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Research Report

Key Enablers of the European Security Industry Performance

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Key enablers of the European security industry performance

Summary: One of the research areas of the New Agenda for European Security Economics (EUSECON) is society's response to insecurity. Solutions to enhance security often involve the development and supply of specific goods and services. This has led to an industry which has progressively evolved through the 20th century. Yet, after the 9/11 attacks, the security industry was subject to growing demand. Moreover, it raised the interest of academics and policy makers aimed at assessing its performance in terms of the efficient supply of sound security solutions. This briefing summarizes the main findings of the research already conducted, highlighting key issues for policies focused on enhancing this industry.

Introduction

The security industry can be defined as the industry which develops and supplies goods and services aimed at safeguarding people from certain events, which, due to their detrimental effects, could create concerns and feelings of insecurity.

Since there are many sources of insecurity, this industry can be considered quite large. EUSECON research has focused on the protection of citizens from the threat of terrorism and organised crime. Even when narrowing the research to this area, the boundaries of the sector are hard to define. Whereas the defence industry is mostly related to external security, internal security is usually addressed by what is known as the security industry (EC, 2010). Yet, many products used for security may be used for defence purposes and for other activities not directly related to security (e.g. ambulances used for healthcare, but also for transporting casualties after a terror attack). This large dual role of security products tends to blur the boundaries of the sector.

The security industry includes a large variety of suppliers of goods and services which cut across many manufacturing and servicing sectors. An attempt has been made to measure the size of this economic sector. Unfortunately, data is scarce and lacks any accounting rationale. However, based on different references a first rough estimate indicates that revenues in this sector are approximately €59 billion per year, which represents only 0.48% of EU GDP.
Governments play a fundamental role in the security market

Technology plays a fundamental role in the security market and innovative solutions are especially important in a market where protective measures will be challenged by countermeasures unfolded by terrorism and organised crime. Hence the demand for new and sophisticated products is perennial having in mind that the perception of insecurity is never totally appeased. Thereby, product complexity, immaturity of technology, and the difficulty to develop and agree on product standards able to stimulate demand (quite relevant in a market characterized by important network effects), restrain the growth of this economic sector.

Main market segments

The security market involves many different companies as creating security requires a large variety of products and services. Apart from manned security services companies, the industries related to electronics and sensors (e.g. CCTV), communications and information systems are the most important producers in this sector, since they play an essential role in increasing awareness about potential threats. Other relevant industries are mobile platforms (air, sea, and land) as well as vehicle and personal protective vests. Most security products are made from generic technologies supplied from other manufacturing sectors (Stankiewicz, 2009).

The key role of the government

The government plays a key role in this market. The first role is as an entrepreneur since some companies, especially for systems considered essential to security, are State-owned. The second is as a supporter of the industry in terms of aids, especially in the field of R&D. The third is as a purchaser, the public sector being one of the main clients, and the leader for some innovative product and service developments. Lastly, the government is a market regulator, through the setting of minimum security requirement with the aim to achieve the desired security level when private initiative falls short, since positive externalities of investing in security will not benefit the private agent. This way, governments have a considerable influence in shaping demand and other market conditions.

Market structure, conduct and performance

The security market is characterised as having many buyers and sellers. Yet, from the demand side there are some market segments where the public sector is the only buyer. However, as opposed to defence, public administration purchases are not centralized. This means a more fragmented demand with many purchasers with smaller purchasing and bargaining powers. To a wide extent, barriers to entry determine the market structure. Economies of scale, product differentiation (achieved mainly through R&D), absolute costs advantages and sunk costs favour the formation of oligopolistic and monopolistic structures which may impair market efficiency. However, in some market segments, such as security products for homes...
Security goods often depend on advanced technologies, which involve large R&D spending.
while keeping design and integration capabilities (the ones which add more value to the product) in Europe. Whereas this model is working well, it will inevitably open the door in the long run to new competitors from these countries, as shown by the growing capability of Eastern Asian companies to sell their products internationally.

Policy recommendations

This study has identified several areas where the security market may suffer from low performance. Whereas horizontal industrial policies may be applied to solve some of these problems, since they are common to many industries, there are cases, where inefficiency can be more specific to this industry. The diversity of the industry suggests that policies need to be fine-tuned, on a case-by-case basis to be effective. This requires a cost-benefit analysis to assess their adequacy, something that can only be done with a deep knowledge of the industry, which certainly demands further research. On top of that, policies will require ex post analysis to assess their effectiveness.

One of the main problems in security is the proper allocation of resources to this activity. Investment decisions are difficult when risks are not easy to measure and performance of solutions to abate these risks is arduous to assess (and designs only exist as blueprints). This may give way to insufficient or disproportionate investments and industrial solutions whose effectiveness is not demonstrated. Information problems (including asymmetries) may impair decision-makers and result in suboptimal choices. The promotion of information diffusion and exchange (which favours coordination of market agents when it aims to improve market performance), may therefore be a matter of industrial policy.

Areas able to increase the performance and capabilities of this industry include the consolidation of a security market in Europe (e.g. barriers due to diverse product certification), the collaboration of Member States in some security complex programmes where cooperation may make more sense than separate but similar national projects, profiting from the externalities of US technological advances in the security field when they fit European demand, and the reuse of defence and civilian technologies and expertise in the development of security solutions.

Credits

This EUSECON Policy Briefing was authored by Carlos Martí Sempere from Ingeniería de Sistemas para la Defensa de España. The views expressed in this briefing are the authors’ alone.

References


EUSECON, or ‘A New Agenda for European Security Economics’ is a four-year collaborative research project, coordinated by DIW Berlin and funded by the Seventh Framework Programme of the European Commission. EUSECON analyses the causes, dynamics, and long-term effects of both human-induced insecurity threats and European security policies.

For more information on EUSECON, please visit our website:

http://www.economics-of-security.eu

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