service that employs soldiers who may or may not have national ties or allegiance to the client.
- **The US / Blackwater Model:** Based on the behaviour of *Blackwater / Academi* PMCs operating under this model tend to be retired special forces operators who are integrated with American global security interests but operate independently of the US military chain of command. This model allows the PMC to travel, establish bases, procure equipment, and conduct operations independent of the client state's bureaucracy. Under the model, the PMC does not hide its affiliation to US strategic interests but will also provide services to non-American clients where possible.
- **The Russian / Wagner Model:** Very similar to the Blackwater Model, the Russian Wagner Model makes similar use of open market dynamics to obtain access to equipment, personnel, and sources of funding. The Wagner Model may differ from the Blackwater model by also acting as an intermediary for home state initiatives, such as facilitating major equipment sales between Russia and a client state, or may overlap with activities typically associated with criminal organizations, such as the use of extortion, drug trafficking etc.

## **ANNEX B - The Stanley Theory and Economic Explanations for PMCs**

The ‘Stanley Theory’ is an economic explanation of the emergence and growth of Privatized Military Force; and is based on the following five hypotheses:

*“H1: When military outlays decrease there is an increase in the use of private security.*

*H2: When the size of a national military decreases there is an increase in the use of private military security.*

*H3: When the number of a military disputes, military engagements and militarized conflicts increase there is an increase in the use of private security.*

*H4: When the duration of a military conflict increases there is an increase in the use of private security.*

*H5: When there is a decrease in bureaucratic controls and regulations there is an increase in the use of private security.”<sup>22</sup>*

### **Discussion on Microeconomics as applied to military services**

The use of microeconomics to explain the behaviour of militaries is, perhaps, an irregular approach not least because it is difficult to determine how ‘price’ and ‘quantity’ of associated military activities should be determined. As such, it is necessary to think about government directed military services in abstract terms:

**Supply:** The supply curve represents a population’s willingness to supply military forces. For any nation, some quantity of military services will be provided to meet the demands of the state for a certain price, which is dependent on market dynamics (i.e. labour supply, population perception of a need for security, etc.).<sup>23</sup> State’s also have the option to compel military service on their populations through conscription or drafts, but this should be considered a government directed distortion on the open market, where it occurs.

**Demand:** The demand curve represents a population’s willingness to pay for military services. On a global scale, this represents demand for security, stabilization forces, and governance in general. Demand for military services depends on factors such as fear of an opposition force, poor governance within a given jurisdiction, as well as preferences within a population for (or against) military presence.

**Equilibrium:** Equilibrium is the point where there is agreement between the willingness to supply military force with the willingness to pay for it within a given area. In most states, because the national government controls the military; military force is provided in

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<sup>22</sup> Stanley, Bruce Edwin. "Selective Privatization of Security: Why American Strategic Leaders Choose to Substitute Private Security Contractors for National Military Force." ProQuest Dissertations Publishing, 2012. Note: the hypotheses proposed by Stanley is based on a compilation of observations from Kidwell, Avant, and Singer (included in references).

<sup>23</sup> Mankiw, N. Gregory. Principles of Economics. 7th ed. Stamford, CT: Cengage Learning, 2015. See chapter 15 on monopolies and deadweight loss.

a manner similar to a monopoly; the government becomes a ‘price maker’ for military services and the general population (taxpayers) become ‘price takers’. An example of how directed pricing impacts supply and demand is provided in Figure 1 below. If a government, for example, cuts funding its military despite aggregate demand for military services, this would reflect a ‘price ceiling’ on the economic system of supply and demand. Price ceilings lower the overall price on the provision of military force (such as lower relative pay for military members) and cause ‘deadweight loss’, which the area of the yellow triangle. In circumstances where deadweight loss exists, the market tends to attract competitors that can exploit the circumstance to generate profit. As such, PMCs exist because they are willing to pay more to military professionals in order to meet demand that is not satisfied by government directed forces.

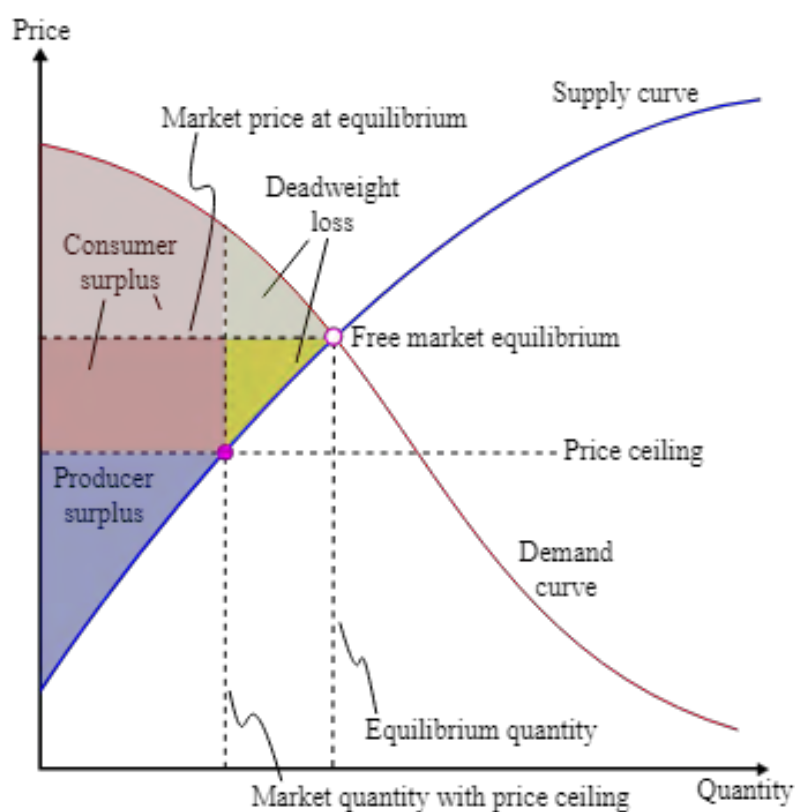


Figure 1: Example of a price ceiling causing deadweight loss in an economic system